

CONVERGYS CORP  
Form 10-K  
February 21, 2018

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

---

FORM 10-K

---

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

For the fiscal year ended December 31, 2017

Commission file number 1-14379

CONVERGYS CORPORATION

An Ohio I.R.S. Employer  
Corporation No. 31-1598292  
201 East Fourth Street, Cincinnati, Ohio 45202  
Telephone Number (513) 723-7000

---

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

| Title of each class | Name of each exchange on which registered |
|---------------------|---|
|---------------------|---|

|                              |                         |
|------------------------------|-------------------------|
| Common Shares (no par value) | New York Stock Exchange |
|------------------------------|-------------------------|

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

---

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Edgar Filing: CONVERGYS CORP - Form 10-K

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

The aggregate market value of the voting shares held by non-affiliates of the registrant was \$2,218,200,540, computed by reference to the closing sale price of the stock on the New York Stock Exchange on June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter.

At January 31, 2018, there were 91,618,405 common shares outstanding, excluding amounts held in treasury of 870,800.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement for the Annual Meeting of Shareholders to be held on April 25, 2018 are incorporated by reference into Part III of this report.

---

TABLE OF CONTENTS

|          |   |                  |
|----------|---|------------------|
| PART I   |   |                  |
| Item 1.  | <u>Business</u>   | Page<br><u>3</u> |
| Item 1A. | <u>Risk Factors</u>   | <u>4</u>         |
| Item 1B. | <u>Unresolved Staff Comments</u>  | <u>5</u>         |
| Item 2.  | <u>Properties</u>   | <u>5</u>         |
| Item 3.  | <u>Legal Proceedings</u>  | <u>5</u>         |
| Item 4.  | <u>Mine Safety Disclosures</u>  | <u>5</u>         |
| Item 4A. | <u>Executive Officers of the Registrant</u>   | <u>5</u>         |
| PART II  |   |                  |
| Item 5.  | <u>Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | <u>6</u>         |
| Item 6.  | <u>Selected Financial Data</u>  | <u>7</u>         |
| Item 7.  | <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>                            | <u>8</u>         |
| Item 7A. | <u>Quantitative and Qualitative Disclosures about Market Risk</u>   | <u>9</u>         |
| Item 8.  | <u>Financial Statements and Supplementary Data</u>  | <u>9</u>         |
| Item 9.  | <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>                             | <u>19</u>        |
| Item 9A. | <u>Controls and Procedures</u>  | <u>19</u>        |
| Item 9B. | <u>Other Information</u>  | <u>22</u>        |
| PART III |   |                  |
| Item 10. | <u>Directors, Executive Officers and Corporate Governance</u>   | <u>24</u>        |
| Item 11. | <u>Executive Compensation</u>   | <u>24</u>        |
| Item 12. | <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>                   | <u>24</u>        |
| Item 13. | <u>Certain Relationships and Related Transactions, and Director Independence</u>  | <u>24</u>        |
| Item 14. | <u>Principal Accounting Fees and Services</u>   | <u>24</u>        |
| PART IV  |   |                  |
| Item 15. | <u>Exhibits, Financial Statement Schedule</u>   | <u>25</u>        |
|          | <u>Signatures</u>   | <u>27</u>        |



## SAFE HARBOR STATEMENT

Private Securities  
Litigation Reform Act of 1995  
Safe Harbor Cautionary Statement

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

Important factors that may affect these forward-looking statements include, but are not limited to: adverse effects of our Board of Directors’ search for a new Chief Executive Officer, including the risk that a protracted search could affect our ability to attract and retain clients and employees; the future financial performance or outsourcing trends of our largest clients and the major industries that we serve, including continued volatility in volumes with certain of our largest communications and technology clients; contractual provisions that may limit our profitability or enable our clients to reduce or terminate services; the loss of a significant client or significant business from a client; our failure to successfully acquire and integrate businesses; our inability to protect proprietary or personally identifiable data against unauthorized access or unintended release; the effects of complying with the European Union’s General Data Protection Regulation, the Philippines’ Data Privacy Act and other jurisdiction-specific data privacy requirements, including increased expenses, operational and contractual changes, and diversion of resources; our inability to maintain and upgrade our technology and network equipment in a timely and cost effective manner; business and political risks related to our global operations, including ongoing political developments in the Philippines, uncertainty regarding the impact of Britain’s vote to leave the European Union (Brexit) or other similar actions by European Union member states, and economic weakness and operational disruption as a result of natural events, political unrest, war, terrorist attacks or other civil disruption; the effects of foreign currency exchange rate fluctuations, including if the U.S. dollar strengthens relative to the euro, British pound, Australian dollar or the Canadian dollar; the failure to establish appropriate tax provisions for uncertain future tax liabilities, changes in tax law, regulations or regulatory guidance that increase our future tax liabilities, including regulations implementing the Tax Cuts and Jobs Act, or the unfavorable resolution of tax contingencies; the adverse effects of regulatory requirements or changes thereto, investigative and legal actions, and other commitments and contingencies; costs associated with conversions of our convertible debentures that may occur from time to time; our inability to effectively manage our contact center capacity or attract and retain employees at competitive wages; volatility in financial markets, including fluctuations in interest or exchange rates; and other risks that are described under “Risk Factors” in Part I, Item 1A of this report. These uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements.

Convergys Corporation 2017 Annual Report 2

---

## PART I

### ITEM 1. BUSINESS

#### OVERVIEW

Convergys Corporation is a global leader in customer experience outsourcing, focused on bringing value to our clients through every customer interaction. We provide integrated agent, analytics and technology solutions with operational excellence that we believe deliver superior care, support and business growth for our clients on a global scale. Convergys has approximately 115,000 employees working in 33 countries, interacting with our clients' customers in 58 languages. As the second-largest global provider in our industry, Convergys has a history of commitment and dedication to excellence in serving many of the world's largest brands. Our business model allows us to deliver consistent, quality service, at scale in the geographies and channels that meet our clients' business needs. We proactively partner to solve client business challenges through our account management model. Our geographic footprint and comprehensive capabilities help leading companies create brand-differentiated customer experiences across all interaction channels, such as voice, mobile, text, chat, social media, email and interactive voice response, to generate revenue and reduce their cost to serve. We are a well-capitalized leader in our market and are able to invest in the services, technology, and analytics that matter to our clients and their customers.

#### OUR BUSINESS

We partner with our clients to improve customer loyalty, reduce costs, and generate revenue through an extensive portfolio of capabilities, including customer care, analytics, technical support, collections, home agent, and end-to-end selling. Our teams use customer experience insights to serve leading brands across industries including communications and media, technology, financial services, retail, healthcare, government and travel and hospitality. Convergys strives to deliver world-class customer experiences that reduce effort, speed resolution and optimize outcomes and make great experiences happen for our clients and their customers. We understand that our clients have individual business needs and that customer interactions in an increasingly multi-channel environment can be complicated. Our goal is to solve the complexities and deliver unparalleled customer experiences on behalf of our clients.

We believe our global clients benefit from our worldwide workforce located in key geographies, including the United States, the Philippines, India, Germany, the United Kingdom, Canada, Tunisia, Costa Rica, the Dominican Republic, Colombia, Egypt, France, Ireland, Italy, Poland, Romania, China, Malaysia, El Salvador, Honduras, Nicaragua, Bulgaria, Hungary, the Netherlands, Spain, Sweden, Australia, Brazil, Indonesia, Mauritius, Singapore, South Africa, and the United Arab Emirates. Our 2016 acquisition of buw significantly expanded the Company's presence in the growing German contact center market. The geographic information included in Note 17 of the Notes to Consolidated Financial Statements is incorporated by reference in this Item 1.

Our 30+ years of experience and unique mix of agents, analytics and technology allow us to support our clients as they balance their priorities to grow revenue, improve customer satisfaction, and reduce costs. Our agents provide a range of customer experience outsourcing services delivered via any channel or device. We provide solutions across the customer lifecycle, including:

- Sales
- Customer Service
- Technical Support

Customer Retention  
Collections  
Security, Compliance, and Fraud

Our innovative omni-channel contact center technology solutions include:

Omni-channel Interaction Solutions (Intelligent Self-Service, Voice, Chat, Social, Messaging, Email and Knowledge Management)  
Cross-Channel Integration Framework  
Real-Time Decisioning Engine  
Robotic Process Automation  
Intelligent Notifications  
Campaign Management  
Personalized Care  
Personalized Selling  
Agent Productivity  
Retention

We have a dedicated team of professionals to deliver data-driven insights to improve the customer experience through analytics and consulting, and software solutions, including:

Enterprise Feedback Management/Multi-channel  
Voice of Customer Software  
Integrated Customer Experience Analytics  
Post-Contact Surveys  
Relational Loyalty Research  
Customer Segmentation and Profiling  
Call Elimination Analysis  
Analysis of Customer Effort  
Digital Channel Optimization  
Integrated Contact Center Analytics

## STRATEGY

Our strategy is to build on our leading position in customer experience outsourcing through investments in voice and digital capabilities that matter most to clients in a rapidly changing market. It is through this approach that we will leverage our strong financial position to drive long-term value for our clients and shareholders.

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

The Company's primary focus is on growth with multinational corporations and other large companies in the communications and media, technology, financial services, retail, healthcare, government, travel and hospitality and other vertical markets. Convergys intends to build deeper, more strategic relationships to compete for additional market share, expand business with existing clients and further penetrate under-served verticals through pursuit of new clients.

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

We believe we are well positioned to benefit from several trends in the Customer Management industry, including demand for full life-cycle voice and digital customer engagement, increasing customer contact complexity, vendor consolidation and global delivery. To capitalize on these trends, the Company invests in a combination of analytics

and digital technologies, global quality delivery, comprehensive solutions, and close client engagement.

#### Full Lifecycle Voice and Digital Customer Engagement

Clients want partners that offer a breadth and depth of voice and digital capabilities and the flexibility to make rapid adjustments to the services they provide to their customers. To meet these changing client needs, Convergys invests in its people, analytics and technology capabilities to support the full customer life-cycle of contact types from sales and customer service to technical support, retention, and collections.

#### Increasing Customer Management Complexity

As digital technology and channels become more pervasive, customer management becomes increasingly more complex and difficult. Convergys continuously invests in its global operating model to attract and retain the right talent that is trained and supported by the right tools and information to handle these complex customer contacts in a quality manner, at scale, regardless of location.

#### Vendor Consolidation

Increasingly, clients seek to drive efficiencies and a consistent customer experience by concentrating outsourced operations with a smaller number of strategic partners. Convergys invests in account management to ensure close client engagement to better understand unique client needs. We have also invested in a breadth of capabilities and delivery geographies to enable us to win additional share with clients as they seek to consolidate their volume with fewer vendors.

#### Global Delivery at Scale

Clients demand a seamless customer experience across multiple channels and geographies. Convergys invests in global capacity through our contact centers and home agent solution to provide the right services, including language support, to better serve customers and drive the quality delivery and value our clients demand around the world.

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

Convergys historically has demonstrated an ability to generate strong operating cash flow, which allows it to both invest in strategic growth and return capital to investors. The Company expects to continue to follow its disciplined capital deployment strategy consisting of selective pursuit of acquisitions, focusing on diversity of clients, capabilities and countries, and return of capital to investors through share repurchases and a quarterly dividend.

#### Additional Company Information

Convergys was formed as an Ohio corporation in 1998. The Company maintains a website at [www.convergys.com](http://www.convergys.com). Information about the Company is available on the website, free of charge, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC). The Company's website and the information contained therein are not incorporated by reference into this annual report. You may read and copy any materials the Company files with the SEC at the SEC's public reference room at 100 F Street NE, Washington, DC 20549. The public may obtain information about the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The SEC's website, [www.sec.gov](http://www.sec.gov), contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.



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

The Code of Business Conduct, Financial Code of Ethics and Governance Principles, as well as the charters for the Audit Committee, Compensation and Benefits Committee, and Governance and Nominating Committee of our Board of Directors, are posted on the Corporate Governance page of our website at [www.convergys.com](http://www.convergys.com). The Company will post on our website any amendments to, or waivers of, the Code of Business Conduct and Financial Code of Ethics. Copies of these documents also will be provided free of charge upon written request directed to Investor Relations, Convergys Corporation, 201 East Fourth Street, Cincinnati, Ohio 45202.

## CLIENTS

We derive significant revenues from AT&T Inc. (AT&T), our largest client. Revenues from AT&T (including DIRECTV Group, Inc. in all years) were 16.8%, 20.5%, and 21.3% of our consolidated revenues for 2017, 2016 and 2015, respectively. No other client accounted for more than 10% of our consolidated revenues for 2017, 2016 or 2015. Volumes with individual clients are earned under multiple contracts and are subject to variation based on, among other things, general economic conditions, client outsourcing trends, geographical mix of where services are provided and seasonal patterns in our clients' businesses.

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

## OPERATIONS

We operate 140 contact centers averaging approximately 76,000 square feet per center. We have approximately 98,700 production workstations and provide service 24 hours a day, 365 days a year. Our workforce is located throughout the world, including the United States, the Philippines, India, Germany, the United Kingdom, Canada, Tunisia, Costa Rica, the Dominican Republic, Colombia, Egypt, France, Ireland, Italy, Poland, Romania, China, Malaysia, El Salvador, Honduras, Nicaragua, Bulgaria, Hungary, the Netherlands, Spain, Sweden, Australia, Brazil, Indonesia, Mauritius, Singapore, South Africa, and the United Arab Emirates. Our global operating model seeks to deliver a consistent customer experience regardless of where the service is provided. We establish new contact centers as needed to accommodate anticipated growth in business or in response to a specific customer need.

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

We operate a distributed data processing environment that can integrate call center data servers and databases with two primary data centers in Orlando, Florida and Cincinnati, Ohio, comprising, in total, approximately 90,000 square feet of space. Our technologically advanced data centers provide 24 hours a day, 365 days a year availability (with redundant power and communication feeds and emergency power back-up) and are designed to withstand most natural disasters.

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

## TECHNOLOGY, RESEARCH AND DEVELOPMENT

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

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

We own 106 patents, which protect certain technology and business methods that we use to manage our internal systems and processes effectively and we believe give us competitive advantages in developing innovative technologies to provide customer management services to our clients. Our existing patents were issued between January 2001 and January 2017 and generally have a life of 20 years. Additional applications for U.S. patents currently are pending.

Our name and logo are protected by their historic use and by trademarks and service marks that are registered or pending in the U.S. Patent and Trademark Office and under the laws of more than 82 foreign countries.

## EMPLOYEES

As of December 31, 2017, we employed approximately 115,000 employees across the globe. Our clients benefit from our worldwide workforce located in the United States, the Philippines, India, Germany, the United Kingdom, Canada, Tunisia, Costa Rica, the Dominican Republic, Colombia, Egypt, France, Ireland, Italy, Poland, Romania, China, Malaysia, El Salvador, Honduras, Nicaragua, Bulgaria, Hungary, the Netherlands, Spain, Sweden, Australia, Indonesia, Mauritius, Singapore, South Africa, and the United Arab Emirates.

## COMPETITION

The market in which we operate is highly competitive. We compete based on quality of service, breadth and depth of capabilities, scope of geographic reach, price, and timely and flexible service. Our primary competitors include other customer management companies, such as Atento SA (ATTO), Conduent Inc. (CNDT), Sykes Enterprises Inc. (SYKE), Synnex Corporation (SNX), Teleperformance (RCF), TeleTech Holdings Inc. (TTEC) and Alorica. In addition, niche providers or new entrants can enter the market by developing new systems or services that could impact our business. We also compete with in-house alternatives to customer management outsourcing at certain of our clients.

## ITEM 1A. RISK FACTORS

Changes in the volume, geographic location and type of outsourcing services demanded by our clients may adversely affect our business, results of operations and financial condition.

Our revenues depend, in large part, on the volume, geographic location and type of outsourcing services demanded. Outsourcing involves companies contracting with a third party, such as Convergys, to provide customer management services rather than performing such services in-house. Customer management services can be provided in different geographies and through different service channels. While we have the capacity to provide multi-channel services in countries across the globe, changes in the type of services utilized and the geographic location where the services are provided can impact our revenues and profitability. There can be no assurance that the current demand for outsourcing will continue or grow, that organizations will not elect to perform such services in-house, or that clients will not elect to move outsourcing services to lower-cost or lower-margin geographies or customer contact channels.

During 2017, we experienced significant fluctuations in call volumes, particularly in our communications and technology verticals, which adversely affected our revenue. In particular, certain of our largest clients shifted work to lower-cost geographies, consolidated programs or moved programs in-house, or reduced volumes through a focus on transaction automation. We expect to continue to experience volatility with certain of our largest communications and technology clients in 2018, and the shift in client demand from customer voice experience solutions toward digital customer experience solutions may increase as digital solutions become more effective at resolving customers' needs. Our failure to anticipate and respond successfully to changes in the demand for outsourcing services or a significant decline in the demand for outsourcing services could have a material adverse effect on our financial condition and results of operations.

Economic and market conditions in our customers' industries may adversely affect our business, results of operations and financial condition.

Our results of operations are affected directly by the level of business activity of our clients, which in turn is affected by the level of economic activity in the industries and markets that they serve. Economic slowdowns in some markets, particularly the United States, may cause reductions in spending by our clients, which may impede our ability to maintain existing business or develop new business and adversely impact our results of operations and financial condition. Our revenues also depend on our clients' success and the performance of their products. If our clients or their programs are unsuccessful, the amount of business that they outsource, the prices that they are willing to pay for outsourcing or the revenues generated by our contracts may decline. Conversely, our clients' resolution of technical problems with their products or development of simpler products may result in a reduction in customer care contacts and a reduction in their demand for outsourced customer care services. A reduction in the amount of business we receive from our clients could result in stranded capacity and costs and adversely affect our business, results of operations and financial condition.

The terms of our client contracts may limit our profitability or enable our clients to reduce or terminate services that we prefer to continue.

Most of our client contracts do not have minimum volume requirements, and the profitability of each client contract or work order may fluctuate, sometimes significantly, throughout various stages of the program. Certain contracts have performance-related bonus or penalty provisions that require the client to pay us a bonus, or require us to issue the client a credit, based upon our meeting, or failing to meet, agreed-upon service levels and performance metrics.

Moreover, although our objective is to sign multi-year agreements, our contracts generally allow the client to terminate the contract for convenience or reduce the amount of our services. There can be no assurance that our clients will not terminate their contracts before their scheduled expiration dates, that the volume of services for these programs will not be reduced, that we will be able to avoid penalties or earn performance bonuses for our services, or that we will be able to terminate unprofitable contracts without incurring significant liabilities. For these reasons, there can be no assurance that our client contracts will be profitable for us or that we will be able to achieve or maintain any particular level of profitability through our client contracts.

We depend on a limited number of clients for a significant portion of our revenue, and the loss of business from one or more of these clients could adversely affect our results of operations.

Our three largest clients collectively represented 29.5% of our revenue in 2017. At any given time, we typically have multiple work orders or contracts with our largest customers. Clients may have the right to terminate work orders or contracts for convenience or may have risk tolerances that limit how much business they retain with a single service provider. While we would not expect all work orders or contracts to terminate at the same time, the loss of one or more of the larger work orders or contracts with one of our largest clients could adversely affect our business, results of operations and financial condition if the lost revenues are not replaced with profitable revenues from that client or other clients.

Our business is substantially dependent on the global communications industry.

Approximately half of our revenue in 2017 was received from customers operating in the global communications industry. At times, this industry has experienced significant fluctuations in growth rates and capital investment, and predicting future performance in this industry is challenging. General economic weakness or a slowdown in the communications industry could result in a loss of business and adversely affect our revenues and earnings. In addition, the communications industry has experienced significant consolidation in recent years. If this consolidation continues, we may lose business from existing clients following a merger or acquisition, as a result of a change in our client's outsourcing strategy or a reduction in the amount of business given to any one vendor by the client. The loss of business from one or more of our clients could have an adverse effect on our business, results of operations and financial condition if the lost revenues are not replaced with profitable revenues from other clients.

A protracted search for a new Chief Executive Officer could affect our ability to attract and retain clients and employees and have an adverse effect on our business and results of operations.

On January 25, 2018, we announced that Andrea Ayers will transition from her role as President and Chief Executive Officer following a nearly 30-year career at the Company. Our Board of Directors has initiated a search process to identify Ms. Ayers' successor, but there can be no assurance that a skilled candidate will be identified and retained on a timely basis. The failure to complete the search successfully and promptly may adversely affect our client relationships and cause us to lose business to competitors. Our ability to attract, retain and motivate talented employees, including other members of our senior management team, may also be impaired during the search for a new Chief Executive Officer. The success of our business depends, in part, on the leadership and performance of our senior management team and key employees, and the loss of one or more of these employees could have an adverse effect on our business and results of operations.

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

We operate in highly competitive markets. Many of our competitors are expanding the services they offer in an attempt to gain additional business, and clients may consider in-house options as alternatives to outsourcing. Niche providers or new entrants can enter markets by developing new systems or services that could impact our business. The opportunity for new entrants in the industry may expand as some customer care services shift from voice engagement to digital engagement. New competitors, new strategies by existing competitors or clients, alliances among competitors or mergers could result in significant market share gain by our competitors, which could have an adverse effect on our revenues.

Some of our competitors may adopt more aggressive pricing policies or provide services that gain greater market acceptance than the services that we offer or develop. Large and well-capitalized competitors may be able to better respond to the need for technological changes faster, price their services more aggressively, compete for skilled professionals, finance acquisitions, fund internal growth and compete for market share. Our customers routinely negotiate for better pricing, and we may be required to lower our pricing or extend our payment terms to respond to increased competition and pricing pressures. If our competitors are able to compete more effectively or we are forced to reduce our pricing to respond to competitive pressures, our revenues and profit margin may decline.

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

The use of technology in our industry has and will continue to expand and change rapidly. Increasingly, clients seek digital solutions as a suite of multi-channel customer care offerings to meet their customers' expectations. Our future success depends, in part, upon our ability to help clients optimize adoption of digital solutions, as well as our development, acquisition and implementation of solutions that anticipate and keep pace with continuing changes in technology, industry standards and client preferences. We may incur significant expenses in an effort to keep pace with customer preferences for technology or to gain a competitive advantage through technological expertise or new technologies.

We may be unsuccessful at anticipating or responding to new developments on a timely and cost-effective basis, and our use of technology may differ from accepted practices in the marketplace. Moreover, our responses to new technology and changing client preferences may result in short-term volatility in our results of operations as we seek to further augment our digital portfolio and expand the portion of our business comprised of digital offerings. If we cannot offer new technologies as quickly or efficiently as our competitors, or if our competitors develop more cost-effective or client-preferred technologies, it could have a material adverse effect on our ability to obtain and complete customer engagements, which could adversely affect our business and growth plans.

Our pursuit of acquisitions to grow our business presents certain risks to our business and operations.

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

• Management's attention may be diverted from operational matters;

• The acquired businesses may fail to meet or exceed expected returns;

• Our integration of operations, systems, technologies, or employees may be ineffective or cost more than expected and impede our ability to realize anticipated synergies or other benefits or result in business interruptions and deterioration in our employee and customer relationships;

• We may have difficulty attracting, retaining and motivating employees that are necessary to successfully operate the expanded business;

• The announcement or consummation of a proposed transaction may have an adverse impact on relationships with third parties, including existing and potential clients;

• The Company's credit rating could be downgraded, which could adversely impact our access to and cost of capital;

• We may use cash on hand or incur additional debt obligations to finance activities associated with a transaction, thereby reducing our available liquidity for general corporate or other purposes;

• The acquired businesses may be located in regions where we have not historically conducted business and subject us to new operational risks, laws, regulations, employee expectations, customs and practices;

• The management of new, more diverse and more widespread operations, projects and people, and the provision of services to new industries may present challenges;

• The acquired company's internal financial controls, disclosure controls and procedures, and anti-corruption, human resource, and other policies or practices may be inadequate or ineffective;

• The acquisition may expose our business to commitments or liabilities that were unknown or undisclosed by the seller or for which we underestimated our potential liability;

• We may be unable or fail to appropriately scale critical resources and facilities for the business needs of the expanded enterprise; and

• We may fail to realize anticipated growth opportunities from the acquisition or existing clients may reduce the volume of services they obtain from the expanded entity following the acquisition.

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

Cyberattacks or the improper disclosure or control of personal information could result in liability and harm our reputation, which could adversely affect our business.

Our business is heavily dependent upon information technology networks and systems. Internal or external attacks on those networks and systems could disrupt the normal operations of our call centers and impede our ability to provide critical services to our clients, subjecting us to liability under our contracts and damaging our reputation.

Our business also involves the use, storage and transmission of information about our employees, our clients and customers of our clients. If any person, including any of our employees, negligently disregards or intentionally breaches our established controls with respect to such data or otherwise mismanages or misappropriates that data, we could be subject to monetary damages, fines or criminal prosecution. Unauthorized disclosure of sensitive or confidential client or customer data, whether through system failure, employee negligence, fraud or misappropriation, along with unauthorized access to or through our information systems or those we develop for clients, whether by our employees or third parties, could result in negative publicity, loss of clients, legal liability and damage to our reputation, business, results of operations and financial condition.

While we take measures to protect the security of, and prevent unauthorized access to, our systems and personal and proprietary information, the security controls for our systems, as well as other security practices we follow, may not prevent improper access to, or disclosure of, personally identifiable or proprietary information. Furthermore, data privacy is subject to frequently changing rules and regulations, which sometimes conflict among the various jurisdictions and countries in which we provide services. The General Data Protection Regulation (GDPR) in Europe and the Data Privacy Act in Philippines have resulted, and will continue to result, in increased compliance costs. Our failure to adhere to or successfully implement processes in response to these and other changing regulatory requirements in this area could result in legal liability or impairment to our reputation in the marketplace, which could have a material adverse effect on our business, financial condition and results of operations.

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

If we experience a temporary or permanent interruption in our operations at one or more of our data or contact centers, through natural disaster, casualty, operating malfunction, cyberattack, terrorist attack, sabotage or other causes, we may be unable to provide the services we are contractually obligated to deliver. Failure to provide contracted services could result in contractual damages or clients' termination or renegotiation of their contracts. Although we maintain disaster recovery and business continuity plans and precautions to protect our company and our clients from events that could interrupt our delivery of services, there is no guarantee that such plans and precautions will be effective or that any interruption will not be prolonged. Any prolonged interruption in our ability to provide services to our clients for which our plans and precautions fail to adequately protect us could have a material adverse effect on our business, results of operation and financial condition.

We may be unable to effectively and efficiently deliver our services if the technology and network equipment that we rely upon is not appropriately maintained or upgraded.

Our clients, and the services we provide to our clients, are highly dependent upon the persistent availability and uncompromised security of our information technology systems. We utilize and deploy internally-developed and third-party software solutions across various hardware environments. We operate an extensive internal voice and data network that links our global sites together in a multi-hub model that enables the rerouting of voice and data across the network, and we rely on multiple public communication channels for connectivity to our clients. Maintenance of, and investment in, this technology is critical to the success of our service delivery model.

Our systems are subject to the risk of an extended interruption or outage due to many factors, including system failures, acts of nature and cyberattacks from third parties. If the reliability of our technology or our network operations falls below required service levels, or a systemic fault affects the organization broadly, we may be unable to deliver contracted services to our clients. Non-performance could result in contractual performance penalties, damage to our reputation, and the loss of business from existing and potential clients. Any one or more of these consequences could adversely impact our revenue and cash flow.

Defects or errors within software could adversely affect our business.

The software we use to conduct our business is highly complex and may, from time to time, contain design defects, coding errors or other software errors that may be difficult to detect or correct. Design defects, coding errors or other software errors may delay software introductions or operations implementations, reduce the satisfaction level of our clients, impact our operational performance or prevent us from complying with our commercial agreements and may have a material adverse effect on our business and results of operations.

In addition, because we may use third-party software to support our clients, design defects, coding or other software errors and other potential problems may be outside of our control. Although our commercial agreements may contain provisions designed to limit our exposure to potential claims and liabilities, these provisions may not effectively protect us against claims in all cases and in all jurisdictions. As a result, problems with the software we use may result in financial or other damages to our clients for which we are held responsible or cause damage to our reputation, adversely affecting our business, results of operations and financial condition.

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

Many of our clients operate in industries that have experienced a significant level of consolidation. Our clients have been, and may continue to be, participants in consolidations in which they acquire additional businesses or are acquired themselves. Such consolidations may increase our dependence on a more limited number of clients or result in the termination of existing client contracts, which could have an adverse effect on our business, results of operations and financial condition.

Natural events, war, terrorist attacks, other civil disturbances and epidemics could disrupt our operations or lead to economic weakness in the countries in which we operate, resulting in decreased revenues, earnings and cash flow. Natural events (such as floods and earthquakes), war, terrorist attacks and epidemics of contagious illnesses could disrupt our operations in the United States and abroad and could lead to economic weakness in the countries in which they occur. We have substantial operations in countries - most notably the Philippines - that have experienced severe natural events, such as earthquakes and floods, in the recent past. Weather patterns may become more volatile, and severe weather events may become more frequent or more widespread, as a result of the potential effects of climate change. Disruptions that affect our operations could cause service interruptions or reduce the quality level of the services that we provide, resulting in the payment of contractual penalties to our clients or our clients' termination of our services, which could reduce our revenues, earnings and cash flow.

Our revenue and earnings are affected by foreign currency exchange rate fluctuations.

While most of our contracts are priced in U.S. dollars, we recognize a substantial amount of revenue under contracts that are denominated in euros, British pounds, Australian dollars and Canadian dollars. A significant increase in the value of the U.S. dollar relative to these currencies may have a material adverse impact on the value of those revenues when translated to U.S. dollars.

Additionally, we serve an increasing number of our U.S.-based clients using contact center capacity outside of the United States. Although our contracts with U.S.-based clients are typically priced in U.S. dollars, a substantial portion of our costs to deliver services under these contracts are denominated in the local currency of the country where services are provided. We also have certain client contracts that are priced in non-U.S. dollar currencies for which a substantial portion of the costs to deliver the services are in other currencies. Although we enter into hedging contracts in certain currencies to limit our potential foreign currency exposure, a significant decrease in the value of the contractual currency, relative to the currencies where services are provided, could have a material adverse impact on our operating results that are not fully offset by gains realized under our hedging contracts.

The cash we hold and our external foreign exchange contracts may be subject to counterparty credit risk.

While we monitor the creditworthiness of the institutions holding our cash, if one or more of the institutions holding our cash were to experience cash flow problems or were to become subject to insolvency proceedings, we may be unable to recover some or all of our deposited or invested cash. In addition, the counterparties to our hedge transactions are financial institutions or affiliates of financial institutions and our hedging exposure is not secured by collateral. If one or more of these counterparties becomes insolvent and fails to perform their financial obligations under our hedge transactions, our hedging arrangements may not achieve our intended results and our results of operations and cash flow may be adversely affected.

If we are unable to accurately predict our future tax liabilities or become subject to increased levels of taxation or our tax contingencies are unfavorably resolved, our results of operations and financial condition could be adversely affected.

Due to the global nature of our operations, we are subject to the complex and varying tax laws and rules of several jurisdictions and have material tax-related contingent liabilities that are difficult to predict or quantify. In preparing our financial statements, we calculate our effective income tax rate based on current tax laws and regulations and our estimated taxable income within each of these jurisdictions. The United States recently adopted tax reform legislation commonly known as the Tax Cuts and Jobs Act, which will increase our effective income tax rate by imposing a new

tax regime impacting our non-U.S. operations. The U.S. tax changes also provide flexibility related to repatriating non-U.S. earnings to the United States without additional U.S. taxation, and as a result, we have changed classification of certain earnings that were previously deemed to be permanently reinvested offshore and recorded deferred tax liabilities for the associated withholding taxes. Beginning in 2018, we expect to repatriate more of our future non-U.S. earnings to the United States and will pay non-U.S. withholding taxes associated with such repatriation. Other changes in tax laws or regulations in the jurisdictions in which we do business, including the United States, or changes in how the Tax Cuts and Jobs Act or other tax laws are implemented or interpreted, could further increase our effective tax rate, further restrict our ability to repatriate undistributed offshore earnings, or impose new restrictions, costs or prohibitions on our current practices and reduce our net income and adversely affect our cash flows.

We are also subject to tax audits, including with respect to transfer pricing, in the United States and other jurisdictions and our tax positions may be challenged by tax authorities. Although we believe that our current tax provisions are reasonable and appropriate, there can be no assurance that these items will be settled for the amounts accrued, that additional tax exposures will not be identified in the future or that additional tax reserves will not be necessary for any such exposures. Any increase in the amount of taxation incurred as a result of challenges to our tax filing positions could result in a material adverse effect on our business, results of operations and financial condition.

Our outstanding convertible debentures are convertible at the option of the holders, and significant conversions in any single quarter could have an adverse effect on our results of operations, liquidity or cash flows.

Our outstanding 5.75% Junior Subordinated Convertible Debentures due September 2029 (2029 Convertible Debentures) are convertible at the option of the holders upon certain events or following the satisfaction of certain conditions, including during any calendar quarter if the last reported sales price of the Company's common shares for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter is greater than or equal to 130% of the applicable conversion price for the 2029 Convertible Debentures on each applicable trading day (the Sales Price Condition). The Sales Price Condition has been satisfied each quarter since the first quarter of 2013. The 2029 Convertible Debentures are also convertible following our issuance of a redemption notice with respect to the debentures, which we have the right to do commencing on September 15, 2019, if certain trading conditions of the Company's common shares are satisfied. As a result of the satisfaction of the Sales Price Condition as of December 31, 2017, the \$125.0 aggregate principal amount outstanding of 2029 Convertible Debentures are currently convertible. Upon conversion, the Company is required to pay cash up to the aggregate principal amount of the 2029 Convertible Debentures converted and pay or deliver, as the case may be, cash, common shares of the Company or a combination of cash and common shares of the Company, at the Company's election, in respect of the remainder, if any, of the Company's conversion obligation in excess of the aggregate principal amount of the 2029 Convertible Debentures converted. As of December 31, 2017, the fair value of the 2029 Convertible Debentures was \$274.5.

We cannot predict the aggregate principal amount of 2029 Convertible Notes that will be presented by holders for conversion during any quarter. Significant conversions in any single quarter could have an adverse effect on our results of operations, liquidity or cash flows.

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

We face risks arising from various unasserted and asserted claims, including, but not limited to, commercial, consumer protection, tax and patent infringement claims. Certain claims may be structured as class action lawsuits or otherwise allege substantial damages. Unfavorable outcomes in pending or future litigation or the settlement of asserted claims could negatively affect us.

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

If we incur liability as a result of any current or future litigation, commitments or contingencies and such liability exceeds any amounts accrued, our business, results of operations and financial condition could be adversely affected.

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



We operate a global business and have facilities located throughout North and South America, EMEA and the Asia-Pacific region, including China and the Philippines. Conducting business globally exposes us to certain risks including currency fluctuations, longer payment cycles, greater difficulties in accounts receivable collection, difficulties in complying with differing laws across many jurisdictions, changing legal and regulatory requirements and the interpretation and enforcement of such requirements, difficulties in staffing and managing foreign operations, inflation, compliance with anti-bribery and anti-corruption regulations and potentially adverse tax consequences. Changing and uncertain political conditions in the countries in which we are located, including ongoing political developments in the Philippines and uncertainty regarding the impact of the United Kingdom's vote to leave the European Union or other similar actions by European Union member states, may exacerbate these risks or create further instability for our global operations.

As North American companies require additional offshore customer management outsourcing capacity, we expect to continue international expansion through start-up operations and acquisitions. In addition to the risks described above, expansion of our existing international operations and entry into additional countries may divert management attention from our existing operations and require significant financial resources. If we are unable to manage the risks associated with our international operations and expanding such operations, our business could be adversely affected and our revenues and earnings could be reduced.

Our business is subject to many regulatory requirements, and changes in current regulations or their interpretation and enforcement, or the adoption of new regulations could significantly increase our cost of doing business.

Our business is subject to many laws and regulatory requirements in the United States and the foreign countries in which we operate, covering such matters as labor relations, health care, trade restrictions, tariffs, taxation, sanctions, data privacy, consumer protection (including the method and timing of placing outbound telephone calls and the recording or monitoring of telephone calls), internal and disclosure control obligations, governmental affairs and immigration. Many of these regulations, including those related to data privacy, change frequently and sometimes conflict among the various jurisdictions and countries in which we provide services. Violations of any laws and regulations to which we are subject, including failing to adhere to or successfully implement processes in response to changing regulatory requirements, could result in liability for damages, fines, criminal prosecution, unfavorable publicity and damage to our reputation, and restrictions on our ability to operate, which could have a material adverse effect on our business, results of operations and financial condition.

In particular, because a substantial portion of our operating costs consist of labor costs, changes in governmental regulations relating to wages, severance, healthcare and other benefits or employment taxes, or violations of such regulations, could have a material adverse effect on our business, results of operations or financial condition.

In addition, in recent years, politicians have discussed and debated worldwide competitive sourcing, labor-related legislation and information-flow restrictions, particularly from the United States to offshore locations. If Federal or state legislation is adopted that restricts or discourages U.S. companies from outsourcing services outside of the United States, it could have an adverse effect on our business, results of operations and financial condition.

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

Our ability to profit from the demand for outsourcing depends largely on how effectively we manage our contact center capacity. Although we periodically assess the expected long-term capacity utilization of our contact centers based, in part, on expected client demand for our services, we may be unsuccessful at achieving or maintaining optimal utilization of our contact center capacity. To create additional capacity necessary to accommodate new or expanded outsourcing projects, we may open new contact centers or expand existing contact centers that create idle capacity until we fully implement new or expanded programs for our clients. Furthermore, we may, if deemed necessary, consolidate, close or partially close underperforming contact centers to maintain or improve targeted utilization and margins.

We also may experience short- or long-term fluctuations in client demand for services performed in one or more of our contact centers. A short-term decline in demand may result in less than optimal site utilization for a period of time, while a long-term decline in demand may result in site closures. We may also face difficulty in attracting and retaining employees due to wage pressures in certain markets. As a result, we may not achieve or maintain targeted site utilization levels or site utilization levels may decrease from time to time, and our profitability may suffer as a result. If we are unable to hire and retain qualified personnel, our ability to execute our business plans could be impaired and our revenues could decrease.

We employ approximately 115,000 employees worldwide. From time to time, we experience difficulties in hiring personnel with the desired levels of training or experience. Additionally, quality service depends on our ability to retain employees and control personnel turnover. Any increase in our employee turnover rate could increase recruiting and training costs and could decrease operating effectiveness and productivity. We may be unable to continue to hire, train and retain a sufficient number of qualified personnel to adequately staff new client projects.

The inability or unwillingness of clients that represent a large portion of our accounts receivable balance to timely pay such balances could adversely affect our business.

We often carry significant accounts receivable balances from a limited number of clients that generate a large portion of our revenues. A client may become unable or unwilling to timely pay its balance due to a general economic slowdown, economic weakness in its industry or the financial insolvency of its business. While we closely monitor our accounts receivable balances, a client's financial inability or unwillingness, for any reason, to pay a large accounts receivable balance or many clients' inability or unwillingness to pay accounts receivable balances that are large in the aggregate would adversely impact our income and cash flow.

We may incur material restructuring charges in the future.

We continually evaluate ways to reduce our operating expenses and adapt to changing industry and market conditions through new restructuring opportunities, including more effective utilization of our assets, workforce, and operating facilities. We have recorded restructuring charges in the past related to involuntary employee terminations, facility closures, and other restructuring activities, and we may incur material restructuring charges in the future. The risk that we incur material restructuring charges may be heightened during economic downturns, if clients' demand, preferences or expectations change rapidly, or with expanded global operations.

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

As a result of past acquisitions, we carry a significant goodwill balance on our balance sheet. We test goodwill for impairment annually as of October 1 and at other times if events have occurred or circumstances exist that indicate the carrying value of goodwill may no longer be recoverable. Although no indications of an impairment have been identified, there can be no assurance that we will not incur impairment charges in the future, particularly in the event of a prolonged economic slowdown. A significant goodwill impairment could have a material adverse effect on our results of operations. See Note 6 of the Notes to Consolidated Financial Statements.

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

Disclosure controls and procedures and internal controls and procedures can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of controls must consider the benefits of controls relative to their costs, and controls cannot assure that judgments in decision-making will not be faulty or that breakdowns will not occur because of simple error or mistake. Additionally, controls can be circumvented by the unauthorized acts of one or more persons acting individually or by collusion. Furthermore, while controls are designed with the intent of providing reasonable assurance of the effectiveness of the controls, the design is based, in part, upon certain assumptions about the likelihood of future events, and such assumptions, while reasonable, may not take into account all potential future conditions. Accordingly, because of the inherent limitations of a cost-effective control system, misstatements due to error or fraud may occur and may not be prevented or detected. Such misstatements could result in a loss of investor confidence in the accuracy and completeness of our financial reports and other disclosures, which could have an adverse effect on the trading price of our common shares.

The trading price of our common shares may be volatile.

The trading price of our common shares has been and may be subject to substantial fluctuations over short and long periods of time. Various factors can impact the trading price of our common shares, including general economic conditions, changes or volatility in the financial markets, changing market conditions in the outsourced customer contact management services industry, quarterly variations in our financial results, the announcement of acquisitions or divestitures, strategic partnerships or new product offerings, and changes in financial estimates and recommendations by securities analysts. Many of these factors are outside of our control and there can be no assurance that the trading price of our common shares will not decline or fluctuate substantially in the future.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

#### ITEM 2. PROPERTIES

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

We lease space for our corporate headquarters, offices, data centers and contact centers. Domestic facilities are located in Arizona, Colorado, Florida, Georgia, Idaho, Iowa, Kansas, Kentucky, Massachusetts, Minnesota, Missouri, Nebraska, New Mexico, New York, North Carolina, Ohio, Oregon, Tennessee, Texas, Utah, Virginia and Wisconsin. International facilities are located in Brazil, Bulgaria, Canada, China, Colombia, Costa Rica, Dominican Republic, Egypt, El Salvador, France, Germany, Honduras, Hungary, India, Indonesia, Ireland, Italy, Malaysia, Mauritius, the Netherlands, Nicaragua, the Philippines, Poland, Romania, Spain, Sweden, Tunisia, the United Arab Emirates, and the United Kingdom. Upon the expiration or termination of any such leases, we believe we could obtain comparable office space.

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

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

#### ITEM 3. LEGAL PROCEEDINGS

For a discussion of legal proceedings, see Note 11 of the Notes to Consolidated Financial Statements.

#### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

#### ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

As of February 21, 2018, our Executive Officers were:

| Name                           | Age | Title  |
|--------------------------------|-----|--|
| Andrea J. Ayers <sup>(a)</sup> | 54  | President and Chief Executive Officer            |
| Andre S. Valentine             | 54  | Chief Financial Officer                          |
| Jarrold B. Pontius             | 46  | General Counsel and Chief Administrative Officer |
| Cormac J. Twomey               | 48  | Chief Commercial Officer                         |

(a) Member of the Board of Directors

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

Edgar Filing: CONVERGYS CORP - Form 10-K

ANDREA J. AYERS, President and Chief Executive Officer since November 2012; President and Chief Operating Officer, Customer Management, 2010-2012; President, Customer Management, 2008-2012; President, Relationship Technology Management, 2007-2008; President, Government and New Markets, 2005-2007. On January 25, 2018, the Company announced that Ms. Ayers will transition from her role as President and Chief Executive Officer. The Company's Board of Directors has initiated a search process to identify Ms. Ayers' successor, and she will continue to lead the Company in her current role for transition purposes.

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

JARROD B. PONTIUS, General Counsel and Chief Administrative Officer since July 2015; Deputy General Counsel and Corporate Secretary, 2012-2015; Vice President, Chief Legal Officer and Secretary, Kendle International 2009-2011.

CORMAC J. TWOMEY, Chief Commercial Officer since October 2017; Senior Vice President, EMEA and Intelligent Contact, 2014-2016; Managing Director, Stream Global Services, 2013-2014; Senior Vice President, Sales and Client Management EMEA, Stream Global Services, 2011-2013.

## PART II

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

Convergys Corporation's common shares, without par value, are listed on the New York Stock Exchange under the symbol "CVG." As of January 31, 2018, there were 6,169 holders of record of the 91,618,405 common shares of Convergys outstanding.

The high, low and closing prices of our common shares for each quarter in 2017 and 2016 are listed below:

| Quarter | 1 <sup>st</sup> | 2 <sup>nd</sup> | 3 <sup>rd</sup> | 4 <sup>th</sup> |
|---------|-----------------|-----------------|-----------------|-----------------|
| 2017    |                 |                 |                 |                 |
| High    | \$26.60         | \$25.00         | \$26.08         | \$26.66         |
| Low     | 20.15           | 20.60           | 22.91           | 22.73           |
| Close   | 21.15           | 23.78           | 25.89           | 23.50           |
| 2016    |                 |                 |                 |                 |
| High    | \$27.84         | \$28.54         | \$30.92         | \$30.42         |
| Low     | 22.53           | 24.30           | 24.78           | 23.87           |
| Close   | 27.77           | 25.00           | 30.42           | 24.56           |

During 2017 and 2016, the Company's Board of Directors declared the following dividends per common share, which were paid by the Company on the payment dates listed below:

| Announcement Date | Record Date        | Dividend Amount | Payment Date    |
|-------------------|--------------------|-----------------|-----------------|
| February 23, 2016 | March 24, 2016     | \$0.08          | April 8, 2016   |
| May 9, 2016       | June 24, 2016      | \$0.09          | July 8, 2016    |
| August 8, 2016    | September 23, 2016 | \$0.09          | October 7, 2016 |
| November 8, 2016  | December 23, 2016  | \$0.09          | January 6, 2017 |
| February 22, 2017 | March 24, 2017     | \$0.09          | April 7, 2017   |
| May 8, 2017       | June 23, 2017      | \$0.10          | July 7, 2017    |
| August 8, 2017    | September 22, 2017 | \$0.10          | October 6, 2017 |
| November 7, 2017  | December 22, 2017  | \$0.10          | January 5, 2018 |

On February 21, 2018, the Company announced that its Board of Directors declared a quarterly cash dividend of \$0.10 per common share to be paid on April 6, 2018 to shareholders of record as of March 23, 2018.

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

We repurchased 3.4 of our common shares for \$81.6 during 2017, as summarized in the following table:

|               | Shares repurchased | Average price per share |
|---------------|--------------------|-------------------------|
| January 2017  | 254,598            | \$25.43                 |
| February 2017 | 257,000            | 24.22                   |
| March 2017    | 430,300            | 21.10                   |
| April 2017    | 337,600            | 21.68                   |

|                |           |         |
|----------------|-----------|---------|
| May 2017       | 319,300   | 23.63   |
| June 2017      | 293,100   | 24.26   |
| July 2017      | 291,614   | 23.94   |
| August 2017    | 354,300   | 23.49   |
| September 2017 | 266,100   | 24.61   |
| October 2017   | 262,000   | 25.95   |
| November 2017  | 241,700   | 24.12   |
| December 2017  | 139,200   | 23.99   |
| Total          | 3,446,812 | \$23.67 |

All share repurchases were made pursuant to publicly announced programs. At December 31, 2017, the Company had the authority to repurchase \$61.5 of outstanding common shares pursuant to the Board of Directors' most recent share repurchase authorization of \$250.0 in August 2015. The timing and terms of any future transactions will depend on a number of considerations including market conditions, our available liquidity and capital needs, and limits on share repurchases that may be applicable under the covenants in our credit agreement.

#### Performance Graph

The following Performance Graph compares, for the period from December 31, 2012 through December 31, 2017, the percentage change of the cumulative total shareholder return on the Company's common shares with the cumulative total return of the S&P Midcap 400 Index, and a Peer Group. The Peer Group consists of our peer companies listed below.

|                       | Dec-12 | Dec-13 | Dec-14 | Dec-15 | Dec-16 | Dec-17 |
|-----------------------|--------|--------|--------|--------|--------|--------|
| Convergys Corporation | \$100  | \$130  | \$127  | \$158  | \$158  | \$153  |
| S&P Midcap 400        | \$100  | \$134  | \$147  | \$143  | \$173  | \$201  |
| Peer Group            | \$100  | \$157  | \$172  | \$209  | \$233  | \$320  |

The Peer Group consists of Sykes Enterprises Inc., Teleperformance, Teletch Holdings Inc. and Atento SA.

## ITEM 6. SELECTED FINANCIAL DATA

| (Amounts in millions except per share amounts)                                       | 2017      | 2016      | 2015      | 2014      | 2013      |
|--|-----------|-----------|-----------|-----------|-----------|
| <b>RESULTS OF OPERATIONS</b>   |           |           |           |           |           |
| Revenues   | \$2,792.1 | \$2,913.6 | \$2,950.6 | \$2,855.5 | \$2,046.1 |
| Costs and expenses <sup>(1)</sup>  | 2,594.9   | 2,699.0   | 2,745.9   | 2,691.7   | 1,886.7   |
| Operating Income   | 197.2     | 214.6     | 204.7     | 163.8     | 159.4     |
| Other income (expense), net  | 0.9       | (10.6)    | (9.5)     | (15.2)    | (16.9)    |
| Interest expense   | (18.3)    | (18.1)    | (18.2)    | (19.3)    | (11.5)    |
| Income before Income Taxes   | 179.8     | 185.9     | 177.0     | 129.3     | 131.0     |
| Income tax expense <sup>(2)</sup>  | 58.4      | 52.9      | 8.6       | 12.8      | 72.5      |
| Income from Continuing Operations, net of tax  | 121.4     | 133.0     | 168.4     | 116.5     | 58.5      |
| Income from Discontinued Operations <sup>(3)</sup>                                   | —         | 10.0      | 0.6       | 3.5       | 2.4       |
| Net Income   | \$121.4   | \$143.0   | \$169.0   | \$120.0   | \$60.9    |
| Basic Earnings Per Common Share:   |           |           |           |           |           |
| Continuing Operations  | \$1.30    | \$1.39    | \$1.72    | \$1.16    | \$0.57    |
| Discontinued Operations  | —         | 0.10      | 0.01      | 0.03      | 0.02      |
| Basic Earnings Per Common Share  | \$1.30    | \$1.49    | \$1.73    | \$1.19    | \$0.59    |
| Diluted Earnings Per Common Share:   |           |           |           |           |           |
| Continuing Operations  | \$1.22    | \$1.30    | \$1.60    | \$1.10    | \$0.54    |
| Discontinued Operations  | —         | 0.10      | 0.01      | 0.03      | 0.02      |
| Net Diluted Earnings Per Common Share  | \$1.22    | \$1.40    | \$1.61    | \$1.13    | \$0.56    |
| Weighted Average Common Shares Outstanding:  |           |           |           |           |           |
| Basic  | 93.2      | 95.8      | 98.1      | 100.7     | 103.3     |
| Diluted  | 99.9      | 102.5     | 104.7     | 106.2     | 109.2     |
| <b>FINANCIAL POSITION</b>  |           |           |           |           |           |
| Total Assets   | \$2,414.7 | \$2,371.8 | \$2,356.6 | \$2,416.1 | \$1,956.7 |
| Total debt and capital lease obligations   | 268.6     | 298.8     | 339.3     | 375.9     | 61.1      |
| Shareholders' Equity   | 1,377.7   | 1,315.9   | 1,276.2   | 1,227.2   | 1,224.1   |
| <b>OTHER DATA</b>  |           |           |           |           |           |
| Net cash flows provided by operating activities                                      |           |           |           |           |           |
| Operating activities of continuing operations  | \$263.0   | \$305.4   | \$249.3   | \$261.0   | \$208.4   |
| Operating activities of discontinued operations                                      | —         | —         | —         | —         | 1.6       |
|  | \$263.0   | \$305.4   | \$249.3   | \$210.0   | \$210.0   |
| Net cash flows (used in) provided by investing activities                            |           |           |           |           |           |
| Investing activities of continuing operations  | (\$57.8)  | (\$225.7) | (\$108.4) | (\$850.5) | (\$36.6)  |
| Investing activities of discontinued operations                                      | —         | —         | —         | —         | 1.0       |
|  | (\$57.8)  | (\$225.7) | (\$108.4) | (\$850.5) | (\$35.6)  |
| Net cash flows (used in) provided by financing activities                            |           |           |           |           |           |
| Financing activities of continuing operations  | (\$150.3) | (\$145.6) | (\$135.1) | \$207.6   | (\$148.3) |
|  | (\$150.3) | (\$145.6) | (\$135.1) | \$207.6   | (\$148.3) |
| Adjusted EBITDA <sup>(4)</sup>   | \$351.2   | \$365.6   | \$375.0   | \$356.9   | \$250.6   |
| Adjusted diluted earnings per common share from continuing operations <sup>(4)</sup> | \$1.87    | \$1.84    | \$1.76    | \$1.60    | \$1.10    |
| Adjusted free cash flow <sup>(4)</sup>   | \$208.7   | \$225.3   | \$153.4   | \$208.1   | \$146.2   |

Costs and expenses include restructuring charges of \$23.2, \$3.7, \$7.2, \$1.7 and \$5.4 in 2017, 2016, 2015, 2014 and (1)2013, respectively; gain on sale of real estate of \$1.6 in 2014; asset impairment loss of \$1.5 in 2013; and transaction and integration expenses of \$3.8, \$6.5, \$11.3 and \$37.7 in 2017, 2016, 2015 and 2014, respectively.

Income tax expense in 2017 includes expense of \$32.3 as a result of the enactment of the 2017 Tax Act. Income tax expense in 2016 includes expense of \$20.3 associated with the restructuring of the Company's legal entity structure and the repatriation of earnings into primarily non-U.S. jurisdictions that provide the Company with increased flexibility to manage its strategic priorities. Income tax expense in 2016 also includes expense of \$1.3 associated with the repatriation of certain non-U.S. earnings in connection with the Company's acquisition of buw.

(2) Income tax expense in 2013 includes \$46.4 of expense to record the deferred tax liability associated with a change in classification for a portion of undistributed earnings of the Company's non-U.S. subsidiaries. Income tax expense in 2015 and 2014 includes benefits of \$1.8 and \$6.0, respectively, for changes in estimates related to tax previously accrued for the repatriation of non-U.S. earnings. Income tax expense in 2015 also includes tax benefits of \$22.4 associated with the expiration of statutes of limitations for previously uncertain tax positions and favorable resolutions of tax audits.

(3) Discontinued operations includes the historical financial results of the Information Management business that was divested during 2012.

Management uses the following measures that are not defined under accounting principles generally accepted in the United States (U.S. GAAP or GAAP) to monitor and evaluate the underlying performance of the business and (4) believes the presentation of these non-GAAP measures enhances investors' ability to analyze trends in the business and evaluate the Company's underlying performance relative to other companies in the industry.

EBITDA is calculated as income from continuing operations, net of tax, plus interest expense, tax expense, depreciation and amortization. Adjusted EBITDA further excludes certain acquisition-related costs and other discrete items, including pension settlement charges and charges associated with Company-wide restructuring initiatives. EBITDA and adjusted EBITDA should not be considered in isolation or as a substitute for income from continuing operations, net of tax or other income statement data prepared in accordance with U.S. GAAP, and our presentation of EBITDA and adjusted EBITDA may not be comparable to similarly-titled measures used by other companies.

Adjusted diluted earnings per common share from continuing operations is calculated as diluted earnings per common share from continuing operations plus or minus certain operating charges or credits, along with certain discrete tax expense or benefit adjustments. Management compensates for these limitations by using both the non-GAAP measures, adjusted diluted earnings per common share from continuing operations, and the GAAP measure, diluted earnings per common share from continuing operations, in its evaluation of performance.

Free cash flow is calculated as cash flows from operations less capital expenditures (net of proceeds from disposal) with adjusted free cash flow further excluding certain acquisition-related cash payments associated with investment activity. Management compensates for these limitations by using both the non-GAAP measures, free cash flow and adjusted free cash flow, and the GAAP measure, cash from operating activities, in its evaluation of performance. These non-GAAP measures are supplemental in nature and should not be considered in isolation or be construed as being more important than comparable GAAP measures. For more detail and a reconciliation of these non-GAAP measures to the most comparable GAAP measure, see "Results of Operations" and "Financial Condition, Liquidity and Capital Resources" in Part II, Item 7 of this report.



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

(Amounts in millions except per share amounts)

BACKGROUND

Convergys Corporation is a global leader in customer experience outsourcing, focused on bringing value to our clients through every customer interaction. We provide integrated agent, analytics and technology solutions with operational excellence that we believe deliver superior business growth, care and support for our clients on a global scale. Convergys has approximately 115,000 employees working in 33 countries, interacting with our clients' customers in 58 languages. As a global provider in the industry, Convergys has a history of commitment and dedication to excellence in serving many of the world's largest brands. Our business model allows us to deliver consistent, quality service, at scale in the geographies that meet our clients' business needs. We proactively partner to solve client business challenges through our account management model. Our geographic footprint and comprehensive capabilities help leading companies create brand-differentiated customer experiences across all interaction channels to generate revenue and reduce their cost to serve. We are a well-capitalized leader in our market and are able to invest in the services, technology, and analytics that matter to our clients and their customers.

Operations and Structure

On August 1, 2016, Convergys acquired buw, a leader in the German customer care industry. The acquisition added 16 sites and approximately 6,000 employees spread across Germany, Hungary and Romania into Convergys' global operations.

We believe our global clients benefit from our worldwide workforce located in key geographies, including the United States, the Philippines, India, Germany, the United Kingdom, Canada, Tunisia, Costa Rica, the Dominican Republic, Colombia, Egypt, France, Ireland, Italy, Poland, Romania, China, Malaysia, El Salvador, Honduras, Nicaragua, Bulgaria, Hungary, the Netherlands, Spain, Sweden, Australia, Brazil, Indonesia, Mauritius, Singapore, South Africa, and the United Arab Emirates.

Agent-related revenues, which accounted for more than 95% of our revenues for 2017, are typically recognized as services are performed based on staffing hours or the number of contacts handled by service agents using contractual rates. Remaining revenues are derived from the sale of premise-based and hosted self-care and technology solutions and provision of professional services. Revenues from the sale of these solutions and provision of services are typically recognized as services are provided over the duration of the contract using contractual rates.

RESULTS OF OPERATIONS

Revenues

|                    | 2017      | 2016      | % Change<br>17 vs. 16 | 2015      | % Change<br>16 vs. 15 |
|--------------------|-----------|-----------|-----------------------|-----------|-----------------------|
| Revenues:          |           |           |                       |           |                       |
| Communications     | \$1,274.0 | \$1,442.1 | (12 )                 | \$1,577.4 | (9 )                  |
| Technology         | 570.7     | 623.8     | (9 )                  | 618.6     | 1                     |
| Financial Services | 237.4     | 217.5     | 9                     | 209.1     | 4                     |
| Other              | 710.0     | 630.2     | 13                    | 545.5     | 16                    |
| Total Revenues     | \$2,792.1 | \$2,913.6 | (4 )                  | \$2,950.6 | (1 )                  |

During 2017, we experienced significant fluctuations in call volumes, particularly in our communications and technology verticals, which adversely affected our revenues. In particular, certain of our largest clients shifted work to lower-cost geographies, consolidated programs or moved programs in-house, or reduced volumes through process simplification. We expect to continue to experience volatility with certain of our largest communications and technology clients in 2018, including a decline of approximately 5% to 6% of total company revenue from our largest two clients.

#### 2017 vs. 2016

Consolidated revenues for 2017 were \$2,792.1, a 4% decrease from \$2,913.6 in 2016. Revenues for the acquired buw operations increased revenues by approximately 3%, due to an additional seven months of ownership during 2017 in comparison to 2016. Revenues from communications clients decreased 12% from the prior year, reflecting a shift of volumes to lower cost geographies and consolidation of certain programs with our two largest clients, as well as volume decreases with certain other existing clients. These decreases were partially offset by revenues from a new communications client and increased revenues from the acquired buw operations. Revenues from technology clients decreased 9% from the prior year due to volume decreases with certain existing clients, partially offset by volume growth with other clients. Revenues from financial services clients increased 9% from the prior year primarily due to revenue from a new client and volume increases with several existing clients, as well as increased revenues from the acquired buw operations, partially offset by volume declines with certain clients. Other revenues increased 13% from the prior year. This increase is attributable to volume increases and new programs with existing clients, as well as revenues from a new client and increased revenues from the acquired buw operations.

#### 2016 vs. 2015

Consolidated revenues for 2016 were \$2,913.6, a 1% decrease from \$2,950.6 in 2015. Revenues for the acquired buw operations increased revenues by approximately 2%, primarily within the communications and other verticals. Changes in currency exchange rates resulted in reduced revenues of approximately 1% in 2016 as the U.S. dollar strengthened relative to the British pound, Australian dollar, Canadian dollar and the euro. Revenues from communications clients decreased 9% from the prior year, reflecting volume declines, program completions with certain existing clients and the loss of a client, as well as unfavorable currency exchange rate impacts, partially offset by revenues from the acquired buw operations. Revenues from technology clients increased 1% from the prior year, due to volume increases and new programs with existing clients, partially offset by program completions and unfavorable currency exchange rate impacts. Revenues from financial services clients increased 4% from the prior year primarily due to volume increases with several existing clients and revenue from the acquired buw operations, partially offset by the loss of a client. Other revenues increased 16% from the prior year. This increase is attributable to volume increases and new programs with existing clients, as well as revenue from the acquired buw operations.

#### Operating Costs and Expenses

|  | 2017      | 2016      | % Change<br>17 vs. 16 | 2015      | % Change<br>16 vs. 15 |
|--|-----------|-----------|-----------------------|-----------|-----------------------|
| Operating Costs:                             |           |           |                       |           |                       |
| Cost of providing services and products sold | \$1,734.9 | \$1,843.1 | (6 )                  | \$1,871.9 | (2 )                  |
| Selling, general and administrative          | 699.0     | 695.4     | 1                     | 687.0     | 1                     |
| Depreciation                                 | 105.1     | 122.2     | (14 )                 | 141.5     | (14 )                 |
| Amortization                                 | 28.9      | 28.1      | 3                     | 27.0      | 4                     |
| Restructuring                                | 23.2      | 3.7       | NM                    | 7.2       | (49 )                 |
| Transaction and integration costs            | 3.8       | 6.5       | (42 )                 | 11.3      | (42 )                 |
| Total costs and expenses                     | \$2,594.9 | \$2,699.0 | (4 )                  | \$2,745.9 | (2 )                  |

#### 2017 vs. 2016

Consolidated total operating costs and expenses for 2017 of \$2,594.9 decreased 4% from \$2,699.0 in the prior year. Operating costs associated with the acquired buw operations increased total costs and expenses by approximately 3%,

due to an additional seven months of ownership during 2017 in comparison to 2016. Changes in currency exchange rates reduced operating costs and expenses by approximately 2% in 2017. Total operating costs and expenses for 2017 and 2016 included charges for integration-related expenses of \$3.8 and \$3.3, respectively, associated with the acquisition of buw. Operating costs for 2016 also included charges for transaction-related expenses of \$3.2 related to the acquisition of buw. As a percentage of revenues, the cost of providing services and products sold was 62.1% for 2017, compared to 63.3% for 2016. The decrease in 2017 was largely due to the timing and location of certain program implementations. Selling, general and administrative expenses of \$699.0 in 2017 increased 1% compared to the prior year. This increase was largely due to increased expense from the acquired buw operations due to an additional seven months of ownership, partially offset by savings realized from our 2017 company-wide restructuring program. As a percentage of revenue, selling, general and administrative expense was 25.0% in 2017, compared to 23.9% in 2016. Depreciation expense of \$105.1 decreased \$17.1 from the prior year, while amortization expense of \$28.9 increased \$0.8. The decrease in depreciation expense resulted from the timing of certain assets becoming fully depreciated, as well as lower depreciation from the fair value write-up of property and equipment acquired from SGS Holdings, Inc. (Stream).

#### 2016 vs. 2015

Consolidated total operating costs and expenses for 2016 of \$2,699.0 decreased 2% from \$2,745.9 in the prior year. Operating costs associated with the acquired buw operations increased total costs and expenses by approximately 2% in 2016. Changes in currency exchange rates reduced operating costs and expenses by approximately 2% in 2016. Total operating costs and expenses for 2016 and 2015 included charges for integration-related expenses of \$3.3 and \$11.3, respectively associated with the acquisitions of buw and Stream. Operating costs for 2016 also included charges for transaction-related expenses of \$3.2 related to the acquisition of buw. As a percentage of revenues, the cost of providing services and products sold was 63.3% in 2016 compared to 63.4% in 2015. The slight decrease in 2016 was largely due to the timing and location of certain program implementations. Selling, general and administrative expenses of \$695.4 increased 1% compared to the prior year. This increase was largely due to expenses from the acquired buw operations, partially offset by currency exchange impacts and lower incentive compensation expense. As a percentage of revenues, selling, general and administrative expense was 23.9% in 2016, compared to 23.3% in 2015. Depreciation expense of \$122.2 decreased \$19.3 from the prior year, while amortization expense of \$28.1 increased \$1.1. The decrease in depreciation expense resulted from the timing of certain assets becoming fully depreciated, as well as lower depreciation from the fair value write-up of property and equipment acquired from Stream. The increase in amortization expense resulted from acquired intangible assets from the buw acquisition.

#### 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 (Adjusted Operating Income divided by Total Revenues), in the table below. For the years ended December 31, 2017, 2016 and 2015, Adjusted Operating Income and Adjusted Operating Margin exclude the following operating charges:

1. Amortization of acquired intangible assets of \$28.9, \$28.1, and \$27.0 in 2017, 2016 and 2015, respectively;
2. Restructuring charges of \$12.8 in 2017, associated with a company-wide initiative to reduce headcount and better align the Company's resources, principally for corporate functions;
3. Acquisition integration expenses of \$3.8, \$3.3 and \$11.3 in 2017, 2016 and 2015, respectively, primarily related to fees for third-party consulting services and severance expense;
4. Depreciation of \$3.2, \$8.6 and \$19.1 in 2017, 2016 and 2015, respectively, resulting from the fair value write-up of property and equipment acquired through business combinations;
5. Transaction expenses of \$3.2 in 2016 associated with Convergys' acquisition of buw. These expenses related to fees paid for third-party consulting services.

Edgar Filing: CONVERGYS CORP - Form 10-K

Adjustments for these items are relevant in evaluating the overall performance of the business. Limitations associated with the use of these non-GAAP measures include that these measures do not present all of the amounts associated with our results as determined in accordance with GAAP. Management compensates for this limitation by using both the non-GAAP measures and the GAAP measures in its evaluation of performance. These non-GAAP measures should be considered supplemental in nature and should not be construed as being more important than comparable GAAP measures.

|  | 2017    | 2016    | % Change<br>17 vs. 16 | 2015    | % Change<br>16 vs. 15 |
|--|---------|---------|-----------------------|---------|-----------------------|
| Operating Income                               | \$197.2 | \$214.6 | (8 )                  | \$204.7 | 5                     |
| Operating Margin                               | 7.1     | %7.4    | %                     | 6.9     | %                     |
| Amortization of acquired intangible assets     | 28.9    | 28.1    | 3                     | 27.0    | 4                     |
| Company-wide restructuring                     | 12.8    | —       | 100                   | —       | —                     |
| Integration-related expenses                   | 3.8     | 3.3     | 15                    | 11.3    | (71 )                 |
| Depreciation of property & equipment write-up  | 3.2     | 8.6     | (63 )                 | 19.1    | (55 )                 |
| Transaction-related expenses                   | —       | 3.2     | 100                   | —       | 100                   |
| Adjusted Operating Income (a non-GAAP measure) | \$245.9 | \$257.8 | (5 )                  | \$262.1 | (2 )                  |
| Adjusted Operating Margin                      | 8.8     | %8.8    | %                     | 8.9     | %                     |

2017 vs. 2016

Consolidated operating income was \$197.2 in 2017 compared to operating income of \$214.6 in 2016. Excluding the impacts of the operating charges discussed above, consolidated adjusted operating income for 2017 was \$245.9 compared to \$257.8 in 2016.

2016 vs. 2015

Consolidated operating income was \$214.6 in 2016 compared to operating income of \$204.7 in 2015. Excluding the impacts of the operating charges discussed above, consolidated adjusted operating income for 2016 was \$257.8 compared to \$262.1 in 2015.

Non-Operating Items

|                             | 2017    | 2016    | % Change<br>17 vs. 16 | 2015    | % Change<br>16 vs. 15 |
|-----------------------------|---------|---------|-----------------------|---------|-----------------------|
| Operating Income            | \$197.2 | \$214.6 | (8 )                  | \$204.7 | 5                     |
| Other income (expense), net | 0.9     | (10.6 ) | NM                    | (9.5 )  | 12                    |
| Interest expense            | (18.3 ) | (18.1 ) | 1                     | (18.2 ) | (1 )                  |
| Income before Income Taxes  | \$179.8 | \$185.9 | (3 )                  | \$177.0 | 5                     |

2017 vs. 2016

Other income was \$0.9 in 2017 compared to other expense of \$10.6 in 2016. This difference was primarily due to lower pension expense (including settlement charges), increased interest income and favorable foreign currency exchange gains in 2017.

2016 vs. 2015

Other expense was \$10.6 in 2016 compared to other income of \$9.5 in 2015. This difference was primarily due to changes in foreign exchange gains and losses.

Income Taxes

|  | 2017 | 2016 | % Change<br>17 vs. 16 | 2015 | % Change<br>16 vs. 15 |
|--|------|------|-----------------------|------|-----------------------|
|--|------|------|-----------------------|------|-----------------------|

Edgar Filing: CONVERGYS CORP - Form 10-K

|  |         |         |    |   |              |
|--|---------|---------|----|---|--------------|
| Income before Income Taxes                       | \$179.8 | \$185.9 | (3 | ) | \$177.05     |
| Income tax expense                               | 58.4    | 52.9    | 10 |   | 8.6 NM       |
| Income from Continuing Operations,<br>net of tax | \$121.4 | \$133.0 | (9 | ) | \$168.4(21 ) |

2017 vs. 2016

Our effective tax rate on net income from continuing operations was 32.5% in 2017 compared to 28.5% in 2016. The effective tax rate in 2017 was primarily impacted by a \$34.1 net increase in income tax expense as a result of the enactment of the Tax Cuts and Jobs Act, as well as a shift in geographic mix of worldwide income. The effective tax rate in 2016 was impacted by \$20.3 of expense associated with the restructuring of the Company's legal entity structure and repatriation of earnings into primarily non-U.S. jurisdictions to provide the Company with increased flexibility to manage its strategic priorities. The impact of the restructuring on liquidity was not material. Further, the impact of the restructuring is not expected to have a material impact on our liquidity, expected effective tax rates, or tax filing positions in 2018. The effective tax rate in 2016 was also impacted by \$1.3 of expense associated with the repatriation of certain non-U.S. earnings in connection with the Company's acquisition of buw.

2016 vs. 2015

Our effective tax rate on net income from continuing operations was 28.5% in 2016, compared to 4.9% in 2015. The effective tax rate in 2016 is primarily impacted by tax expense of \$20.3 in 2016 associated with the restructuring of the Company's legal entity structure and repatriation of earnings into primarily non-U.S. jurisdictions to provide the Company with increased flexibility to manage its strategic priorities, as well as a shift in geographic mix of worldwide income and \$1.3 of expense associated with the repatriation of certain non-U.S. earnings in connection with the Company's acquisition of buw. The effective tax rate in 2015 was impacted by a \$22.4 benefit resulting from a favorable resolution of certain tax audits and the expiration of statutes of limitations for previously uncertain tax positions.

U.S. Tax Reform

On December 22, 2017, the United States adopted tax reform legislation commonly known as the Tax Cuts and Jobs Act (the "2017 Tax Act"), which is generally effective January 1, 2018. The 2017 Tax Act includes a number of changes to U.S. tax law, including lowering the U.S. corporate federal income tax rate from a maximum of 35% to 21% and changing or limiting certain tax deductions. In addition, the 2017 Tax Act alters the landscape of taxation of non-U.S. operations and provides immediate deductions for certain new investments, among other provisions.

We have reasonably estimated the effects of the 2017 Tax Act to be an increase in income tax expense of \$34.1. We recorded the \$34.1 income tax expense as a provisional estimate of the 2017 Tax Act in the consolidated financial statements as of December 31, 2017. The significant components of this expense include (i) the remeasurement of net deferred tax liabilities at the lower enacted U.S. federal corporate tax rate, which resulted in a net \$97.9 decrease in income tax expense; (ii) a \$20.3 net tax expense comprised of foreign withholding taxes related to certain non-U.S. earnings subject to repatriation offset by reversal of a deferred tax liability on previously undistributed foreign earnings; and (iii) the deemed repatriation tax on unremitted non-U.S. earnings and profits that were previously tax deferred and other tax impacts of the 2017 Tax Act, which resulted in a \$111.7 increase in income tax expense, net of deductions and credits.

The overall net impact of the 2017 Tax Act is expected to result in a net increase in our effective tax rates in future periods. While the reduction in the U.S. federal tax rate from 35% to 21% in 2018 will result in lower income tax expense, other elements of the Act will more than offset this reduction. Elements of the 2017 Tax Act that will cause a net increase in future income tax expense include:

• The 2017 Tax Act expands the limitation on the deduction of certain executive compensation. This expansion is subject to transition rules that provide relief for previously awarded compensation. We estimate that this deduction

limitation will adversely impact our effective rate in future periods.

- The 2017 Tax Act includes anti-deferral and anti-base erosion provisions, including (i) a new minimum tax on global intangible low-tax income, and (ii) a new tax on certain payments from a corporation subject to U.S. tax to a related foreign corporation that are otherwise deductible. These elements are expected to result in a net increase in our effective tax rate in future periods.

- The 2017 Tax Act implements a new territorial tax system that allows companies to repatriate certain foreign-sourced earnings without incurring additional U.S. tax by providing for a 100% dividend exemption. The territorial tax system impacts our ability to assert indefinite reinvestment of future foreign earnings and is expected to result in a net increase in our effective tax rate in future periods.

We currently expect that our consolidated adjusted effective tax rate for fiscal 2018 will be approximately 25.0%. Such estimates are based on management's current assumptions with respect to, among other things, the geographical mix of our earnings, state income tax levels and tax deductions and finalization of the regulations associated with the 2017 Tax Act.

The estimated impacts of the 2017 Tax Act recorded during 2017 as well as the forward-looking estimates are provisional in nature, and we will continue to assess the impact of the 2017 Tax Act and provide additional information and record adjustments through the income tax provision in the relevant period as amounts are known and reasonably estimable during the measurement period. Accordingly, the impact of the 2017 Tax Act may differ from our provisional estimates due to, among other factors, information currently not available, changes in interpretations and the issuance of additional guidance, as well as changes in assumptions we have made, including actions we may take in future periods as a result of the 2017 Tax Act.

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

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

1. Non-cash pension settlement charges of \$2.5 and \$4.8 in 2017 and 2016, respectively;
2. Net impact to income tax expense of \$32.3 in 2017 resulting from the enactment of the 2017 Tax Act, which is comprised of a \$34.1 net increase to tax expense partially offset by a \$1.8 favorable decreased tax exposure; Tax expense of \$20.3 in 2016 associated with the restructuring of the Company's legal entity structure and repatriation of earnings into primarily non-U.S. jurisdictions to provide the Company with increased flexibility to manage its strategic priorities; tax expense of \$1.3 in 2016 associated with the repatriation of certain non-U.S.
3. earnings in connection with the Company's acquisition of buw; tax benefit of \$1.8 in 2015 to record the deferred tax liability associated with a change in classification for a portion of the undistributed earnings of the Company's foreign subsidiaries;
4. Tax benefit of \$22.4 in 2015, resulting from the expiration of statutes of limitations for previously uncertain tax positions and favorable resolutions of tax audits.

We use income from continuing operations, net of tax and earnings per share data excluding the operating charges and discrete tax items discussed above 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. Adjustments for these items

Edgar Filing: CONVERGYS CORP - Form 10-K

are relevant in evaluating the overall performance of the business. Limitations associated with the use of these non-GAAP measures include that these measures do not present all of the amounts associated with our results as determined in accordance with GAAP. Management compensates for these limitations by using the non-GAAP measures, income from continuing operations, net of tax and diluted earnings per share excluding these items, and the GAAP measures, income from continuing operations, net of tax and diluted earnings per share, in its evaluation of performance. These non-GAAP measures should be considered supplemental in nature and should not be construed as being more important than comparable GAAP measures.

|  | 2017    | 2016    | % Change<br>17 vs. 16 | 2015    | % Change<br>16 vs. 15 |
|--|---------|---------|-----------------------|---------|-----------------------|
| Income from Continuing Operations, net of tax  | \$121.4 | \$133.0 | (9 )                  | \$168.4 | (21 )                 |
| Total operating charges from above   | 48.7    | 43.2    | 13                    | 57.4    | (25 )                 |
| Income tax impact from total operating charges   | (16.9 ) | (12.1 ) | 40                    | (16.6 ) | (27 )                 |
| Pension settlement charge  | 2.5     | 4.8     | (48 )                 | —       | 100                   |
| Income tax impact from pension settlement charge   | (1.0 )  | (1.9 )  | (47 )                 | —       | 100                   |
| Tax provision related to the enactment of the 2017 Tax Act                                 | 32.3    | —       | 100                   | —       | —                     |
| Tax provision (benefit) related to unremitted non-U.S. earnings                            | —       | 21.6    | (100 )                | (1.8 )  | NM                    |
| Release of uncertain tax positions   | —       | —       | —                     | (22.4 ) | (100 )                |
| Adjusted income from Continuing Operations, net of tax (a non-GAAP measure)                | \$187.0 | \$188.6 | (1 )                  | \$185.0 | 2                     |
| Diluted Earnings per Common Share:   |         |         |                       |         |                       |
| Continuing Operations  | \$1.22  | \$1.30  | (6 )                  | \$1.60  | (19 )                 |
| Impact of net charges above included in Continuing Operations, net of tax                  | 0.65    | 0.54    | 20                    | 0.16    | NM                    |
| Adjusted diluted earnings per common share from Continuing Operations (a non-GAAP measure) | \$1.87  | \$1.84  | 2                     | \$1.76  | 5                     |

2017 vs. 2016

Income from continuing operations, net of tax for 2017 was \$121.4 compared to \$133.0 in 2016, while income from continuing operations per diluted share for 2017 was \$1.22 compared to \$1.30 in 2016. Excluding the operating charges, pension settlement charges and discrete tax items discussed above, adjusted income from continuing operations, net of tax for 2017 was \$187.0, or \$1.87 per diluted share, compared to \$188.6, or \$1.84 per diluted share for 2016.

2016 vs. 2015

Income from continuing operations net of tax for 2016 was \$133.0 compared to \$168.4 in 2015, while income from continuing operations per diluted share for 2016 was \$1.30 compared to \$1.60 in 2015. Excluding the operating charges, pension settlement charges and discrete tax items discussed above, adjusted income from continuing operations, net of tax for 2016 was \$188.6, or \$1.84 per diluted share, compared to \$185.0, or \$1.76 per diluted share for 2015.

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

|   | 2017    | 2016    | % Change<br>17 vs. 16 | 2015    | % Change<br>16 vs. 15 |
|---|---------|---------|-----------------------|---------|-----------------------|
| Income from Continuing Operations, net of tax                                     | \$121.4 | \$133.0 | (9 )                  | \$168.4 | (21 )                 |
| Income from Discontinued Operations, net of tax benefit of \$0.0, \$9.2 and \$0.4 | —       | 10.0    | (100 )                | 0.6     | NM                    |
| Net Income  | \$121.4 | \$143.0 | (15 )                 | \$169.0 | (15 )                 |

|                                       |        |        |      |              |
|---------------------------------------|--------|--------|------|--------------|
| Diluted Earnings Per Common Share:    |        |        |      |              |
| Continuing Operations                 | \$1.22 | \$1.30 | (6   | ) \$1.60 (19 |
| Discontinued Operations               | —      | 0.10   | (100 | ) 0.01 NM    |
| Net Diluted Earnings Per Common Share | \$1.22 | \$1.40 | (13  | ) \$1.61 (13 |

#### 2017 vs. 2016

Full year results from discontinued operations include a gain of \$10.0, net of tax, in 2016. Activity in 2016 related to the settlement or adjustment of certain contingencies and tax positions related to the sale of the Information Management business. Diluted income from discontinued operations, net of tax, per share for 2016 was \$0.10.

Including the results of discontinued operations, 2016 net income and diluted earnings per share were \$143.0 and \$1.40, respectively.

#### 2016 vs. 2015

Full year results from discontinued operations include a gain of \$10.0, net of tax, in 2016 compared to a gain of \$0.6, net of tax, in 2015. Activity in both periods related to the settlement or adjustment of certain contingencies and tax positions related to the sale of the Information Management business. Diluted income from discontinued operations, net of tax, per share for 2016 and 2015 was \$0.10 and \$0.01, respectively.

Including the results of discontinued operations, net income and diluted earnings per share were \$143.0 and \$1.40, respectively, in 2016 compared to \$169.0 and \$1.61, respectively, in 2015.

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

Management uses EBITDA, EBITDA margin (EBITDA divided by Total Revenues), Adjusted EBITDA, Adjusted EBITDA margin (Adjusted EBITDA divided by Total Revenues) and the GAAP measure, income from continuing operations, net of tax, to monitor and evaluate the underlying performance of the business and believes the presentation of these measures enhances investors' ability to analyze trends in the business and evaluate our underlying performance relative to other companies in the industry. EBITDA and Adjusted EBITDA should not be considered in isolation or as a substitute for income from continuing operations, net of tax, or other income statement data prepared in accordance with GAAP, and our presentation of EBITDA and adjusted EBITDA may not be comparable to similarly-titled measures used by other companies. These non-GAAP measures should be considered supplemental in nature and should not be construed as being more important than comparable GAAP measures.

|   | 2017    | 2016    | 2015    |   |
|---|---------|---------|---------|---|
| Income from Continuing Operations, net of tax | \$121.4 | \$133.0 | \$168.4 |   |
| Depreciation and Amortization                 | 134.0   | 150.3   | 168.5   |   |
| Interest expense                              | 18.3    | 18.1    | 18.2    |   |
| Income tax expense                            | 58.4    | 52.9    | 8.6     |   |
| EBITDA (a non-GAAP measure)                   | 332.1   | 354.3   | 363.7   |   |
| Company-wide restructuring                    | 12.8    | —       | —       |   |
| Transaction-related expenses                  | —       | 3.2     | —       |   |
| Integration-related expenses                  | 3.8     | 3.3     | 11.3    |   |
| Pension settlement charge                     | 2.5     | 4.8     | —       |   |
| Adjusted EBITDA (a non-GAAP measure)          | \$351.2 | \$365.6 | \$375.0 |   |
| EBITDA Margin                                 | 11.9    | % 12.2  | % 12.3  | % |
| Adjusted EBITDA Margin                        | 12.6    | % 12.5  | % 12.7  | % |



## RESTRUCTURING CHARGES

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

### 2017 Restructuring

#### Company-wide restructuring program

During 2017, the Company recorded restructuring expenses of \$12.8 related to a company-wide initiative to reduce headcount and better align the Company's resources, principally for corporate functions. The 2017 restructuring actions impacted approximately 315 employees. This expense is included in Restructuring charges on the Consolidated Statements of Income and is expected to be substantially paid in cash by March 31, 2018. The total remaining liability under these restructuring actions, which is included in Payables and other current liabilities on the Consolidated Balance Sheet, was \$5.8 as of December 31, 2017.

#### Other Severance

During 2017, the Company recorded other severance expense of \$10.4 primarily related to headcount reductions resulting from certain client program completions. These actions impacted approximately 250 employees. This severance expense is included in Restructuring charges on the Consolidated Statements of Income and is expected to be substantially paid in cash by March 31, 2018. The total remaining liability under these restructuring actions, which is included in Payables and other current liabilities on the Consolidated Balance Sheet, was \$2.8 as of December 31, 2017.

#### buw integration

During 2017, the Company recorded severance charges of \$1.1 related to the elimination of certain redundant positions as a result of the integration of the buw business. This severance expense was included in Transaction and integration costs on the Consolidated Statements of Income and is expected to be fully paid in cash by March 31, 2018. The total remaining liability under these severance-related actions, which is included in Payables and other current liabilities on the Consolidated Balance Sheet, was \$0.1 as of December 31, 2017.

### 2016 Restructuring

During 2016, the Company recorded severance charges of \$3.7 related to the Company's ongoing efforts to refine its operating model and reduce costs, as well as headcount reductions resulting from certain client program completions. The 2016 actions impacted approximately 760 employees. These severance-related charges were fully paid in cash by June 30, 2017. The total remaining liability under these severance-related actions, which is included in Payables and other current liabilities on the Company's Consolidated Balance Sheet, was \$0.8 as of December 31, 2016.

### 2015 Restructuring

During 2015, the Company recorded severance charges of \$7.2 related to the Company's ongoing efforts to refine its operating model and reduce costs, as well as headcount reductions resulting from certain client program completions. The 2015 actions impacted approximately 700 employees. These severance-related charges were fully paid in cash by September 30, 2016.

During 2015, the Company also recorded restructuring expenses of \$0.4 related to the integration of Stream. These severance-related charges were included in Restructuring charges on the Consolidated Statements of Income and were

fully paid in cash by March 31, 2016.

#### Savings from Restructuring Plans

The 2017 company-wide restructuring program is expected to result in cost reductions of approximately \$21.0 and cash savings of approximately \$19.0 on an annualized basis. The impact of these cost reductions will be spread across our operating expenses, primarily in the selling, general and administrative expense caption of our Consolidated Statements of Income. The impact on liquidity was not material for any of our restructuring plans. Savings associated with the 2016 severance actions were not material.

#### CLIENT CONCENTRATION

During 2017, our three largest clients accounted for 29.5% of our consolidated revenues, compared to 35.1% and 35.8% in 2016 and 2015, respectively. Our largest client, AT&T (including DIRECTV in all years), accounted for 16.8% of our consolidated revenues in 2017 compared to 20.5% and 21.3% in 2016 and 2015, respectively. No other client accounted for more than 10% of our consolidated revenues for 2017, 2016 or 2015. Revenues with our three largest clients are earned under multiple contracts and are subject to variation based on, among other things, general economic conditions, client outsourcing trends, geographical mix of where services are provided and seasonal patterns in our clients' businesses.

#### FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

##### Liquidity and Cash Flows

We believe that we have adequate liquidity from cash on hand and expected future cash flows to fund operations, invest in the business, make required debt payments, pay dividends at the discretion of the Board of Directors for the next twelve months, and pay the one-time transition tax imposed by the 2017 Tax Act. We also believe that available borrowings under existing credit facilities provide additional liquidity that can be used to invest in the business. As of December 31, 2017, 93% of our cash and short term investments balance of \$207.2 was held in accounts outside of the United States, most of which would be subject to additional withholding taxes in the foreign jurisdiction if repatriated to the United States. Beginning in 2018, we expect to repatriate more of our non-U.S. earnings than in the past to the United States and will pay withholding taxes associated with such repatriation.

Cash flows from operating activities generally provide us with a significant source of funding for our investing and financing activities. Cash flows for 2017, 2016, and 2015 were as follows:

|   | 2017      | 2016      | 2015      |
|---|-----------|-----------|-----------|
| Net cash flows from operating activities      |           |           |           |
| Operating activities of continuing operations | \$263.0   | \$305.4   | \$249.3   |
| Net cash flows used in investing activities   |           |           |           |
| Investing activities of continuing operations | (\$57.8)  | (\$225.7) | (\$108.4) |
| Net cash flows used in financing activities   |           |           |           |
| Financing activities of continuing operations | (\$150.3) | (\$145.6) | (\$135.1) |

Cash flows from operating activities totaled \$263.0 in 2017, compared to \$305.4 in 2016, and \$249.3 in 2015. 2017 was negatively impacted by \$4.2 of payments for integration-related expenses compared to transaction and integration-related expenses of \$6.9 in 2016 and \$13.3 during 2015. Excluding these items, cash flows provided by operating activities totaled \$267.2, \$312.3 and \$262.6 for 2017, 2016 and 2015, respectively. The decrease in cash flows from 2016 to 2017 was primarily a result of decreased cash flow from working capital in 2017, largely due to the timing of collections of accounts receivable and the payment of accounts payable, partially offset by a \$10.0 contribution to the Company's U.S. cash balance pension plan during 2016. The increase in cash flows from 2015 to 2016 was primarily a result of improved cash flow from working capital in 2016 due to the timing of the collection of

## Edgar Filing: CONVERGYS CORP - Form 10-K

accounts receivable and the payment of accounts payable, as well as a \$10.0 contribution to the Company's U.S. cash balance pension plan during 2016 compared to a \$20.0 contribution in 2015.

Cash flows used in investing activities were \$57.8 during 2017, resulting from \$58.5 of capital expenditures and \$0.7 of net proceeds from the sale of a joint venture interest previously acquired in the buw acquisition. Cash flows used in investing activities were \$225.7 during 2016, resulting from cash outflows of \$137.9 (net of cash acquired) for the purchase of buw, \$87.0 of capital expenditures and \$0.8 for the purchase of short-term investments. Cash flows used in investing activities were \$108.4 during 2015, resulting from \$109.2 of capital expenditures and \$0.8 of proceeds from the maturity of short-term and other investments during the period.

Cash flows used in financing activities were \$150.3 during 2017 compared to \$145.6 in 2016 and \$135.1 in 2015. Activity in 2017 included net repayments of other long-term debt of \$116.6 and net proceeds of amounts drawn under the asset securitization facility of \$83.0. Additionally, we settled in cash the repurchase of 3.5 of the Company's common shares for \$82.2, paid \$35.6 in cash dividends and received proceeds of \$1.1 from the exercise of stock options. Activity in 2016 included repayments of other long-term debt of \$3.1 and net repayments of amounts drawn under the asset securitization facility of \$40.0. Additionally, we settled in cash the repurchase of 2.7 of the Company's common shares for \$71.6. We also paid \$32.7 in cash dividends and received \$1.2 of excess tax benefits from share-based payment arrangements and \$0.6 from the exercise of stock options. Activity in 2015 included repayments of other long-term debt of \$57.5 and net proceeds from our asset securitization facility of \$20.0. Additionally, we settled in cash the repurchase of 3.1 of the Company's common shares for \$72.5. We also paid \$29.6 in cash dividends and received \$1.2 of excess tax benefits from share-based payment arrangements and \$3.3 from the exercise of stock options.

As of December 31, 2017, our credit ratings and outlook were as follows:

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

Our credit ratings and outlook could impact our ability to raise capital in the future as well as increase borrowing costs. A credit rating reflects only the view of the rating agency issuing the rating, is not a recommendation to buy, sell or hold Convergys securities and may be subject to revision or withdrawal by the rating agency at any time. Each rating should be evaluated independently of any other rating.

### Free Cash Flow and Adjusted Free Cash Flow (non-GAAP measures)

We use free cash flow and adjusted free cash flow, which are non-GAAP measures, to assess the financial performance of the Company. We define free cash flow as cash flows from operating activities less capital expenditures, and adjusted free cash flow as free cash flow less expenditures associated with investment activity to expand or improve our business. A reconciliation of the GAAP measure, net cash provided by operating activities, to the non-GAAP measures, free cash flow and adjusted free cash flow, is as follows:

|   | 2017    | 2016    | 2015    |
|---|---------|---------|---------|
| Net cash flow provided by operating activities under U.S. GAAP                          | \$263.0 | \$305.4 | \$249.3 |
| Capital expenditures, net of proceeds from disposal of assets                           | (58.5)  | (87.0)  | (109.2) |
| Free cash flow (a non-GAAP measure)   | \$204.5 | \$218.4 | \$140.1 |
| Acquisition - cash paid for transaction and integration-related expenses <sup>(A)</sup> | 4.2     | 6.9     | 13.3    |
| Adjusted free cash flow (a non-GAAP measure)  | \$208.7 | \$225.3 | \$153.4 |

(A) Payments associated with investment activity for acquisition related items.

Adjusted free cash flow was \$208.7 for 2017, compared to \$225.3 and \$153.4 for 2016 and 2015, respectively. The decrease of \$16.6 from 2016 is primarily a result of decreased cash flow from working capital in 2017, largely due to the timing of collections of accounts receivable and the payment of accounts payable, as well as decreased capital expenditures in 2017 partially offset by a \$10.0 contribution to the Company's U.S. cash balance pension plan during 2016. The increase of \$71.9 from 2015 to 2016 is primarily due to improved cash flow from working capital in 2016 due to the timing of the collection of accounts receivable and the payment of accounts payable, a \$10.0 contribution to the Company's U.S. cash balance pension plan in 2016 compared to a \$20.0 contribution during 2015, and decreased capital expenditures in 2016.

We believe that free cash flow and adjusted free cash flow are useful to investors because they present the operating cash flow of the Company, excluding the capital that is spent to continue and improve business operations, such as investment in the Company's existing business. Further, free cash flow and adjusted free cash flow provide an indication of the ongoing cash that is available for debt repayment, returning capital to shareholders and other opportunities. We also believe the presentation of these measures enhances investors' ability to analyze trends in the business and evaluate the Company's underlying performance relative to other companies in the industry. Limitations associated with the use of free cash flow and adjusted free cash flow include that they do not represent the residual cash flow available for discretionary expenditures as they do not incorporate certain cash payments, including payments made on capital lease obligations or cash payments for business acquisitions. Management compensates for these limitations by utilizing the non-GAAP measures, free cash flow and adjusted free cash flow, and the GAAP measure, cash flows from operating activities, in its evaluation of performance.

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

At December 31, 2017, total capitalization was \$1,705.8, consisting of \$268.6 of short-term and long-term debt and capital lease obligations, \$1,377.7 of equity and \$59.5 of temporary equity associated with the convertible debentures conversion feature. At December 31, 2016, total capitalization was \$1,676.0, consisting of \$298.8 of short-term and long-term debt and capital lease obligations, \$1,315.9 of equity and \$61.3 of temporary equity associated with the convertible debentures conversion feature. The total debt-to-capital ratio at December 31, 2017 was 15.7%, compared to 17.8% at December 31, 2016. This decrease is primarily due to a decrease in total debt outstanding as a result of decreased borrowings under the Company's term loan.

On January 11, 2017 (the Effective Date), the Company entered into a new credit agreement (Credit Agreement) and repaid all amounts outstanding and terminated all commitments under its previously existing credit agreement (Prior Credit Agreement) using initial borrowings under the Credit Agreement as well as borrowings under the Company's asset securitization facility. The Credit Agreement consists of a \$215.0 unsecured term loan facility (Term Loan), maturing on March 3, 2019, and a \$300.0 unsecured revolving credit facility (Revolving Credit Facility), maturing on January 11, 2022. On the Effective Date, the Company drew \$100.0 in initial borrowings under the Term Loan. A \$1.0 extinguishment loss was recognized on the Effective Date and is included in Interest expense on the Consolidated Statement of Income for the year ended December 31, 2017.

The Revolving Credit Facility may be extended for two additional one-year periods, subject to the satisfaction of certain conditions set forth in the Credit Agreement. In addition, aggregate borrowing capacity under the Credit Agreement may be increased by up to an additional \$250.0 million by increasing the amount of the Revolving Credit Facility or by incurring additional term loans, in each case subject to the satisfaction of certain conditions set forth in the Credit Agreement, including the receipt of additional commitments for such increase. Borrowings outstanding under the Credit Agreement may be repaid from time to time without premium or penalty, other than customary breakage costs, if any. Borrowings outstanding under the Credit Agreement bear interest at a fluctuating rate per annum equal to, at the Company's option, either (a) the applicable adjusted LIBOR plus a spread based on the Company's total net leverage ratio, or (b) a base rate (equal to the higher of the Administrative Agent's prime rate, the federal fund rate plus 0.50%, and the one-month adjusted LIBOR plus 1.0%) plus a spread based on the Company's total net leverage ratio. The Company is also obligated to pay a commitment fee on a quarterly basis on the unused portion of the commitments under the Revolving Credit Facility based on the Company's total net leverage ratio,

which fee is currently 25 basis points. While amounts borrowed and repaid under the Revolving Credit Facility can be re-borrowed, amounts repaid under the Term Loan cannot be borrowed again under the Credit Agreement. The Credit Agreement contains certain affirmative and negative covenants, as well as terms and conditions that are customary for credit facilities of this type, including financial covenants for leverage and interest coverage ratios. The Company was in compliance with all covenants at December 31, 2017. Total borrowing capacity remaining under the Revolving Credit Facility was \$300.0, with \$100.0 outstanding on the Term Loan, as of December 31, 2017. The carrying value of the Term Loan at December 31, 2017 reflects a discount of \$0.7 related to fees paid directly to the lenders at issuance. This discount is being amortized over the life of the Term Loan using the effective interest rate method (3.6% as of December 31, 2017), and is included in interest expense in the Consolidated Statements of Income.

The Company established the Prior Credit Agreement on February 28, 2014 in the aggregate amount of \$650.0. The Prior Credit Agreement consisted of unsecured term loans (Prior Term Loan) in the initial aggregate amount of \$350.0, and an unsecured revolving credit facility (Prior Revolving Credit Facility) in the amount of \$300.0. The Prior Term Loan and the Prior Revolving Credit Facility were scheduled to mature on March 3, 2019. Outstanding amounts were subject to interest at the applicable rate described in the Prior Credit Agreement.

During 2009, Convergys issued \$125.0 aggregate principal amount of 5.75% Junior Subordinated Convertible Debentures due September 2029 (2029 Convertible Debentures) in exchange for \$122.5 of 4.875% Unsecured Senior Notes due December 15, 2009, pursuant to an exchange offer. The entire balance of the 2029 Convertible Debentures remained outstanding and was convertible at the option of the holders as of December 31, 2017 and 2016.

During January 2017, the Company amended the terms of its asset securitization facility collateralized by accounts receivable of certain of the Company's subsidiaries. The amendment resulted in an increased purchase limit of \$225.0, with \$90.0 and \$135.0 expiring in January 2018 and January 2020, respectively. The asset securitization facility was further amended in January 2018 to extend the expiration date for the \$90.0 purchase limit to January 2019. As of December 31, 2016, the asset securitization facility had a purchase limit of \$150.0 expiring in January 2017. The asset securitization program is conducted through Convergys Funding Inc., a wholly-owned bankruptcy remote subsidiary of the Company. As of December 31, 2017 and 2016, Convergys had drawn \$103.0 and \$20.0, respectively, in available funding from qualified receivables. Amounts drawn under this facility have been classified as long-term debt within the Consolidated Balance Sheets, based on the Company's ability and intent to refinance on a long-term basis as of December 31, 2017.

During 2017, we repurchased 3.4 of our common shares for \$81.6 pursuant to a share repurchase authorization approved by the Company's Board of Directors in August 2015, which increased the share repurchase authorization to \$250.0. Based upon timing of transactions, \$0.9 of the shares repurchased during December 2016 settled during the first quarter of 2017. Additionally, \$0.3 of the shares repurchased during December 2017 had not settled as of December 31, 2017. At December 31, 2017, the Company had the authority to repurchase \$61.5 of outstanding common shares under the Board's August 2015 authorization. The timing and terms of any future transactions will depend on a number of considerations including market conditions, our available liquidity and capital needs, and limits on share repurchases that may be applicable under the covenants in our Credit Agreement.

The following summarizes our contractual obligations at December 31, 2017, and the effect such obligations are expected to have on liquidity and cash flows in future periods:

| Contractual Obligations                           | Total   | Less Than 1 Year | 1-3 Years | After 3 Years |
|---|---------|------------------|-----------|---------------|
| Debt and capital lease obligations <sup>(1)</sup> | \$330.1 | \$42.2           | \$162.9   | \$125.0       |
| Debt interest <sup>(2)</sup>                      | 91.2    | 11.7             | 23.5      | 56.0          |
| Operating leases <sup>(3)</sup>                   | 421.9   | 104.9            | 202.5     | 114.5         |
| Pension contributions <sup>(4)</sup>              | 33.6    | —                | 10.2      | 23.4          |

Edgar Filing: CONVERGYS CORP - Form 10-K

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Transition tax related to 2017 Tax Act <sup>(5)</sup>      | 6.1     | 0.5     | 1.5     | 4.1     |
| Unrecognized tax benefits <sup>(6)</sup>                   | —       | —       | —       | —       |
| Tax recapture - 2029 Convertible Debentures <sup>(7)</sup> | —       | —       | —       | —       |
| Total  | \$882.9 | \$159.3 | \$400.6 | \$323.0 |

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

This includes interest expense on fixed and variable rate debt in addition to capital lease obligations. This includes only the cash component of interest expense on our 2029 Convertible Debentures, assumes the December 31, 2017 interest rate of 1.9% on the Asset Securitization Facility and assumes the December 31, 2017 interest rate of 3.0% and minimum amortization payments on the Term Loan.

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

In order for the Company to meet its Employee Retirement Income Security Act of 1974 (ERISA) funding requirements for future years, estimates for 2018 and beyond assume a 6.25% return on assets and Bipartisan Budget Act of 2015 interest rates. Actual cash payments may vary based upon actual performance.

This represents a one-time transition cash tax resulting from the 2017 Tax Act, associated with the Company's accumulated earnings of foreign subsidiaries, minus associated credits and deductions, as of December 31, 2017. This one-time transition tax is expected to be paid in annual installments over an eight-year period.

(6) Unrecognized tax benefits of \$21.3 are excluded from this table as the uncertainty related to the amount and period of any cash settlement prevents the Company from making a reasonably reliable estimate.

The Company could be subject to tax recapture payments if it elects to redeem all or part of the 2029 Convertible Debentures on or after September 15, 2019. This amount as of December 31, 2017 was \$14.8, which is excluded from this table as the uncertainty related to the amount and period of any future redemptions prevents the Company from making a reasonably reliable estimate.

At December 31, 2017, we had outstanding letters of credit and bond obligations of approximately \$13.6 related to performance guarantees. We believe that any guarantee obligation that may arise related to performance and payment guarantees of continuing operations will not be material. The Company also has future purchase commitments with telecommunications and transportation providers of \$20.1 at December 31, 2017.

During 2016 and 2017, our Board of Directors declared the following dividends per common share, which were paid by the Company on the payment dates listed below:

| Announcement Date | Record Date        | Dividend Amount | Payment Date    |
|-------------------|--------------------|-----------------|-----------------|
| February 23, 2016 | March 24, 2016     | \$0.08          | April 8, 2016   |
| May 9, 2016       | June 24, 2016      | \$0.09          | July 8, 2016    |
| August 8, 2016    | September 23, 2016 | \$0.09          | October 7, 2016 |
| November 8, 2016  | December 23, 2016  | \$0.09          | January 6, 2017 |
| February 22, 2017 | March 24, 2017     | \$0.09          | April 7, 2017   |
| May 8, 2017       | June 23, 2017      | \$0.10          | July 7, 2017    |
| August 8, 2017    | September 22, 2017 | \$0.10          | October 6, 2017 |
| November 7, 2017  | December 22, 2017  | \$0.10          | January 5, 2018 |

On February 21, 2018, the Company announced that its Board of Directors declared a quarterly cash dividend of \$0.10 per common share to be paid on April 6, 2018 to shareholders of record as of March 23, 2018.

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

## MARKET RISK

We are exposed to a variety of market risks, including the effects of changes in foreign currency exchange rates and interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices. Our risk management strategy includes the use of derivative instruments to reduce the effects on our operating results and cash flows from fluctuations caused by volatility in currency exchange rates. In using derivative financial instruments to hedge exposures to changes in exchange rates, we expose ourselves to counterparty credit risk. We manage exposure to counterparty credit risk by entering into derivative financial instruments with investment grade-rated institutions that can be expected to perform fully under the terms of the agreements and by diversifying the number of financial institutions with which we enter into such agreements.

### Interest Rate Risk

At December 31, 2017, Convergys had \$203.0 of variable rate debt outstanding under the Term Loan and Asset Securitization Facility, which exposes Convergys to changes in interest rates. Holding other variables constant, including the total amount of outstanding indebtedness, a one hundred basis point increase in interest rates on our variable-rate debt would cause an estimated increase in interest expense of approximately \$2.0 per year.

### Foreign Currency Exchange Rate Risk

While most of our contracts are priced in U.S. dollars, we recognize a substantial amount of revenue under contracts that are denominated in euros, British pounds, Australian dollars and Canadian dollars. A significant increase in the value of the U.S. dollar relative to these currencies may have a material adverse impact on the value of those revenues when translated to U.S. dollars.

We serve many of our U.S.-based clients using contact center capacity outside of the U.S. Although the contracts with these clients are typically priced in U.S. dollars, a substantial portion of the costs incurred to deliver services under these contracts are denominated in the local currency of the country where services are provided, which represents a foreign exchange exposure. Additionally, we have certain client contracts that are priced in Australian dollars, for which a substantial portion of the costs to deliver services are denominated in other currencies. As of December 31, 2017, we have hedged a portion of our exposure related to the anticipated cash flow requirements denominated in certain foreign currencies by entering into hedging contracts with several financial institutions to acquire a total of PHP 32,040.0 at a fixed price of \$634.8 at various dates through September 2020, INR 10,170.0 at a fixed price of \$140.1 at various dates through June 2020, CAD 38.0 at a fixed price of \$28.6 at various dates through December 2019 and COP 40,200.0 at a fixed price of \$12.7 at various dates through June 2019, and to sell a total of AUD 24.8 at a fixed price of \$19.3 at various dates through October 2018. The fair value of these derivative instruments as of December 31, 2017 is presented in Note 13 of the Notes to Consolidated Financial Statements. The potential loss in fair value at December 31, 2017 for such contracts resulting from a hypothetical 10% adverse change in the underlying foreign currency exchange rates is approximately \$84.8. This loss would be substantially mitigated by corresponding gains on the underlying foreign currency exposures.

Other foreign currency exposures arise from transactions denominated in a currency other than the functional currency. We periodically enter into hedging contracts that are not designated as hedges. The purpose of these derivative instruments is to protect the Company against foreign currency exposure pertaining to receivables, payables and intercompany transactions that are denominated in currencies different from the functional currencies of the Company or the respective subsidiaries. As of December 31, 2017, the fair value of these derivatives not designated as hedges was a \$8.9 payable.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare our Financial Statements in conformity with accounting principles generally accepted in the United States. Our significant accounting policies are disclosed in Note 2 of the Notes to Consolidated Financial Statements. The

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

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

#### Goodwill

The Company has recorded on its Consolidated Balance Sheets goodwill of \$937.9 and \$916.9 at December 31, 2017 and 2016, respectively. This increase in 2017 was due to foreign currency translation during the year, partially offset by measurement period adjustments associated with the Company's acquisition of buw. The Company tests goodwill for impairment annually as of October 1 and at other times if events have occurred or circumstances exist that indicate the carrying value of goodwill may no longer be recoverable.

The Company's reporting units are Customer Management - Agent Services and Customer Management - Customer Interaction Technology (CIT). Goodwill is allocated to the reporting units at the date the goodwill is initially recorded. Once goodwill has been allocated to the reporting units, it generally no longer retains its identification with a particular acquisition, but instead becomes identified with a reporting unit as a whole. As a result, all of the fair value of each reporting unit is available to support the value of goodwill allocated to the unit. For 2017, the Company tested goodwill for the Customer Management – Agent Services reporting unit, which holds 100% of the Company's goodwill balance.

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

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

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



and the timing of expected future cash flows. Discount rate assumptions are based upon an assessment of the risk inherent in the future cash flows. The assumptions used in the current year models are generally consistent with the prior year models.

The most recent annual impairment test performed as of October 1, 2017, indicated that the fair value of the Customer Management - Agent Services reporting unit was substantially in excess of its carrying value. However, future impairment charges could be required if a divestiture decision is made or other significant economic events occur with respect to the reporting unit. Subsequent to our October 1, 2017 annual impairment test, no indications of an impairment were identified.

#### Other Intangible Assets

At December 31, 2017, we had other intangible assets, net of amortization, with a carrying value of \$287.3, which consisted of \$286.6 in customer relationships and \$0.7 in tradenames. As amortizable intangible assets, the Company evaluates the intangible assets for recoverability on an annual basis or if events or circumstances indicate a possible inability to recover their carrying amounts, by comparing estimates of undiscounted future cash flows to the carrying values of the related assets. Based on the results of testing, no impairment charges were recognized in 2017.

#### Property and Equipment

The cost of property, plant and equipment is depreciated using the straight-line method over the estimated useful lives of the assets. Buildings are generally depreciated over a 30-year life, software over a three- to ten-year life and equipment generally over a three- to five-year life. Leasehold improvements are depreciated over the shorter of their estimated useful life or the remaining term of the associated lease. Assets held under capital leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Depreciation expense for assets held under capital lease is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related leases. The Company reviews property, plant and equipment asset groups for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. The Company monitors these changes and events on at least a quarterly basis. Examples of events or changes in circumstances could include, but are not limited to, a prolonged economic downturn, current period operating or cash flow losses combined with a history of losses or a forecast of continuing losses associated with the use of an asset group, or a current expectation that an asset group will be sold or disposed of before the end of its previously estimated useful life. Recoverability is based upon projections of anticipated future undiscounted cash flows associated with the use and eventual disposal of the property, plant and equipment asset groups, as well as specific appraisals in certain instances. Reviews occur at the lowest level for which identifiable cash flows are largely independent of cash flows associated with other property, plant and equipment asset groups. If the future undiscounted cash flows result in a value that is less than the carrying value, then the long-lived asset is considered impaired and a loss is recognized based on the amount by which the carrying amount exceeds the estimated fair value. Various factors that the Company uses in determining the impact of these assessments include the expected useful lives of long-lived assets and our ability to realize any undiscounted cash flows in excess of the carrying amounts of such asset groups, and are affected primarily by changes in the expected use of the assets, changes in technology or development of alternative assets, changes in economic conditions, changes in operating performance and changes in expected future cash flows. As judgment is involved in determining the fair value of property, plant and equipment asset groups, there is risk that the carrying value of these assets may require adjustment in future periods.

#### Income Taxes

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

Our effective tax rates could be affected by numerous factors, such as intercompany transactions, the relative amount of our foreign earnings, including earnings being lower than anticipated in jurisdictions where we have lower statutory rates and higher than anticipated in jurisdictions where we have higher statutory rates, the applicability of special tax regimes, losses incurred in jurisdictions for which we are not able to realize the related tax benefit, changes in foreign currency exchange rates, entry into new businesses and geographies, changes to our existing businesses and operations, acquisitions (including integrations) and investments and how they are financed, changes in our stock price, changes in our deferred tax assets and liabilities and their valuation, and changes in the relevant tax, accounting, and other laws, regulations, administrative practices, principles, and interpretations. In addition, a number of countries are actively pursuing changes to their tax laws applicable to corporate multinationals, such as the recently enacted 2017 Tax Act in the United States. Finally, foreign governments may enact tax laws in response to the 2017 Tax Act that could result in further changes to global taxation and materially affect our financial position and results of operations.

The 2017 Tax Act significantly changes how the U.S. taxes corporations. The 2017 Tax Act requires complex computations to be performed that were not previously required in U.S. tax law, significant judgments to be made in interpretation of the provisions of 2017 Tax Act and significant estimates in calculations, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the Internal Revenue Service, and other standard-setting bodies could interpret or issue guidance on how provisions of the 2017 Tax Act will be applied or otherwise administered that is different from our interpretation. As we complete our analysis of the 2017 Tax Act, collect and prepare necessary data, and interpret any additional guidance, we may make adjustments to provisional amounts that we have recorded that may materially impact our provision for income taxes in the period in which the adjustments are made.

The Company regularly reviews its deferred tax assets for recoverability and establishes a valuation allowance if it is more likely than not that some portion or all of a deferred tax asset will not be realized. The determination as to whether a deferred tax asset will be realized is made on a jurisdictional basis and is based on the evaluation of positive and negative evidence. This evidence includes historical pretax and taxable income, projected future taxable income, the expected timing of the reversal of existing temporary differences and the implementation of tax planning strategies. Projected future taxable income is based on expected results and assumptions as to the jurisdiction in which the income will be earned. The expected timing of the reversals of existing temporary differences is based on current tax law and the Company's tax methods of accounting.

The Company also reviews its tax activities and evaluates uncertain tax positions using a two-step approach. The first step is to evaluate the tax position for recognition by determining whether the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit, which is the largest amount that is more than 50% likely of being realized upon ultimate settlement. The Company's policy is to recognize interest and penalties accrued on unrecognized tax benefits as part of income tax expense. Significant judgment is required in determining our liability for uncertain tax positions. The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations and court rulings. Therefore, the actual liability for U.S. or non-U.S. taxes may be significantly different from our estimates, which could result in the need to record additional tax liabilities or potentially reverse previously recorded tax liabilities. We believe that we make a reasonable effort to ensure accuracy in our judgments and estimates.

## NEW ACCOUNTING PRONOUNCEMENTS

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



ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Beginning on page 40 are the Consolidated Financial Statements with applicable notes and the related Report of Independent Registered Public Accounting Firm, the supplementary financial information specified by Item 302 of Regulation S-K and Financial Statement Schedule II – Valuation and Qualifying Accruals.

Convergys Corporation 2017 Annual Report 9

---

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Convergys Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Convergys Corporation (the Company) as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), Convergys Corporation's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 21, 2018, expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2001  
Cincinnati, Ohio  
February 21, 2018

## CONSOLIDATED STATEMENTS OF INCOME

| (Amounts in millions except per share amounts)              | Year Ended December 31, |           |           |
|---|-------------------------|-----------|-----------|
|   | 2017                    | 2016      | 2015      |
| Revenues  | \$2,792.1               | \$2,913.6 | \$2,950.6 |
| Costs and Expenses:   |                         |           |           |
| Cost of providing services and products sold <sup>(1)</sup> | 1,734.9                 | 1,843.1   | 1,871.9   |
| Selling, general and administrative                         | 699.0                   | 695.4     | 687.0     |
| Depreciation  | 105.1                   | 122.2     | 141.5     |
| Amortization  | 28.9                    | 28.1      | 27.0      |
| Restructuring charges                                       | 23.2                    | 3.7       | 7.2       |
| Transaction and integration costs                           | 3.8                     | 6.5       | 11.3      |
| Total costs and expenses                                    | 2,594.9                 | 2,699.0   | 2,745.9   |
| Operating Income  | 197.2                   | 214.6     | 204.7     |
| Other income (expense), net                                 | 0.9                     | (10.6)    | (9.5)     |
| Interest expense  | (18.3)                  | (18.1)    | (18.2)    |
| Income before Income Taxes                                  | 179.8                   | 185.9     | 177.0     |
| Income tax expense  | 58.4                    | 52.9      | 8.6       |
| Income from Continuing Operations, net of tax               | 121.4                   | 133.0     | 168.4     |
| Income from Discontinued Operations, net of tax             | —                       | 10.0      | 0.6       |
| Net Income  | \$121.4                 | \$143.0   | \$169.0   |
| Basic Earnings per Common Share:                            |                         |           |           |
| Continuing Operations                                       | \$1.30                  | \$1.39    | \$1.72    |
| Discontinued Operations                                     | —                       | 0.10      | 0.01      |
| Basic Earnings per Common Share                             | \$1.30                  | \$1.49    | \$1.73    |
| Diluted Earnings per Common Share:                          |                         |           |           |
| Continuing Operations                                       | \$1.22                  | \$1.30    | \$1.60    |
| Discontinued Operations                                     | —                       | 0.10      | 0.01      |
| Diluted Earnings per Common Share                           | \$1.22                  | \$1.40    | \$1.61    |
| Weighted Average Common Shares Outstanding:                 |                         |           |           |
| Basic   | 93.2                    | 95.8      | 98.1      |
| Diluted   | 99.9                    | 102.5     | 104.7     |
| Cash dividends declared per share                           | \$0.39                  | \$0.35    | \$0.31    |

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

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

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| (In millions)   | Year Ended December |         |         |
|---|---------------------|---------|---------|
|   | 31,<br>2017         | 2016    | 2015    |
| Net Income  | \$121.4             | \$143.0 | \$169.0 |
| Other Comprehensive Income (Loss), net of tax:  |                     |         |         |
| Foreign currency translation adjustments  | 21.2                | (18.4 ) | (37.1 ) |
| Change related to pension liability (net of tax benefit (expense) of \$2.3, \$(3.5) and \$(3.2))  | (9.9 )              | 5.8     | 9.8     |
| Unrealized gain (loss) on hedging activities (net of reclassification adjustments and net of tax (expense) benefit of \$(19.3), \$(0.4)and \$4.9) | 35.9                | 0.6     | (7.8 )  |
| Total other comprehensive income (loss)   | 47.2                | (12.0 ) | (35.1 ) |
| Total Comprehensive Income  | \$168.6             | \$131.0 | \$133.9 |

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





## CONSOLIDATED BALANCE SHEETS

| (Amounts in millions)  | At December 31, |           |
|--|-----------------|-----------|
|  | 2017            | 2016      |
| <b>ASSETS</b>  |                 |           |
| Current Assets:  |                 |           |
| Cash and cash equivalents  | \$193.7         | \$138.8   |
| Short-term investments   | 13.5            | 12.4      |
| Receivables, net of allowances of \$4.8 and \$5.8  | 567.2           | 555.0     |
| Prepaid expenses   | 35.9            | 38.6      |
| Other current assets   | 47.4            | 40.0      |
| Total current assets   | 857.7           | 784.8     |
| Property and equipment, net  | 260.0           | 304.1     |
| Goodwill   | 937.9           | 916.9     |
| Other intangibles, net   | 287.3           | 307.6     |
| Deferred income tax assets   | 21.3            | 17.7      |
| Other assets   | 50.5            | 40.7      |
| Total Assets   | \$2,414.7       | \$2,371.8 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                 |           |
| Current Liabilities:   |                 |           |
| Debt and capital lease obligations maturing within one year  | \$0.9           | \$1.8     |
| Payables and other current liabilities   | 322.1           | 345.8     |
| Total current liabilities  | 323.0           | 347.6     |
| Long-term debt and capital lease obligations   | 267.7           | 297.0     |
| Deferred income tax liabilities  | 222.6           | 197.8     |
| Accrued pension liabilities  | 94.7            | 80.3      |
| Other long-term liabilities  | 69.5            | 71.9      |
| Total liabilities  | 977.5           | 994.6     |
| Convertible debentures conversion feature  | 59.5            | 61.3      |
| Shareholders' Equity:  |                 |           |
| Preferred shares—without par value, 5.0 authorized; none issued or outstanding   | —               | —         |
| Common shares—without par value, 500.0 authorized; 92.5 and 191.0 issued, 91.8 and 94.7 outstanding, as of December 31, 2017 and December 31, 2016, respectively | 2.5             | 1,110.0   |
| Treasury stock—0.6 shares in 2017 and 96.3 in 2016   | (16.0)          | (1,635.3) |
| Retained earnings  | 1,457.8         | 1,955.0   |
| Accumulated other comprehensive loss   | (66.6)          | (113.8)   |
| Total shareholders' equity   | 1,377.7         | 1,315.9   |
| Total Liabilities and Shareholders' Equity   | \$2,414.7       | \$2,371.8 |

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Year Ended December<br>31, |            |          |
|---|----------------------------|------------|----------|
|   | 2017                       | 2016       | 2015     |
| (Amounts in millions)   |                            |            |          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                            |            |          |
| Net income  | \$121.4                    | \$143.0    | \$169.0  |
| Income from discontinued operations, net of tax   | —                          | 10.0       | 0.6      |
| Income from continuing operations, net of tax   | 121.4                      | 133.0      | 168.4    |
| Adjustments to reconcile net income from continuing operations to net cash provided by operating activities of continuing operations: |                            |            |          |
| Depreciation and amortization   | 134.0                      | 150.3      | 168.5    |
| Deferred income tax expense   | 2.6                        | 9.9        | 4.6      |
| Stock compensation expense  | 16.6                       | 17.4       | 15.7     |
| Changes in assets and liabilities, net of acquisitions:   |                            |            |          |
| Change in receivables   | (18.7 )                    | 18.3       | (34.6 )  |
| Change in other current assets  | 6.5                        | (5.0 )     | (9.9 )   |
| Change in deferred charges, net   | (0.1 )                     | 1.2        | 1.8      |
| Change in other assets and liabilities  | 5.2                        | (14.3 )    | (35.2 )  |
| Change in payables and other current liabilities  | (4.5 )                     | (5.4 )     | (30.0 )  |
| Net cash provided by operating activities   | 263.0                      | 305.4      | 249.3    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                            |            |          |
| Capital expenditures  | (58.5 )                    | (87.0 )    | (109.2 ) |
| Net proceeds from sale of joint venture interest previously acquired in the buw acquisition   | 0.7                        | —          | —        |
| Purchase of short-term and other investments  | —                          | (0.8 )     | —        |
| Proceeds from maturity of short-term and other investments  | —                          | —          | 0.8      |
| Acquisitions, net of cash acquired  | —                          | (137.9 )   | —        |
| Net cash used in investing activities   | (57.8 )                    | (225.7 )   | (108.4 ) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                            |            |          |
| Proceeds from issuance of other long-term debt (term loan)  | 100.0                      | —          | —        |
| Repayments of other long-term debt (term loan and capital lease obligations)  | (216.6 )                   | (3.1 )     | (57.5 )  |
| Proceeds from Asset Securitization Facility   | 731.4                      | 961.0      | 822.0    |
| Repayment of Asset Securitization Facility  | (648.4 )                   | (1,001.0 ) | (802.0 ) |
| Repurchase of common shares   | (82.2 )                    | (71.6 )    | (72.5 )  |
| Proceeds from exercise of stock options   | 1.1                        | 0.6        | 3.3      |
| Payments of dividends   | (35.6 )                    | (32.7 )    | (29.6 )  |
| Excess tax benefit from share-based payment arrangements  | —                          | 1.2        | 1.2      |
| Net cash used in financing activities   | (150.3 )                   | (145.6 )   | (135.1 ) |
| Net increase (decrease) in cash and cash equivalents  | 54.9                       | (65.9 )    | 5.8      |
| Cash and cash equivalents at beginning of period  | 138.8                      | 204.7      | 198.9    |
| Cash and cash equivalents at end of period  | \$193.7                    | \$138.8    | \$204.7  |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION</b>   |                            |            |          |
| Cash paid for interest  | \$15.4                     | \$14.9     | \$15.0   |
| Income taxes paid, net  | \$37.3                     | \$55.8     | \$42.8   |

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

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| (Amounts in millions)   | Number<br>of<br>Common<br>Shares | Common<br>Shares | Treasury<br>Stock | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total       |
|---|----------------------------------|------------------|-------------------|----------------------|---|-------------|
| Balance at December 31, 2014  | 189.8                            | \$1,077.5        | (\$1,491.2)       | \$1,707.6            | (\$66.7                                       | ) \$1,227.2 |
| Issuance of common shares   | 0.6                              | —                | —                 | —                    | —   | —           |
| Tax related to share-based arrangements, net of excess tax benefits | —                                | (2.4             | )—                | —                    | —   | (2.4 )      |
| Proceeds from exercise of stock options                             | —                                | 3.3              | —                 | —                    | —   | 3.3         |
| Repurchase of common shares   | —                                | —                | (72.5             | )—                   | —   | (72.5 )     |
| Net income  | —                                | —                | —                 | 169.0                | —   | 169.0       |
| Other comprehensive loss  | —                                | —                | —                 | —                    | (35.1   | ) (35.1 )   |
| Cash dividends declared   | —                                | —                | —                 | (30.4                | )—  | (30.4 )     |
| Amortization of stock-based compensation                            | —                                | 15.7             | —                 | —                    | —   | 15.7        |
| Convertible notes conversion feature                                | —                                | 1.4              | —                 | —                    | —   | 1.4         |
| Balance at December 31, 2015  | 190.4                            | 1,095.5          | (1,563.7          | )1,846.2             | (101.8  | ) 1,276.2   |
| Issuance of common shares   | 0.6                              | —                | —                 | —                    | —   | —           |
| Tax related to share-based arrangements, net of excess tax benefits | —                                | (5.1             | )—                | —                    | —   | (5.1 )      |
| Proceeds from exercise of stock options                             | —                                | 0.6              | —                 | —                    | —   | 0.6         |
| Repurchase of common shares   | —                                | —                | (71.6             | )—                   | —   | (71.6 )     |
| Net income  | —                                | —                | —                 | 143.0                | —   | 143.0       |
| Other comprehensive loss  | —                                | —                | —                 | —                    | (12.0   | ) (12.0 )   |
| Cash dividends declared   | —                                | —                | —                 | (34.2                | )—  | (34.2 )     |
| Amortization of stock-based compensation                            | —                                | 17.4             | —                 | —                    | —   | 17.4        |
| Convertible notes conversion feature                                | —                                | 1.6              | —                 | —                    | —   | 1.6         |
| Balance at December 31, 2016  | 191.0                            | 1,110.0          | (1,635.3          | )1,955.0             | (113.8  | ) 1,315.9   |
| Issuance of common shares   | 0.6                              | —                | —                 | —                    | —   | —           |
| Retirement of treasury shares                                       | (99.1                            | ) (1,120.8       | )1,702.0          | (581.2               | )—  | —           |
| Transfer of Convergys Stock from EDCP grantor trust                 | —                                | —                | (1.1              | )—                   | —   | (1.1 )      |
| Tax related to share-based arrangements                             | —                                | (6.2             | )—                | —                    | —   | (6.2 )      |
| Proceeds from exercise of stock options                             | —                                | 1.1              | —                 | —                    | —   | 1.1         |
| Repurchase of common shares   | —                                | —                | (81.6             | )—                   | —   | (81.6 )     |
| Net income  | —                                | —                | —                 | 121.4                | —   | 121.4       |
| Other comprehensive income  | —                                | —                | —                 | —                    | 47.2  | 47.2        |
| Cash dividends declared   | —                                | —                | —                 | (36.8                | )—  | (36.8 )     |
| Cumulative adjustment related to the adoption of ASU 2016-09        | —                                | —                | —                 | (0.6                 | )—  | (0.6 )      |
| Amortization of stock-based compensation                            | —                                | 16.6             | —                 | —                    | —   | 16.6        |
| Convertible notes conversion feature                                | —                                | 1.8              | —                 | —                    | —   | 1.8         |
| Balance at December 31, 2017  | 92.5                             | \$2.5            | (\$16.0           | )\$1,457.8           | (\$66.6                                       | ) \$1,377.7 |

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

Convergys Corporation 2017 Annual Report 16

---

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in millions except per share amounts)

### 1. BACKGROUND AND BASIS OF PRESENTATION

Convergys Corporation is a global leader in customer experience outsourcing, focused on bringing value to its clients through every customer interaction. As of December 31, 2017, Convergys had approximately 115,000 employees in 33 countries, interacting with our clients' customers in 58 languages. In order to help clients serve their customers, Convergys operates 140 contact centers. Convergys leverages its geographic footprint and comprehensive capabilities to help leading companies create quality customer experiences across multiple interaction channels, such as voice, chat, email and interactive voice response.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Principles of Consolidation and Basis of Presentation

The accompanying Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America and U.S. Securities and Exchange Commission regulations. The Consolidated Financial Statements include the accounts of the Company's majority-owned subsidiaries. All material intercompany accounts and transactions are eliminated upon consolidation.

#### Reclassification

Certain prior year balances in the Consolidated Statements of Income have been reclassified to conform to the current year presentation. For the year ended December 31, 2016, the Company reclassified certain expenses related to the acquired buw operations. This resulted in a \$17.9 decrease to Cost of providing services and products sold and an offsetting \$17.9 increase to Selling, general and administrative expense on the Consolidated Statement of Income for the year ended December 31, 2016. The reclassification adjustment resulted in no other impacts to the Company's Consolidated Financial Statements and is not deemed to be material.

See New Accounting Pronouncements below for discussion of other prior period reclassifications that resulted from the Company's adoption of ASU 2017-07.

#### Use of Estimates, Risks and Uncertainties

The preparation of the Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported. These estimates include, but are not limited to, project completion dates, time and cost required to complete projects for purposes of revenue recognition and future revenue, expense and cash flow estimates for purposes of impairment analysis, loss contract evaluation, and the Company's accounting for income taxes. Actual results could differ from those estimates.

The Company's results are affected by economic, political, legislative, regulatory and legal actions. Economic conditions, such as recessionary trends, inflation, interest and monetary exchange rates, and government fiscal policies, can have a significant effect on operations. While the Company maintains reserves for anticipated liabilities and carries insurance in an amount and scope that the Company believes are appropriate, the Company could be adversely affected by civil, criminal, regulatory or administrative actions, claims or proceedings.

#### Foreign Currency Translation

Assets and liabilities of non-U.S. operations are translated to U.S. dollars at year-end exchange rates. Revenues and expenses are translated at average exchange rates for the related period. Translation adjustments are accumulated and reflected as adjustments to other comprehensive (loss) income, a component of Shareholders' Equity, and included in net earnings only upon sale or liquidation of the underlying foreign subsidiary. Gains or losses resulting from foreign

exchange transactions related to balance sheet positions are recorded in the Consolidated Statements of Income within Other income (expense), net.

#### Revenue Recognition

Revenues mostly consist of fees generated from outsourced services provided to the Company's clients. More than 95% of the Company's revenues are derived from agent-related services. The Company typically recognizes these revenues as services are performed based on staffing hours or the number of contacts handled by service agents using contractual rates. The remaining revenues are derived from the sale of premise-based and hosted self-care and technology solutions and provision of professional services. Revenues from the sale of these solutions and provision of services are typically recognized as services are provided over the duration of the contract using contractual rates. These contracts are typically one year or less in duration.

Revenues are recognized only when the services are performed, there is evidence of an arrangement, the Company determines that the fee is fixed and determinable and collection of the fee included in the arrangement is considered probable. When determining whether the fee is considered fixed and determinable and collection is probable, the Company considers a number of factors including the creditworthiness of the client and the contractual payment terms. If a client is not considered creditworthy, recognition of all revenue under arrangements with that client is deferred until receipt of cash. If payment terms extend beyond what is considered customary or standard in the related industry and geographic location, recognition of the revenue is deferred until the related fees become due and payable.

Certain contracts have performance-related bonus provisions that require the client to pay us a bonus based upon our meeting agreed-upon service levels and performance metrics. These bonuses are recognized only after required measurement targets are met and the other criteria for recognition are satisfied.

#### Stock-Based Compensation

The Company accounts for stock-based payment transactions in which the Company receives employee services in exchange for equity instruments of the Company. Stock-based compensation cost for restricted stock units and performance restricted stock units is measured based on the closing fair market value of the Company's common shares on the date of grant. The Company recognizes stock-based compensation cost as expense for awards other than its performance-based restricted stock units ratably on a straight-line basis over the requisite service period. The Company recognizes stock-based compensation cost associated with its performance based restricted stock units over the requisite service period if it is probable that the performance conditions will be satisfied. The Company accounts for expense reductions that result from the forfeiture of unvested awards in the period that the forfeitures occur.

#### Income Taxes

The provision for income taxes includes taxes paid, currently payable or receivable, and those deferred. The Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act") includes a mandatory one-time tax on accumulated earnings of foreign subsidiaries and, as a result, previously unremitted earnings for which no U.S. deferred tax liability had been accrued have now been subject to U.S. tax. The 2017 Tax Act also includes a new minimum tax on global intangible low-tax income, which the Company will recognize as period costs when incurred. The Company recognizes deferred tax assets and liabilities based on the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to be settled or realized.

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

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

#### Other Comprehensive Income (Loss)

Components of other comprehensive income (loss) include currency translation adjustments, changes related to pension liabilities, net of tax, and unrealized gains (losses) on hedging activities, net of tax. Foreign currency translation adjustments generally are not adjusted for income taxes as they relate to indefinite investments in non-U.S. operations. Accumulated other comprehensive income (loss) also includes, net of tax, actuarial gains or losses, prior service costs or credits and transition assets and obligations that are not recognized currently as components of net periodic pension cost.

#### Concentration of Credit Risk

In the normal course of business, the Company is exposed to credit risk. The principal concentrations of credit risk are cash and cash equivalents, short-term investments, accounts receivable and derivative instruments. The Company regularly monitors and reviews identified credit risk exposures. Historically, credit losses on accounts receivable have not been material because of the large concentration of revenues with a small number of large, established companies. The Company does not require collateral or other security to support accounts receivable. The Company evaluates the creditworthiness of its clients in conjunction with its revenue recognition processes, as discussed above, as well as through its ongoing collectability assessment processes for accounts receivable. The Company maintains an allowance for doubtful accounts receivable based upon factors surrounding the credit risk of specific clients, historical trends and other information. The Company limits its counterparty credit risk exposures by entering into derivative contracts with financial institutions that are investment grade rated.

#### Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and short-term, highly liquid investments with original maturities of three months or less.

#### Receivables and Allowance for Doubtful Accounts

Trade receivables are comprised primarily of amounts owed to the Company by clients and are presented net of an allowance for doubtful accounts of \$4.8 and \$5.8 at December 31, 2017 and 2016, respectively. Contracts with individual clients determine when receivables are due, generally within 30 to 60 days, and whether interest is accrued on late payments.

The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company regularly reviews the adequacy of its allowance for doubtful accounts. The Company determines the allowance based on historical write-off experience and current economic conditions and also considers factors such as customer credit, past transaction history with the customer and changes in customer payment terms when determining whether the collection of a receivable is reasonably assured. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

#### Property and Equipment

Property and equipment are stated at cost. Depreciation is based on the straight-line method over the estimated useful lives of the assets. Buildings are generally depreciated over a 30-year life, software over a three- to ten-year life and equipment generally over a three- to five-year life. Leasehold improvements are depreciated over the shorter of their estimated useful life or the remaining term of the associated lease. Assets held under capital leases are recorded at the

lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Depreciation expense for assets held under capital leases is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related lease. Included within Property and equipment is initial cost of \$3.5 related to assets under capital lease arrangements.

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

#### Internal Use Software

The Company capitalizes certain expenditures for software that is purchased or internally developed for use in the business. During 2017, 2016, and 2015, amounts capitalized for internally developed software were \$2.0, \$3.7 and \$14.2, respectively. Amortization of internal use software begins when the software is ready for service and continues on the straight-line method over the estimated useful life, generally ranging from three to ten years.

#### Business Combinations

Accounting for acquisitions requires the Company to recognize separately from goodwill the assets acquired and the liabilities assumed at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we record adjustments to the assets acquired and liabilities assumed with corresponding adjustments to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statements of operations. Refer to Note 3 of the Notes to Consolidated Financial Statements for a discussion of the buw acquisition.

#### Goodwill and Other Intangibles

As discussed more fully in Note 6, goodwill is reviewed at the reporting unit level for impairment as of October 1 of each year and at other times if events have occurred or circumstances exist that indicate the carrying value of goodwill may no longer be recoverable.

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



testing is performed to measure the amount of the impairment, if any, for that reporting unit.

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

Fair value of the reporting unit is determined using the income approach with corroboration from the market approach. Under the market approach, fair value is based on revenue and earnings multiples for guideline public companies in the reporting unit's peer group. The market approach requires judgment regarding the selection of guideline companies. Under the income approach, value is dependent on the present value of net cash flows to be derived from ownership of the reporting unit. The income approach requires significant judgment including estimates about future cash flows and discount rates.

Other intangibles, primarily customer relationship assets and trademarks, are amortized over a straight-line basis with estimated useful lives ranging from one to seventeen years and are evaluated periodically if events or circumstances indicate a possible inability to recover their carrying amounts.

#### Postemployment Benefits

The funded status of the Company's pension and other postretirement benefit plans is recognized in the Consolidated Balance Sheets. The funded status is measured as the difference between the fair value of plan assets and the benefit obligation at December 31, the measurement date. For defined benefit pension plans, the benefit obligation is the projected benefit obligation (PBO) and, for the other postretirement benefit plans, the benefit obligation is the accumulated postretirement benefit obligation (APBO). The PBO represents the actuarial present value of benefits expected to be paid upon retirement. For active plans, the present value reflects estimated future compensation levels. The APBO represents the actuarial present value of postretirement benefits attributed to employee services already rendered. The fair value of plan assets represents the current market value of assets held by an irrevocable trust fund for the sole benefit of participants. The measurement of the benefit obligation is based on the Company's estimates and actuarial valuations. These valuations reflect the terms of the plans and use participant-specific information such as compensation, age and years of service, as well as certain key assumptions that require significant judgment, including, but not limited to, estimates of discount rates, expected return on plan assets, rate of compensation increases, interest crediting rates and mortality rates. For additional information regarding plan assumptions and the current financial position of the Company's pension and other postretirement plans, see Note 9.

The Company provides severance benefits to certain employees. The Company accrues the benefits when it becomes probable that such benefits will be paid and when sufficient information exists to make reasonable estimates of the amounts to be paid.

#### Government Grants

From time to time, the Company receives grants from local or state governments as an incentive to locate or retain operations in their jurisdictions. Depending on the arrangement, the grants are either received up-front or at the time the Company achieves the milestones set forth in the grant. The Company's policy is to record the grant funds received as deferred credit and to amortize the deferred credit as a reduction of cost of providing services and products sold or selling, general and administrative expense as the milestones are met over the term of the grant.

#### Derivative Instruments

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 currently uses only cash flow hedges. These instruments are hedges of forecasted transactions or of the variability of cash flows to be received or paid related to a recognized asset or liability. The Company generally enters into hedging contracts expiring within 36 months as hedges of anticipated cash flows denominated in foreign currencies. These contracts are entered into to protect against the risk that the eventual cash flows resulting from such transactions will be adversely affected by changes in exchange rates. In using derivative financial instruments to hedge exposures to changes in exchange rates, the Company exposes itself to counterparty credit risk.

All derivatives, including foreign currency exchange contracts, are recognized in the Consolidated Balance Sheets at fair value. Fair values for the Company's derivative financial instruments are based on quoted market prices of comparable instruments or, if none are available, on pricing models or formulas using current assumptions. On the date the derivative contract is entered into, the Company determines whether the derivative contract qualifies for designation as a hedge. For derivatives that are designated as hedges, the Company further designates the hedge as either a fair value or cash flow hedge; all currently existing hedges have been designated as cash flow hedges. Changes in the fair value of derivatives that are highly effective and designated as cash flow hedges are reported as a component of Other Comprehensive (Loss) Income and reclassified into earnings in the same line-item associated with the forecasted transaction and in the same periods during which the hedged transaction impacts earnings. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging activities. This process includes linking all derivatives that are designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to forecasted transactions, respectively. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the fair value or cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively.

The Company also periodically enters into hedging contracts that are not designated as hedges. The purpose of the majority of these derivative instruments is to protect the Company against foreign currency exposure pertaining to receivables, payables and intercompany transactions that are denominated in currencies different from the functional currencies of the Company or the respective subsidiaries. The Company records changes in the fair value of these derivative instruments in the Consolidated Statements of Income within Other income, net.

#### Investments

Management determines the appropriate classification of securities at the time of purchase and re-evaluates such designation as of each balance sheet date. Currently all investment securities are classified as trading, and are reported within short-term investments in the Consolidated Balance Sheets. Trading 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 is included in Other income (expense), net.

#### Fair Value Measurements

The Company applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions and credit risk.

#### New Accounting Pronouncements

Edgar Filing: CONVERGYS CORP - Form 10-K

In January 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-04, “Simplifying the Test for Goodwill Impairment.” This ASU eliminates the two-step process that required identification of potential impairment and a separate measure of the actual impairment. Goodwill impairment charges, if any, would be determined by the difference between a reporting unit's carrying value and its fair value (impairment loss is limited to the carrying value). This standard is effective for annual or any interim goodwill impairment tests beginning after December 15, 2019. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Costs.” This ASU requires the service component of pension and other postretirement benefit costs to be presented in the same line item as other employee compensation costs on the consolidated statement of income; however, the other components of net benefit cost are required to be presented outside of operating income within the consolidated statements of income. The Company retrospectively adopted this ASU on January 1, 2017. The impact of the adoption on balances previously reported as of December 31, 2016 and 2015 were as follows:

| Consolidated Statement of Income Caption     | Year Ended December 31,<br>2016 |          |                       |
|--|---------------------------------|----------|-----------------------|
|  | Previously<br>Reported          | Change   | Currently<br>Reported |
| Cost of providing services and products sold | \$1,848.0                       | (\$4.9 ) | \$1,843.1             |
| Selling, general and administrative          | \$700.2                         | (\$4.8 ) | \$695.4               |
| Total costs and expenses                     | \$2,708.7                       | (\$9.7 ) | \$2,699.0             |
| Operating Income                             | \$204.9                         | \$9.7    | \$214.6               |
| Other income (expense), net                  | (\$0.9 )                        | (\$9.7 ) | (\$10.6 )             |

| Consolidated Statement of Income Caption     | Year Ended December 31,<br>2015 |           |                       |
|--|---------------------------------|-----------|-----------------------|
|  | Previously<br>Reported          | Change    | Currently<br>Reported |
| Cost of providing services and products sold | \$1,877.5                       | (\$5.6 )  | \$1,871.9             |
| Selling, general and administrative          | \$691.7                         | (\$4.7 )  | \$687.0               |
| Total costs and expenses                     | \$2,756.2                       | (\$10.3 ) | \$2,745.9             |
| Operating Income                             | \$194.4                         | \$10.3    | \$204.7               |
| Other income (expense), net                  | \$0.8                           | (\$10.3 ) | (\$9.5 )              |

In March 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting.” This ASU is intended to simplify accounting for share-based payments and requires that excess tax benefits for share-based payments be recorded as a reduction of income tax expense and reflected within operating cash flows rather than being recorded within equity and reflected within financing cash flows. The ASU also provides the option to recognize forfeitures as they occur rather than estimating the number of awards expected to be forfeited. The Company adopted this ASU as of January 1, 2017 and applied the new guidance related to excess tax benefits on a prospective basis. The Company elected to account for forfeitures of share-based payments as they occur and does not apply estimated forfeiture rates. As a result of this election, the Company recorded a \$0.6 cumulative effect adjustment to the retained earnings balance as of January 1, 2017 for outstanding awards based on the difference between the fair value of awards historically expected to be forfeited and the fair value of awards actually forfeited.

In February 2016, the FASB issued ASU 2016-02, “Leases.” This ASU will require lessees to recognize almost all leases on the balance sheet as a right-of-use asset and a lease liability. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as finance leases or operating leases. The Company will adopt this standard on January 1, 2019 and is currently assessing the effect that adoption of the new standard will have on its

consolidated financial statements. The Company currently expects adoption of this standard will result in a material increase to the assets and liabilities on the Consolidated Balance Sheets.

In April 2015, the FASB issued ASU 2015-03, “Simplifying the Presentation of Debt Issuance Costs.” This ASU requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. This ASU was effective for interim and annual periods beginning after December 15, 2015 and was required to be applied retrospectively. The Company adopted this ASU as of March 31, 2016, which resulted in the reclassification of \$1.5 of debt issuance costs included in other current assets and other non-current assets to long-term debt and capital lease obligations on the Consolidated Balance Sheet as of December 31, 2015. As of December 31, 2016, \$1.4 of debt issuance costs are reducing the carrying amount of the Company’s long-term debt.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers.” The standard applies one comprehensive revenue recognition model across all contracts, entities and sectors. The core principal of the new standard is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard includes cost guidance, whereby all direct and incremental costs to obtain or fulfill a contract will be capitalized and amortized over the corresponding period of benefit, determined on a contract by contract basis. The Company adopted this standard on January 1, 2018. The largest impacts to the Company’s financial statements will result from the new qualitative and quantitative disclosures that will be required upon adoption of the new standard, and the capitalization of certain direct and incremental contract costs. The Company will apply the modified retrospective adoption alternative for this standard and anticipates recognizing a cumulative effect adjustment of approximately \$4.0 to retained earnings as of January 1, 2018, which reflects the deferral of contract costs. We have concluded that the new standard will not have an impact on the timing or revenue recognition pattern of any of our identified revenue streams.

### 3. BUSINESS COMBINATIONS

#### buw Acquisition

On August 1, 2016, the Company acquired buw, a leader in the German customer care industry. The acquisition added 16 sites and approximately 6,000 employees spread across Germany, Hungary and Romania into Convergys’ global operations. The total purchase price, net of cash acquired, was \$137.9, which was funded using available cash and cash equivalents.

#### Purchase Price Allocation

The Company accounted for buw using the acquisition method of accounting in accordance with applicable U.S. GAAP whereby the total purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on respective fair values. The following table summarizes the values of the assets acquired and liabilities assumed at the date of acquisition:

|                        | August<br>1, 2016 |
|------------------------|-------------------|
| Assets:                |                   |
| Receivables            | \$35.3            |
| Other current assets   | 2.5               |
| Property and equipment | 6.9               |
| Goodwill               | 98.5              |
| Intangible assets      | 22.7              |

|                             |         |
|-----------------------------|---------|
| Other assets                | 0.3     |
| Liabilities:                |         |
| Accounts payable            | (0.8 )  |
| Accrued expenses            | (15.0 ) |
| Deferred tax - net          | (6.7 )  |
| Other long-term liabilities | (5.8 )  |
| Total purchase price        | \$137.9 |

As of September 30, 2017, the purchase price allocation for the acquisition was final. Goodwill was calculated as the excess of the consideration transferred over the net assets recognized and represents the synergistic benefits that are expected to be realized from the acquisition. The benefits primarily include an expanded geographic footprint in Germany and Eastern Europe. None of the goodwill is deductible for income tax purposes and was entirely allocated to the Customer Management - Agent Services reporting unit.

#### Intangible Assets Identified

The following details the total intangible assets identified:

| Intangible asset type | Value  | Life (years) |
|-----------------------|--------|--------------|
| Customer relationship | \$22.0 | 10           |
| Trade name            | 0.7    | 1            |
| Total                 | \$22.7 |              |

The fair value of the customer relationship asset was determined using the income approach through an excess earnings analysis, with projected earnings being discounted at a rate of 13.2%. The customer relationship intangible asset represents relationships between buw and its customers. Convergys applied the income approach through a relief-from-royalty analysis to determine the fair value of the buw trade name asset. The determination of the useful lives was based upon consideration of market participant assumptions and transaction specific factors.

#### 4. DIVESTITURES AND DISCONTINUED OPERATIONS

##### Information Management

On May 16, 2012, the Company completed the sale of its Information Management line of business to NEC Corporation. The results of the Information Management business have been classified as discontinued operations, net of tax, for all periods presented.

#### 5. 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:

| Shares (in millions) | Shares | Continuing Operations |                  | Discontinued Operations |                  | Total Per Share Amount |
|----------------------|--------|-----------------------|------------------|-------------------------|------------------|------------------------|
|                      |        | Net Income            | Per Share Amount | Net Income              | Per Share Amount |                        |
| 2017:                |        |                       |                  |                         |                  |                        |
| Basic EPS            | 93.2   | \$121.4               | \$1.30           | \$—                     | \$—              | \$1.30                 |

Edgar Filing: CONVERGYS CORP - Form 10-K

Effect of dilutive securities:

|                                       |      |         |         |     |     |         |
|---------------------------------------|------|---------|---------|-----|-----|---------|
| Stock-based compensation arrangements | 0.8  | —       | (0.01 ) | —   | —   | (0.01 ) |
| Convertible Debt                      | 5.9  | —       | (0.07 ) | —   | —   | (0.07 ) |
| Diluted EPS                           | 99.9 | \$121.4 | \$1.22  | \$— | \$— | \$1.22  |

2016:

|           |      |         |        |        |        |        |
|-----------|------|---------|--------|--------|--------|--------|
| Basic EPS | 95.8 | \$133.0 | \$1.39 | \$10.0 | \$0.10 | \$1.49 |
|-----------|------|---------|--------|--------|--------|--------|

Effect of dilutive securities:

|                                       |       |         |         |        |        |         |
|---------------------------------------|-------|---------|---------|--------|--------|---------|
| Stock-based compensation arrangements | 0.8   | —       | (0.01 ) | —      | —      | (0.01 ) |
| Convertible Debt                      | 5.9   | —       | (0.08 ) | —      | —      | (0.08 ) |
| Diluted EPS                           | 102.5 | \$133.0 | \$1.30  | \$10.0 | \$0.10 | \$1.40  |

2015:

|           |      |         |        |       |        |        |
|-----------|------|---------|--------|-------|--------|--------|
| Basic EPS | 98.1 | \$168.4 | \$1.72 | \$0.6 | \$0.01 | \$1.73 |
|-----------|------|---------|--------|-------|--------|--------|

Effect of dilutive securities:

|                                       |       |         |         |       |        |         |
|---------------------------------------|-------|---------|---------|-------|--------|---------|
| Stock-based compensation arrangements | 0.8   | —       | (0.03 ) | —     | —      | (0.03 ) |
| Convertible Debt                      | 5.8   | —       | (0.09 ) | —     | —      | (0.09 ) |
| Diluted EPS                           | 104.7 | \$168.4 | \$1.60  | \$0.6 | \$0.01 | \$1.61  |

The diluted EPS calculation for 2017 excludes 0.3 and 0.3 of performance-based restricted stock units granted in 2017 and 2016, respectively, as performance criteria have not yet been fully defined, thereby precluding a grant for accounting purposes due to a lack of a mutual understanding of the terms of the stock-based awards.

The diluted EPS calculation for 2017 includes 5.9 shares associated with the Company's convertible debt. As described more fully in Note 7, during 2009, 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 convertible, subject to certain conditions, into shares of the Company's common stock at an initial implied conversion price of approximately \$12.07 per share, or eighty-two and eighty-two hundredths shares per one thousand dollars in principal amount of debentures. The conversion rate is subject to adjustment for certain events outlined in the indenture governing the 2029 Convertible Debentures (the Indenture), including payment of dividends. As of December 31, 2017, the implied conversion price for the 2029 Convertible Debentures was approximately \$11.16 per share, or eighty-nine and fifty-nine hundredths shares per one thousand dollars in principal amount of debentures.

Shareholders' Equity

The Company repurchased 3.4 of its common shares during the year ended December 31, 2017 at an average price of \$23.67 per share for a total of \$81.6. Based upon timing of transactions, \$0.9 of the shares repurchased during December 2016 settled during the first quarter of 2017. Additionally, \$0.3 of the shares repurchased during December 2017 had not settled as of December 31, 2017. The Company repurchased 2.7 of its common shares during the year ended December 31, 2016. Below is a summary of the Company's share repurchases during 2017, 2016 and 2015:

|      | Shares | Cost   |
|------|--------|--------|
| 2017 | 3.4    | \$81.6 |
| 2016 | 2.7    | \$71.6 |
| 2015 | 3.1    | \$72.5 |

At December 31, 2017, the Company had the authority to repurchase \$61.5 of outstanding common shares pursuant to the Board of Directors' August 2015 authorization to increase the remaining authorized share repurchases to \$250.0 in the aggregate. The timing and terms of any future transactions will depend on a number of considerations including market conditions, our available liquidity and capital needs, and limits on share repurchases that may be applicable under the covenants in our Credit Agreement.

Preferred Shares

## Edgar Filing: CONVERGYS CORP - Form 10-K

The Company is authorized to issue up to 4.0 voting preferred shares, and 1.0 nonvoting preferred shares. At December 31, 2017 and 2016, there were no preferred shares issued or outstanding.

### Dividends

During 2016 and 2017, the Company's Board of Directors declared the following dividends per common share, which were paid by the Company on the payment dates listed below:

| Announcement Date | Record Date        | Dividend Amount | Payment Date    |
|-------------------|--------------------|-----------------|-----------------|
| February 23, 2016 | March 24, 2016     | \$0.08          | April 8, 2016   |
| May 9, 2016       | June 24, 2016      | \$0.09          | July 8, 2016    |
| August 8, 2016    | September 23, 2016 | \$0.09          | October 7, 2016 |
| November 8, 2016  | December 23, 2016  | \$0.09          | January 6, 2017 |
| February 22, 2017 | March 24, 2017     | \$0.09          | April 7, 2017   |
| May 8, 2017       | June 23, 2017      | \$0.10          | July 7, 2017    |
| August 8, 2017    | September 22, 2017 | \$0.10          | October 6, 2017 |
| November 7, 2017  | December 22, 2017  | \$0.10          | January 5, 2018 |

On February 21, 2018, the Company announced that its Board of Directors declared a quarterly cash dividend of \$0.10 per common share to be paid on April 6, 2018 to shareholders of record as of March 23, 2018.

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.

## 6. GOODWILL AND OTHER INTANGIBLE AND LONG-LIVED ASSETS

### Goodwill

The Company tests goodwill for impairment annually as of October 1 and at other times if events have occurred or circumstances exist that indicate the carrying value of goodwill may no longer be recoverable. Goodwill impairment testing is performed at the reporting unit level, one level below the business segment. The Company's reporting units are Customer Management - Agent Services and Customer Management - Customer Interaction Technology (CIT). As of December 31, 2017 and 2016, all goodwill was held by the Customer Management - Agent Services reporting unit. During 2012, the Company fully impaired the remaining goodwill balance for the CIT reporting unit. Including the 2012 impairment, cumulative CIT goodwill impairment charges totaled \$212.5.

The most recent annual impairment test performed as of October 1, 2017, indicated that the fair value of the Customer Management - Agent Services reporting unit was substantially in excess of its carrying value. However, impairment charges could be required if a divestiture decision is made or other significant economic events occur with respect to the reporting unit. Subsequent to our October 1, 2017 annual impairment test, no indications of an impairment were identified.

Below is a progression of goodwill for 2017 and 2016:

|   |         |
|---|---------|
| Balance at December 31, 2015                            | \$830.3 |
| buw acquisition - preliminary purchase price allocation | 98.3    |
| Foreign currency and other                              | (11.7 ) |
| Balance at December 31, 2016                            | \$916.9 |
| buw acquisition - measurement period adjustments        | 0.2     |
| Foreign currency and other                              | 20.8    |
| Balance at December 31, 2017                            | \$937.9 |

## Other Intangible Assets

The Company's other intangible assets, primarily acquired through business combinations, are evaluated periodically if events or circumstances indicate a possible inability to recover their carrying amounts. No impairment charges were recognized in any period presented. As of December 31, 2017 and 2016, the Company's other intangible assets consisted of the following:

|  | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net       |
|--|-----------------------------|-----------------------------|-----------|
| 2017   |                             |                             |           |
| Customer relationships and other intangibles             | \$484.6                     | (\$198.0)                   | ) \$286.6 |
| Trademarks   | 27.0                        | (26.3)                      | ) 0.7     |
| Software (classified within Property and equipment, net) | 41.3                        | (41.3)                      | ) —       |
| Total  | \$552.9                     | (\$265.6)                   | ) \$287.3 |
| 2016   |                             |                             |           |
| Customer relationships and other intangibles             | \$474.0                     | (\$171.4)                   | ) \$302.6 |
| Trademarks   | 26.5                        | (21.5)                      | ) 5.0     |
| Software (classified within Property and equipment, net) | 41.3                        | (41.3)                      | ) —       |
| Total  | \$541.8                     | (\$234.2)                   | ) \$307.6 |

The intangible assets are being amortized using the following amortizable lives: 1 to 4 years for trademarks and 1 to 17 years for customer relationships and other intangibles. The remaining weighted average amortization period for customer relationships and other intangibles is approximately 13.0 years. Amortization of software is included within depreciation expense as the underlying assets are classified within property and equipment.

Amortization expense for intangibles was \$28.9, \$28.1 and \$27.0 for the years ended December 31, 2017, 2016 and 2015, respectively, and the related estimated expense for the five subsequent fiscal years is as follows:

|                         |        |
|-------------------------|--------|
| For the year ended 2018 | \$24.9 |
| For the year ended 2019 | 24.2   |
| For the year ended 2020 | 23.6   |
| For the year ended 2021 | 21.9   |
| For the year ended 2022 | 21.6   |
| Thereafter              | 171.1  |

## 7. DEBT AND CAPITAL LEASE OBLIGATIONS

As of December 31, 2017 and 2016, debt and capital lease obligations consisted of the following:

|                                    | At December 31, |         |
|------------------------------------|-----------------|---------|
|                                    | 2017            | 2016    |
| Term Loan, due 2019                | \$99.3          | \$212.9 |
| Convertible Debentures, due 2029   | 65.5            | 63.7    |
| Capital Lease Obligations          | 2.1             | 3.6     |
| Accounts Receivable Securitization | 103.0           | 20.0    |
| Total debt                         | 269.9           | 300.2   |
| Less debt issuance costs           | 1.3             | 1.4     |
| Total debt, net                    | 268.6           | 298.8   |
| Less current maturities            | 0.9             | 1.8     |
| Long-term debt                     | \$267.7         | \$297.0 |



## Weighted average effective interest rates:

|                                    |     |       |   |
|------------------------------------|-----|-------|---|
| Term Loan, due 2019                | 3.6 | % 3.0 | % |
| Accounts Receivable Securitization | 1.9 | % 1.7 | % |
| Convertible Debentures, due 2029   | 7.2 | % 7.0 | % |

## Credit Facility

On January 11, 2017 (the Effective Date), the Company entered into a new credit agreement (Credit Agreement) and repaid all amounts outstanding and terminated all commitments under its previously existing credit agreement (Prior Credit Agreement) using initial borrowings under the Credit Agreement as well as borrowings under the Company's asset securitization facility. The Credit Agreement consists of a \$215.0 unsecured term loan facility (Term Loan), maturing on March 3, 2019, and a \$300.0 unsecured revolving credit facility (Revolving Credit Facility), maturing on January 11, 2022. On the Effective Date, the Company drew \$100.0 in initial borrowings under the Term Loan. A \$1.0 extinguishment loss was recognized on the Effective Date and is included in Interest expense on the Consolidated Statement of Income as for the year ended December 31, 2017.

The Revolving Credit Facility may be extended for two additional one-year periods, subject to the satisfaction of certain conditions set forth in the Credit Agreement. In addition, aggregate borrowing capacity under the Credit Agreement may be increased by up to an additional \$250.0 million by increasing the amount of the Revolving Credit Facility or by incurring additional term loans, in each case subject to the satisfaction of certain conditions set forth in the Credit Agreement, including the receipt of additional commitments for such increase. Borrowings outstanding under the Credit Agreement may be repaid from time to time without premium or penalty, other than customary breakage costs, if any. Borrowings outstanding under the Credit Agreement bear interest at a fluctuating rate per annum equal to, at the Company's option, either (a) the applicable adjusted LIBOR plus a spread based on the Company's total net leverage ratio, or (b) a base rate (equal to the higher of the Administrative Agent's prime rate, the federal fund rate plus 0.50%, and the one-month adjusted LIBOR plus 1.0%) plus a spread based on the Company's total net leverage ratio. The Company is also obligated to pay a commitment fee on a quarterly basis on the unused portion of the commitments under the Revolving Credit Facility based on the Company's total net leverage ratio, which fee is currently 25 basis points. While amounts borrowed and repaid under the Revolving Credit Facility can be re-borrowed, amounts repaid under the Term Loan cannot be borrowed again under the Credit Agreement. The Credit Agreement contains certain affirmative and negative covenants, as well as terms and conditions that are customary for credit facilities of this type, including financial covenants for leverage and interest coverage ratios. The Company was in compliance with all covenants at December 31, 2017. Total borrowing capacity remaining under the Revolving Credit Facility was \$300.0, with \$100.0 outstanding on the Term Loan, as of December 31, 2017. The carrying value of the Term Loan at December 31, 2017 reflects a discount of \$0.7 related to fees paid directly to the lenders at issuance. This discount is being amortized over the life of the Term Loan using the effective interest rate method (3.6% as of December 31, 2017), and is included in interest expense in the Consolidated Statements of Income.

The Company established the Prior Credit Agreement on February 28, 2014 in the aggregate amount of \$650.0. The Prior Credit Agreement consisted of unsecured term loans (Prior Term Loan) in the initial aggregate amount of \$350.0, and an unsecured revolving credit facility (Prior Revolving Credit Facility) in the amount of \$300.0. The Prior Term Loan and the Prior Revolving Credit Facility were scheduled to mature on March 3, 2019. Outstanding amounts were subject to interest at the applicable rate described in the Prior Credit Agreement.

## Convertible Debentures

During 2009, Convergys issued \$125.0 aggregate principal amount of 5.75% Junior Subordinated Convertible Debentures due September 2029 (2029 Convertible Debentures) in exchange for \$122.5 of 4.875% Unsecured Senior Notes due December 15, 2009, pursuant to an exchange offer. 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 was recognized as the fair value of a similar instrument that did 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 did not have a conversion feature. Therefore, the valuation of the debt component, using the income approach, resulted in a debt discount. The debt discount is being 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 is included in interest expense in the Consolidated Statements of Income.

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 additional interest if the trading price of the 2029 Convertible Debentures exceeds 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 2029 Convertible Debentures during the periods specified in the Indenture. The fair value of this embedded derivative was not significant at December 31, 2017 or 2016.

The Company is not entitled to redeem the 2029 Convertible Debentures prior to September 15, 2019. On or after September 15, 2019, the Company may redeem for cash all or part of the 2029 Convertible Debentures at par value plus accrued but unpaid interest if certain trading conditions of the Company's common shares are satisfied. The holders of the 2029 Convertible Debentures have the option to require redemption at par value plus accrued but unpaid interest upon the occurrence of a fundamental change, a defined term in the Indenture.

The 2029 Convertible Debentures are convertible at the option of the holders on or after September 15, 2028 and prior to that date only under the following circumstances: (1) during any calendar quarter if the last reported sales price of the Company's common shares for at least 20 trading days (whether or not consecutive) during a period of 20 consecutive trading days ending on the last trading day of the preceding calendar quarter is greater than or equal to 130% of the applicable conversion price (currently \$14.51) for the 2029 Convertible Debentures on each applicable trading day (hereinafter referred to as the Sales Price Condition); (2) during the five business day period immediately following any five consecutive trading day period (the Measurement Period) in which, as determined following a request by a holder of 2029 Convertible Debentures as provided in the Indenture, the trading price per \$1,000 principal amount of 2029 Convertible Debentures for each trading day of such Measurement Period was less than 98% of the product of the last reported sale price of the Company's common shares and the applicable conversion rate for the 2029 Convertible Debentures on each such trading day; (3) if the Company elects to redeem any or all of the 2029 Convertible Debentures; or (4) upon the occurrence of specified corporate events pursuant to the terms of the Indenture. Upon conversion, the Company will pay cash up to the aggregate principal amount of the 2029 Convertible Debentures to be converted and pay or deliver, as the case may be, cash, common shares of the Company or a combination of cash and common shares of the Company, at the Company's election, in respect of the remainder, if any, of the Company's conversion obligation in excess of the aggregate principal amount of the 2029 Convertible Debentures being converted.

The 2029 Convertible Debentures were convertible, subject to certain conditions, into common shares of the Company at an initial implied conversion price of approximately \$12.07 per share, or eighty-two and eighty-two hundredths shares per one thousand dollars in principal amount of debentures. As of December 31, 2017, the implied conversion price for the 2029 Convertible Debentures was approximately \$11.16 per share, or eighty-nine and fifty-nine hundredths shares per one thousand dollars in principal amount of debentures. The conversion rate is subject to adjustment for certain events outlined in the Indenture, including payment of dividends.

As of December 31, 2017 and 2016, the 2029 Convertible Debentures were convertible at the option of the holders. This conversion right was triggered upon satisfaction of the Sales Price Condition (the closing price of the Company's common shares was greater than or equal to \$14.51, 130% of the conversion price of the 2029 Convertible Debentures at December 31, 2016, for at least 20 of the 20 consecutive trading days ending on December 31, 2017). As a result,

the equity component of the 2029 Convertible Debentures equal to \$59.5 (the difference between the par value and carrying value of the 2029 Convertible Debentures at December 30, 2017) has been classified as temporary equity within the December 31, 2017 Consolidated Balance Sheet since this amount was considered redeemable. The Company will reassess the convertibility of the 2029 Convertible Debentures and the related balance sheet classification on a prospective basis. There have been no conversions of the 2029 Convertible Debentures through the date of this filing.

Based on quoted market prices at December 31, 2017, the fair value of the \$125.0 aggregate principal amount of the Company's 2029 Convertible Debentures is \$274.5.

#### Asset Securitization Facility

During January 2017, the Company amended the terms of its asset securitization facility collateralized by accounts receivable of certain of the Company's subsidiaries. The amendment resulted in an increased purchase limit of \$225.0, with \$90.0 and \$135.0 expiring in January 2018 and January 2020, respectively. The asset securitization facility was further amended in January 2018 to extend the expiration date for the \$90.0 purchase limit to January 2019. As of December 31, 2016, the asset securitization facility had a purchase limit of \$150.0 expiring in January 2017. The asset securitization program is conducted through Convergys Funding Inc., a wholly-owned bankruptcy remote subsidiary of the Company. As of December 31, 2017 and 2016, Convergys had drawn \$103.0 and \$20.0, respectively, in available funding from qualified receivables. Amounts drawn under this facility have been classified as long-term debt within the Consolidated Balance Sheets, based on the Company's ability and intent to refinance on a long-term basis as of December 31, 2017.

At December 31, 2017, future minimum payments of the Company's debt and capital lease arrangements (exclusive of any debt discounts) are as follows:

|            |         |
|------------|---------|
| 2018       | \$42.2  |
| 2019       | 100.7   |
| 2020       | 62.2    |
| 2021       | —       |
| 2022       | —       |
| Thereafter | 125.0   |
| Total      | \$330.1 |

## 8. RESTRUCTURING

### 2017 Restructuring

#### Company-wide restructuring program

During 2017, the Company recorded restructuring expenses of \$12.8 related to a company-wide initiative to reduce headcount and better align the Company's resources, principally for corporate functions. The 2017 restructuring actions impacted approximately 315 employees. This expense is included in Restructuring charges on the Consolidated Statements of Income and is expected to be substantially paid in cash by March 31, 2018. The total remaining liability under these restructuring actions, which is included in Payables and other current liabilities on the Consolidated Balance Sheet, was \$5.8 as of December 31, 2017.

#### Other Severance

During 2017, the Company recorded other severance expense of \$10.4 primarily related to headcount reductions resulting from certain client program completions. These actions impacted approximately 250 employees. This severance expense is included in Restructuring charges on the Consolidated Statements of Income and is expected to

be substantially paid in cash by March 31, 2018. The total remaining liability under these restructuring actions, which is included in Payables and other current liabilities on the Consolidated Balance Sheet, was \$2.8 as of December 31, 2017.

buw integration

During 2017, the Company recorded severance charges of \$1.1 related to the elimination of certain redundant positions as a result of the integration of the buw business. This severance expense was included in Transaction and integration costs on the Consolidated Statements of Income and is expected to be fully paid in cash by March 31, 2018. The total remaining liability under these severance-related actions, which is included in Payables and other current liabilities on the Consolidated Balance Sheet, was \$0.1 as of December 31, 2017.

#### 2016 Restructuring

During 2016, the Company recorded severance charges of \$3.7 related to the Company's ongoing efforts to refine its operating model and reduce costs, as well as headcount reductions resulting from certain client program completions. The 2016 actions impacted approximately 760 employees. These severance-related charges were fully paid in cash by June 30, 2017. The total remaining liability under these severance-related actions, which is included in Payables and other current liabilities on the Company's Consolidated Balance Sheet, was \$0.8 as of December 31, 2016.

#### 2015 Restructuring

During 2015, the Company recorded severance charges of \$7.2 related to the Company's ongoing efforts to refine its operating model and reduce costs, as well as headcount reductions resulting from certain client program completions. The 2015 actions impacted approximately 700 employees. These severance-related charges were fully paid in cash by September 30, 2016.

During 2015, the Company also recorded restructuring expenses of \$0.4 related to the integration of Stream. These severance-related charges were included in Restructuring charges on the Consolidated Statements of Income and were fully paid in cash by March 31, 2016.

## 9. EMPLOYEE BENEFIT PLANS

### Pensions

The Company sponsors a frozen defined benefit pension plan, which includes both a qualified and non-qualified portion, for all eligible employees (the cash balance plan) in the U.S and unfunded defined benefit plans for certain eligible employees in the Philippines, Malaysia and France (together with the cash balance plan, the defined benefit plans). The pension benefit formula for the cash balance plan is determined by a combination of compensation and age-based credits and annual guaranteed interest credits. The qualified portion of the cash balance plan has been funded through contributions made to a trust fund in accordance with the Pension Protection Act of 2006. The Company's measurement date for all plans is December 31. The plan assumptions are evaluated annually and are updated as deemed necessary.

Components of pension cost and other amounts recognized in other comprehensive income for the Company's defined benefit plans are as follows:

|   | Year Ended<br>December 31, |       |       |
|---|----------------------------|-------|-------|
|   | 2017                       | 2016  | 2015  |
| Service cost                                  | \$5.5                      | \$6.5 | \$7.5 |
| Interest cost on projected benefit obligation | 7.3                        | 8.6   | 10.5  |

Edgar Filing: CONVERGYS CORP - Form 10-K

|                                   |          |         |         |
|-----------------------------------|----------|---------|---------|
| Expected return on plan assets    | (9.9 )   | (10.0 ) | (10.2 ) |
| Amortization and deferrals—net    | 6.2      | 6.6     | 10.4    |
| Settlement charge                 | 2.5      | 4.8     | —       |
| Total pension cost                | \$11.6   | \$16.5  | \$18.2  |
| Other comprehensive (loss) income | (\$9.1 ) | \$11.1  | \$14.5  |

During 2017 and 2016, the Company recognized non-cash pension settlement charges of \$2.5 and \$4.8, respectively, resulting from lump sum distributions.

The reconciliation of the defined benefit plans' projected benefit obligation and the fair value of plan assets for the years ended December 31, 2017 and 2016 are as follows:

|   | At           |           |      |
|---|--------------|-----------|------|
|   | December 31, | 2017      | 2016 |
| Change in benefit obligation:                                       |              |           |      |
| Benefit obligation at beginning of year                             | \$225.7      | \$242.9   |      |
| Service cost  | 5.5          | 6.5       |      |
| Interest cost   | 7.3          | 8.6       |      |
| Settlement  | (9.5 )       | (15.4 )   |      |
| Actuarial gain (loss)   | 26.4         | (4.3 )    |      |
| Benefits paid   | (13.3 )      | (12.6 )   |      |
| Benefit obligation at end of year                                   | \$242.1      | \$225.7   |      |
| Change in plan assets:  |              |           |      |
| Fair value of plan assets at beginning of year                      | \$154.2      | \$157.2   |      |
| Actual return on plan assets  | 18.9         | 7.9       |      |
| Settlement  | (9.5 )       | (15.4 )   |      |
| Employer contribution   | 7.2          | 17.1      |      |
| Benefits paid   | (13.3 )      | (12.6 )   |      |
| Fair value of plan assets at end of year                            | \$157.5      | \$154.2   |      |
| Funded status   | (\$84.6 )    | (\$71.5 ) |      |
| Amounts recognized in the Consolidated Balance Sheets consisted of: |              |           |      |
| Current liability   | (\$6.9 )     | (\$6.4 )  |      |
| Non-current liability   | (\$77.7 )    | (\$65.1 ) |      |
| Accumulated other comprehensive loss                                | (\$62.4 )    | (\$53.3 ) |      |

Accumulated other comprehensive loss at December 31, 2017 and 2016 includes unrecognized actuarial losses of \$62.4 (\$40.4 net of tax) and \$53.3 (\$32.8 net of tax), respectively. The actuarial loss included in accumulated other comprehensive loss that is expected to be recognized in net periodic pension cost during 2018 is \$8.4. The accumulated benefit obligation for the defined benefit plans was \$242.1 and \$225.7 at December 31, 2017 and 2016, respectively.

Estimated future benefit payments from the defined benefit plans are as follows:

|             |         |
|-------------|---------|
| 2018        | \$23.3  |
| 2019        | 21.0    |
| 2020        | 20.5    |
| 2021        | 19.9    |
| 2022        | 19.6    |
| 2023 - 2027 | 88.0    |
| Total       | \$192.3 |

The Company also sponsors a non-qualified, unfunded executive deferred compensation plan (the EDCP), which permits eligible participants, including executive officers, to defer receipt of certain income. The Company matches up to 100% of the first 3% of a participant's deferred amounts and 50% of a participant's next 2% of deferred amounts. The Company match under the EDCP is reduced by the Company match eligible to be received under the Company's Retirement and Savings Plan.

Benefits for the EDCP are based on employee deferrals, matching contributions and investment earnings on participant accounts. As further described in Note 12, the Company makes investments in certain securities which are held in a grantor trust for the benefit of participants of the EDCP. These investments are made in securities reflecting the hypothetical investment balances of plan participants, in an attempt to offset the impacts of gains and losses on participant account balances.

Components of pension cost and other amounts recognized in other comprehensive loss for the EDCP are as follows:

|   | Year Ended   |         |         |
|---|--------------|---------|---------|
|   | December 31, |         |         |
|   | 2017         | 2016    | 2015    |
| Service cost                                  | \$1.8        | \$1.3   | \$1.5   |
| Interest cost on projected benefit obligation | 0.4          | 0.3     | 0.4     |
| Total pension cost                            | \$2.2        | \$1.6   | \$1.9   |
| Other comprehensive loss                      | (\$1.8)      | (\$1.0) | (\$0.6) |

The reconciliation of the EDCP projected benefit obligation for the years ended December 31, 2017 and 2016 is as follows:

|   | At           |          |
|---|--------------|----------|
|   | December 31, |          |
|   | 2017         | 2016     |
| Change in benefit obligation:                                       |              |          |
| Benefit obligation at beginning of year                             | \$14.9       | \$13.7   |
| Service cost  | 1.8          | 1.3      |
| Interest cost   | 0.4          | 0.3      |
| Actuarial loss  | 1.8          | 1.0      |
| Benefits paid   | (1.4 )       | (1.4 )   |
| Benefit obligation at end of year                                   | \$17.5       | \$14.9   |
| Funded status   | (\$17.5)     | (\$14.9) |
| Amounts recognized in the Consolidated Balance Sheets consisted of: |              |          |
| Current liability   | (\$2.3 )     | (\$1.6 ) |
| Non-current liability   | (\$15.2)     | (\$13.3) |
| Accumulated other comprehensive loss                                | (\$2.0 )     | (\$0.2 ) |

Accumulated other comprehensive loss at December 31, 2017 and 2016 includes unrecognized actuarial losses of \$2.0 (\$1.3 net of tax), and gains of \$0.2 (\$0.1 net of tax). The accumulated benefit obligation for the EDCP was \$17.5 and \$14.9 at December 31, 2017 and 2016, respectively. There is no prior service cost expected to be recognized in net periodic pension cost during the year ending December 31, 2018.

Estimated future benefit payments from the EDCP are as follows:

|             |        |
|-------------|--------|
| 2018        | \$2.3  |
| 2019        | 0.8    |
| 2020        | 0.9    |
| 2021        | 1.2    |
| 2022        | 1.2    |
| 2023 - 2027 | 8.7    |
| Total       | \$15.1 |

The following weighted-average rates were used in determining the benefit obligations at December 31:

|  | 2017        | 2016        |
|--|-------------|-------------|
| Discount rate—projected benefit obligation       | 1.50%-5.76% | 1.55%-5.56% |
| Future compensation growth rate                  | 2.00%-4.50% | 2.00%-4.00% |
| Expected long-term rate of return on plan assets | 6.25%-6.75% | 6.75%-7.00% |

The following weighted-average rates were used in determining the pension cost for all years ended December 31:

|  | 2017        | 2016        | 2015        |
|--|-------------|-------------|-------------|
| Discount rate—projected benefit obligation       | 1.50%-5.76% | 1.55%-5.56% | 3.61%-5.56% |
| Future compensation growth rate                  | 2.00%-4.50% | 2.00%-4.00% | 2.50%-4.50% |
| Expected long-term rate of return on plan assets | 6.75%       | 6.75%-7.00% | 6.75%-7.00% |

The range of discount rates utilized in determining the pension cost and projected benefit obligation of the Company's defined benefit plans reflects a lower prevalent rate applicable to the frozen cash balance plan for eligible employees in U.S. and a higher applicable rate for the unfunded defined benefit plan for certain eligible employees in the Philippines, France and Malaysia. The plans outside the U.S. represented approximately 13.7% and 15.3% of the Company's total projected benefit obligation for all plans as of December 31, 2017 and 2016, respectively.

#### Change in Applying Discount Rate to Measure Benefit Costs

As of December 31, 2015, Convergys changed the method used to estimate the service and interest cost components of net periodic benefit cost for all pension and other postretirement benefits. This change in methodology resulted in a decrease in the service and interest cost components for pension and other postretirement benefit costs beginning in the first quarter of 2016. Convergys historically estimated these service and interest cost components utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. Beginning in 2016, the Company elected to utilize a full yield curve approach in the determination of these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. Convergys elected to make this change to provide a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. This change did not affect the measurement of Convergys' total benefit obligations at December 31, 2015 or net periodic pension cost recognized in 2015. Convergys accounted for this change as a change in accounting estimate and accordingly had accounted for it prospectively.

The impact of this discount rate change compared to the previous method decreased estimated pension and other postretirement benefits service and interest cost by approximately \$2.4, or approximately \$0.6 quarterly, during 2016 with substantially all of the decrease attributable to interest cost. This reduction in service and interest cost was completely offset within the actuarial gain or loss caption when the plans were remeasured. The cost reduction resulted in an increase to net income and diluted earnings per common share of \$1.5 and \$0.01, respectively, during 2016.

#### Plan Assets

Edgar Filing: CONVERGYS CORP - Form 10-K

As of December 31, 2017 and 2016, plan assets for the cash balance plan consisted of common/collective trusts (of which approximately 60% are invested in equity backed funds and approximately 40% are invested in funds invested in fixed income instruments) and a private equity fund. At December 31, 2017, the Company's targeted allocation was 60% equity and 40% fixed income. The investment objectives for the plan assets are to generate returns that will enable the plan to meet its future obligations. The Company's expected long-term rate of return was determined based on the asset mix of the plan, projected returns, past performance and other factors. The Company contributed \$10.0 in 2016 to fund its cash balance plan. No such contributions were made in 2017. The Company has satisfied its ERISA funding requirements through 2017. No plan assets are expected to be returned to the Company during 2018.

The following table sets forth by level, within the fair value hierarchy, the cash balance plan's assets at fair value as of December 31, 2017 and 2016:

| Investments               | December 31, 2017 | Quoted Prices<br>In Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---------------------------|-------------------|--|---|--|
| Common/collective trusts: |                   |  |   |  |
| Fixed income              | \$62.4            | \$—  | \$62.4  | \$—  |
| U.S. large cap            | 56.7              | —  | 56.7  | —  |
| U.S. small cap            | 10.0              | —  | 10.0  | —  |
| International equity      | 26.6              | —  | 26.6  | —  |
| Limited partnership       | 1.8               | —  | —   | 1.8  |
| Total investments         | \$157.5           | \$—  | \$155.7   | \$1.8  |

| Investments               | December 31, 2016 | Quoted Prices<br>In Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---------------------------|-------------------|--|---|--|
| Common/collective trusts: |                   |  |   |  |
| Fixed income              | \$60.8            | \$—  | \$60.8  | \$—  |
| U.S. large cap            | 54.2              | —  | 54.2  | —  |
| U.S. small cap            | 10.3              | —  | 10.3  | —  |
| International equity      | 26.7              | —  | 26.7  | —  |
| Limited partnership       | 2.2               | —  | —   | 2.2  |
| Total investments         | \$154.2           | \$—  | \$152.0   | \$2.2  |

There were no transfers between the three levels of the fair value hierarchy during the years ended December 31, 2017 and 2016. For additional information on the fair value hierarchy, see Note 13.

The Company's cash balance plan holds level 2 investments in common/collective trust funds that are public investment vehicles valued using a net asset value (NAV) provided by the manager of each fund. The NAV is based on the underlying net assets owned by the fund, divided by the number of shares outstanding. The NAV's unit price is quoted on a private market that may not be active. However, the NAV is based on the fair value of the underlying securities within the fund, which are traded on an active market, and valued at the closing price reported on the active market on which those individual securities are traded. The significant investment strategies of the funds are as described in the financial statements provided by each fund. There are no restrictions on redemptions from these funds.



Edgar Filing: CONVERGYS CORP - Form 10-K

The Company's cash balance plan holds Level 3 investments within equity funds that primarily invest in domestic early stage capital funds. The fair value of these investments is based on the net asset value per share of the fund. The cash balance plan has approximately \$0.2 in future funding requirements associated with this investment. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement. The following table provides a reconciliation of the beginning and ending balances for the Level 3 assets:

|  | Year Ended December 31 |        |
|--|------------------------|--------|
|  | 2017                   | 2016   |
| Balance, beginning of year   | \$2.2                  | \$2.8  |
| Unrealized losses relating to instruments still held at the reporting date | (0.1 )                 | (0.3 ) |
| Distributions  | (0.3 )                 | (0.3 ) |
| Balance, end of year   | \$1.8                  | \$2.2  |

#### Savings Plans

The Company sponsors a defined contribution plan covering substantially all U.S. employees. The Company matches a portion of employee contributions to the plan. The Company matches up to 100% of the first 3% and 50% of the next 2% of eligible compensation contributed by the participant. Total Company contributions to the defined contribution plan were \$7.0 in 2017 compared to \$7.3 and \$7.4 for 2016 and 2015, respectively. Plan assets for this plan included 0.8 (\$17.7) and 0.9 (\$21.0) of the Company's common shares at December 31, 2017 and 2016, respectively.

#### Employee Postretirement Benefits Other Than Pensions

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.

The Company funds life insurance benefits of certain retirees through a Voluntary Employee Benefit Association (VEBA) trust. Contributions to the plan consist of (1) compensation or pension benefit deductions that the participant directs the Company, which is also the Plan Sponsor, to deposit into the plan on their behalf based on the coverage the participant has elected under the plan, and (2) amounts the Company pays to the plan that are in excess of the participant-directed deductions. Contributions to the VEBA are subject to Internal Revenue Service (IRS) limitations developed using the aggregate cost method. At December 31, 2006, the Company eliminated the postretirement life insurance plan benefits for non-retirement eligible employees. The Company's postretirement benefit plan benefit was \$0.7 at 2017 and 2016, respectively, and \$0.8 for 2015. The amounts included within accumulated other comprehensive income related to these benefits were \$0.1 and \$1.2 at December 31, 2017 and 2016, respectively.

Components of other post-employment benefit plan cost and other amounts recognized in other comprehensive loss for the postretirement health and life insurance plans are as follows:

|   | 2017    | 2016    | 2015    |
|---|---------|---------|---------|
| Interest cost on projected benefit obligation | \$0.1   | \$0.1   | \$0.2   |
| Expected return on plan assets                | (0.2 )  | (0.2 )  | (0.3 )  |
| Amortization and deferrals—net                | (0.6 )  | (0.6 )  | (0.7 )  |
| Total other benefit                           | (\$0.7) | (\$0.7) | (\$0.8) |
| Other comprehensive loss                      | (\$1.1) | (\$0.9) | (\$0.7) |

Edgar Filing: CONVERGYS CORP - Form 10-K

The reconciliation of the postretirement health and life insurance plans' projected benefit obligation and the fair value of plan assets for the years ended December 31, 2017 and 2016 are as follows:

|   | At<br>December 31, |          |
|---|--------------------|----------|
|   | 2017               | 2016     |
| Change in benefit obligation:                                       |                    |          |
| Benefit obligation at beginning of year                             | \$4.2              | \$4.2    |
| Interest cost   | 0.1                | 0.1      |
| Actuarial loss  | 0.4                | 0.1      |
| Benefits paid   | (0.2 )             | (0.2 )   |
| Benefit obligation at end of year                                   | \$4.5              | \$4.2    |
| Change in plan assets:  |                    |          |
| Fair value of plan assets at beginning of year                      | \$3.2              | \$3.4    |
| Actual return on plan assets  | —                  | 0.1      |
| Employer contribution   | 0.2                | 0.1      |
| Asset transfer  | —                  | (0.2 )   |
| Benefits paid   | (0.2 )             | (0.2 )   |
| Fair value of plan assets at end of year                            | \$3.2              | \$3.2    |
| Funded status   | (\$1.3 )           | (\$1.0 ) |
| Amounts recognized in the Consolidated Balance Sheets consisted of: |                    |          |
| Current liability   | (\$0.1 )           | (\$0.1 ) |
| Non-current liability   | (\$1.2 )           | (\$0.9 ) |
| Accumulated other comprehensive income                              | \$0.1              | \$1.2    |

Estimated future benefit payments from the postretirement health and life insurance plans are as follows:

|             |       |
|-------------|-------|
| 2018        | \$0.2 |
| 2019        | 0.2   |
| 2020        | 0.2   |
| 2021        | 0.2   |
| 2022        | 0.2   |
| 2023 - 2027 | 1.2   |
| Total       | \$2.2 |

Plan assets for the postretirement health and life insurance plans of \$3.2 at December 31, 2017 and 2016, respectively, are comprised of money market accounts, a Level 1 fair value measure. The Company expects to make \$0.1 in contributions in 2018 to fund its postretirement health and life insurance plans. No plan assets are expected to be returned to the Company during 2018.

## 10. STOCK-BASED COMPENSATION PLANS

At December 31, 2017, the Company had 6.4 common shares remaining available for issuance under the Convergys Corporation Amended and Restated Long-Term Incentive Plan (Convergys LTIP) from the initial authorization of 30.0 common shares in 1998, which was increased to 38.0 in 2002. The Company granted stock options in 2012 and 2011 with exercise prices that were no less than the market value of the Company's common shares at the grant date and have a ten-year term and vesting terms of two to three years. The Company also grants restricted stock units to certain employees and directors. The restricted stock units do not possess voting rights and consist of both time-related and performance-related units. The restrictions for the time-related restricted stock units generally lapse one to three years after the grant date. The performance-related units vest upon the Company's satisfaction of certain financial targets. Performance-related units for which the performance conditions for vesting of those units are not met within the applicable three-year performance period are forfeited.

The following table shows certain information as of December 31, 2017, with respect to compensation plans under which common shares are authorized for issuance:

| Shares (in millions)                               | Number<br>of<br>Common<br>Shares to<br>be Issued<br>Upon<br>Exercise | Weighted<br>Average<br>Exercise<br>Price | Common<br>Shares<br>Available<br>for Future<br>Issuance |
|--|--|--|---|
| Equity compensation plans approved by shareholders |  |  |   |
| Stock options                                      | 0.3  | \$13.45                                  | —   |
| Restricted stock units                             | 2.1  | —  | —   |
|  | 2.4  | \$13.45                                  | 6.4   |

The Company's operating results reflect stock-based compensation expense of \$17.4, \$18.8 and \$16.9 for 2017, 2016 and 2015, respectively. Expense in 2017, 2016 and 2015 included \$0.9, \$1.4 and \$1.2, respectively, related to awards classified as liabilities that will ultimately settle in cash.

## Restricted Stock Units

## Time-based Restricted Stock Units

During the years ended December 31, 2017, 2016 and 2015, the Company granted 0.7, 0.5 and 0.7 shares, respectively, of time-based restricted stock units. The weighted average grant date fair values of these grants were \$23.59, \$26.51 and \$22.41, respectively. These time-based grants are scheduled to vest 25% at the first anniversary of the grant date, 25% at the second anniversary and 50% at the third anniversary.

The total compensation cost related to non-vested time-based restricted stock units not yet recognized as of December 31, 2017 was approximately \$18.8, which is expected to be recognized over a weighted average period of 2.1 years. Changes to non-vested time-based restricted stock units for the years ended December 31, 2017 and 2016 were as follows:

| Shares (in millions)            | Number<br>of<br>Shares | Weighted<br>Average Fair<br>Value at Date<br>of Grant |
|---------------------------------|------------------------|---|
| Non-vested at December 31, 2014 | 1.3                    | \$17.66   |

Edgar Filing: CONVERGYS CORP - Form 10-K

|                                 |        |         |
|---------------------------------|--------|---------|
| Granted                         | 0.7    | 22.41   |
| Vested                          | (0.5 ) | 16.53   |
| Forfeited                       | (0.2 ) | 20.78   |
| Non-vested at December 31, 2015 | 1.3    | 20.20   |
| Granted                         | 0.5    | 26.51   |
| Vested                          | (0.5 ) | 19.35   |
| Forfeited                       | —      | —       |
| Non-vested at December 31, 2016 | 1.3    | 23.23   |
| Granted                         | 0.7    | 23.59   |
| Vested                          | (0.6 ) | 22.80   |
| Forfeited                       | (0.1 ) | 24.68   |
| Non-vested at December 31, 2017 | 1.3    | \$23.46 |

Performance-based Restricted Stock Units

During the years ended December 31, 2017, 2016 and 2015, the Company granted 0.3, 0.4 and 0.4 shares, respectively, of performance-based restricted stock units. These grants 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 three-year periods. Payout levels for earned shares range from 50% to 200% of award shares. No payout is earned if performance is below the minimum threshold performance level. At December 31, 2017, the targets for the third year of the 2016 grants and the second and third years of the 2017 grants had not yet been set, the key terms had not been effectively communicated to the recipients, and as such the expense related to these grants had not yet been recognized. These grants have been excluded from the table below.

During 2017, the Company established and communicated to participants the final key terms of the 2015 grants, resulting in grants for accounting purposes with a grant date fair value of \$21.27 per share. The total compensation cost related to the 2015 non-vested performance-based restricted stock units not yet recognized as of December 31, 2017 was approximately \$0.8, which is expected to be recognized ratably over the remaining vesting period ending in February 2018.

Changes to non-vested performance-based restricted stock units for the years ended December 31, 2017, 2016 and 2015 were as follows:

| Shares (in millions)            | Number of Shares | Weighted Average Fair Value at Date of Grant |
|---------------------------------|------------------|--|
| Non-vested at December 31, 2014 | —                | \$—  |
| Granted                         | 0.3              | 28.84  |
| Vested                          | —                | —  |
| Forfeited                       | —                | —  |
| Non-vested at December 31, 2015 | 0.3              | 21.84  |
| Granted                         | 0.3              | 26.49  |
| Vested                          | (0.3 )           | 21.92  |
| Forfeited                       | —                | —  |
| Non-vested at December 31, 2016 | 0.3              | 26.48  |
| Granted                         | 0.3              | 21.27  |
| Vested                          | (0.3 )           | 26.16  |
| Forfeited                       | —                | —  |
| Non-vested at December 31, 2017 | 0.3              | \$21.28                                      |

Edgar Filing: CONVERGYS CORP - Form 10-K

The aggregate intrinsic value of non-vested time-based and performance-based restricted stock units was \$40.7 at December 31, 2017.

Stock Options

Presented below is a summary of Company stock option activity. Prior to 2016, all outstanding stock options were fully vested and the related expense had been fully recognized.

| Shares (in millions)                     | Shares | Weighted<br>Average<br>Exercise<br>Price |
|--|--------|--|
| Options outstanding at January 1, 2015   | 0.7    | \$13.24                                  |
| Options exercisable at January 1, 2015   | 0.5    | 13.41                                    |
| Granted                                  | —      | —  |
| Exercised                                | (0.2 ) | 13.09                                    |
| Forfeited                                | —      | —  |
| Options outstanding at December 31, 2015 | 0.5    | \$13.33                                  |
| Options exercisable at December 31, 2015 | 0.5    | \$13.33                                  |
| Granted                                  | —      | —  |
| Exercised                                | (0.1 ) | 13.24                                    |
| Forfeited                                | —      | —  |
| Options outstanding at December 31, 2016 | 0.4    | \$13.34                                  |
| Options exercisable at December 31, 2016 | 0.4    | \$13.34                                  |
| Granted                                  | —      | —  |
| Exercised                                | (0.1 ) | 12.92                                    |
| Forfeited                                | —      | —  |
| Options outstanding at December 31, 2017 | 0.3    | \$13.45                                  |
| Options exercisable at December 31, 2017 | 0.3    | \$13.45                                  |

Approximately one-half of the stock options granted during 2012 vested in two years and the remaining vested in three years. The Company used a Black-Scholes option pricing model to calculate the fair value of stock options granted. For the 2012 grants, the weighted average fair value at grant date of \$3.43 per option granted included assumptions of a strike price of \$12.79, a 30.74% implied volatility, an expected term of 4.5 years, a risk-free rate of 0.76%, and a dividend yield of 0.00%. These 2012 option grants were fully expensed as of December 31, 2016, and resulted in stock compensation expense of less than \$0.1 in 2015. Expected volatility is based on the unbiased standard deviation of the Company's common shares over the option term. The expected life of the options represents the period of time that the Company expects the options granted to be outstanding. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of the grant of the option for the expected term of the instrument. The dividend yield reflects an estimate of dividend payouts over the term of the award. As of December 31, 2017, all outstanding stock options are fully vested and the related expense has been fully recognized.

The weighted average grant date fair value per share for the outstanding and exercisable options at December 31, 2017 was \$3.86.

The following table summarizes the status of the Company stock options outstanding and exercisable at December 31, 2017:

| Shares (in millions)<br>Range of Exercise Prices | Options Outstanding |                     | Options Exercisable |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | Shares              | Weighted<br>Average | Shares              | Weighted<br>Average |

## Edgar Filing: CONVERGYS CORP - Form 10-K

|                    | Remaining<br>Contractual<br>Life (in years) | Exercise<br>Price | Remaining<br>Contractual<br>Life (in years) | Exercise<br>Price |
|--------------------|---|-------------------|---|-------------------|
| \$12.79 to \$13.76 | 0.33.4                                      | 13.45             | 0.33.4                                      | 13.45             |
| Total              | 0.33.4                                      | \$13.45           | 0.33.4                                      | \$13.45           |

The aggregate intrinsic value of stock options exercised was \$1.0 in 2017, \$0.6 in 2016 and \$2.7 in 2015. The actual tax benefit realized from the exercised stock options was \$0.2 in 2017, \$0.1 in 2016 and \$0.6 in 2015. As of December 31, 2017, the aggregate intrinsic value was \$3.3 for both stock options outstanding and exercisable. Intrinsic value represents the Company's closing price on the last trading day of the year in excess of the weighted average exercise price for those tranches of options with a weighted average exercise price less than the closing price multiplied by the number of options outstanding or exercisable.

### 11. COMMITMENTS AND CONTINGENCIES

#### Commitments

The Company leases certain facilities and equipment used in its operations. Total rent expense was \$143.4, \$135.0 and \$129.3 in 2017, 2016 and 2015, respectively.

At December 31, 2017, the total minimum rental commitments under non-cancelable operating leases are as follows:

|            |         |
|------------|---------|
| 2018       | \$104.9 |
| 2019       | 85.0    |
| 2020       | 66.7    |
| 2021       | 50.8    |
| 2022       | 35.5    |
| Thereafter | 79.0    |
| Total      | \$421.9 |

At December 31, 2017, the Company had outstanding letters of credit and bond obligations of \$13.6 related to performance guarantees, of which \$12.1 is set to expire by the end of 2018, \$1.1 is set to expire within one to three years and \$0.4 is set to expire after three years. The Company believes that any guarantee obligation that may arise will not be material. The Company also has future purchase commitments with telecommunication and transportation providers for the next twelve months of \$20.1 at December 31, 2017.

#### Contingencies

The Company, from time to time, is subject to 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 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 litigation cannot be predicted with certainty, and 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.

### 12. FINANCIAL INSTRUMENTS

#### Derivative Instruments

Edgar Filing: CONVERGYS CORP - Form 10-K

The Company is exposed to a variety of market risks, including the effects of changes in foreign currency exchange rates and interest rates. 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 outside of the U.S. Although the contracts with these clients are typically priced in U.S. dollars, a substantial portion of the costs incurred to deliver services under these contracts are denominated in the local currency of the country where services are provided, which represents a foreign exchange exposure. The Company has hedged a portion of its exposure related to the anticipated cash flow requirements denominated in some of the aforementioned foreign currencies by entering into hedging contracts with several financial institutions to acquire a total of PHP 32,040.0 at a fixed price of \$634.8 at various dates through September 2020, INR 10,170.0 at a fixed price of \$140.1 at various dates through June 2020, CAD 38.0 at a fixed price of \$28.6 at various dates through December 2019 and COP 40,200.0 at a fixed price of \$12.7 at various dates through June 2019, and to sell a total of AUD 24.8 at a fixed price of \$19.3 at various dates through October 2018. These instruments mature within the next 33 months and had a notional value of \$835.5 at December 31, 2017 and \$959.0 at December 31, 2016. The derivative instruments discussed above are designated and are effective as cash flow hedges. The following table reflects the fair values of these derivative instruments:

|   | At December 31,<br>2017 | 2016  |
|---|-------------------------|-------|
| Forward exchange contracts and options designated as hedging instruments: |                         |       |
| Included within other current assets                                      | \$14.5                  | \$3.0 |
| Included within other non-current assets                                  | 8.7                     | 2.3   |
| Included within other current liabilities                                 | 7.7                     | 31.3  |
| Included within other long-term liabilities                               | 1.7                     | 15.4  |

The Company recorded a deferred tax expense of \$3.6 and deferred tax benefit of \$15.9 related to these derivatives at December 31, 2017 and 2016, respectively. A total of \$10.4 of deferred gains, net of tax, related to these cash flow hedges at December 31, 2017 were included in accumulated other comprehensive income (OCI), compared to \$25.5 of deferred losses, net of tax, that were included in accumulated other comprehensive loss (OCL) at December 31, 2016. As of December 31, 2017, deferred gains of \$6.8 (\$5.1 net of tax) on derivative instruments included in accumulated OCI are expected to be reclassified into earnings during the next 12 months. The following tables provide the effect of these derivative instruments on the Company's Consolidated Financial Statements during 2017 and 2016, respectively:

2017:

| Derivatives in Cash Flow Hedging Relationships | 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) |
|--|---|---|---|
| Foreign exchange contracts                     | \$35.0  | (\$20.3 )   |   |

Cost of providing services and products sold and  
Selling, general and administrative

2016:

|  | Gain<br>(Loss)<br>Recognized<br>in OCL on<br>Derivative<br>(Effective<br>Portion) | Gain (Loss)<br>Reclassified<br>from Accumulated<br>OCL into<br>Income<br>(Effective Portion) | Location of<br>Gain (Loss)<br>Reclassified from<br>Accumulated OCL<br>into Income<br>(Effective Portion) |
|--|---|--|--|
| Derivatives in Cash Flow Hedging Relationships |   |  |  |
| Foreign exchange contracts                     | (\$25.5 )   | (\$26.4 )  | Cost of providing services and products sold and<br>Selling, general and administrative                  |

The gain or loss recognized related to the ineffective portion of the derivative instruments was immaterial for the years ended December 31, 2017 and 2016.

During 2017, 2016 and 2015, the Company recorded net losses of \$20.3, \$26.4 and \$25.2, respectively, related to the settlement of forward contracts that were designated as cash flow hedges.

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 year ended December 31, 2017, a loss of \$19.6 was recognized related to changes in fair value of these derivative instruments not designated as hedges, compared to a gain of \$5.5 in the same period in 2016. 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 December 31, 2017, was a \$8.9 payable.

The aggregate fair value of all derivative instruments in a liability position at December 31, 2017 was \$19.2 for which the Company has no posted collateral.

#### Short-term Investments

As of December 31, 2017 and 2016, the Company held investment securities with a fair value of \$13.5 and \$12.4, respectively, that are held in a grantor trust for the benefit of participants in the EDCP and reflect the hypothetical investment balances of EDCP participants. The securities are classified as trading securities and included within short-term investments in the Consolidated Balance Sheets. The investment securities include exchange-traded mutual funds 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.

### 13. FAIR VALUE MEASUREMENTS

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



Edgar Filing: CONVERGYS CORP - Form 10-K

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 December 31, 2017 and 2016, 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 years ended December 31, 2017 and 2016. The derivative assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 and 2016 were as follows:

|   | December 31,<br>2017 | Quoted Prices<br>In Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---|----------------------|--|---|--|
| Derivatives:  |                      |  |   |  |
| Foreign currency forward contracts (asset position)     | \$24.2               | \$—  | \$24.2  | \$—  |
| Foreign currency forward contracts (liability position) | \$19.2               | \$—  | \$19.2  | \$—  |

|   | December 31,<br>2016 | Quoted Prices<br>In Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---|----------------------|--|---|--|
| Derivatives:  |                      |  |   |  |
| Foreign currency forward contracts (asset position)     | \$5.6                | \$—  | \$5.6   | \$—  |
| Foreign currency forward contracts (liability position) | \$49.0               | \$—  | \$49.0  | \$—  |

The Company also had investment securities held in a grantor trust for the benefit of participants of the EDCP measured at fair value at December 31, 2017 and December 31, 2016. These investments are recorded as short-term investments on the Consolidated Balance Sheets. 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 years ended December 31, 2017 and 2016. The assets measured at fair value on a recurring basis as of December 31, 2017 and 2016 were as follows:

|                        | December 31,<br>2017 | Quoted Prices<br>In Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|------------------------|----------------------|--|---|--|
| Investment securities: |                      |  |   |  |
| Mutual funds           | \$12.4               | \$12.4   | \$—   | \$—  |
| Money market accounts  | 1.1                  | 1.1  | —   | —  |
| Total                  | \$13.5               | \$13.5   | \$—   | \$—  |

| December 31,<br>2016 | Quoted Prices<br>In Active<br>Markets for<br>Identical Assets | Significant<br>Other<br>Observable<br>Inputs | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|----------------------|---|--|--|
|----------------------|---|--|--|

|                        |        | (Level 1) | (Level 2) |     |
|------------------------|--------|-----------|-----------|-----|
| Investment securities: |        |           |           |     |
| Mutual funds           | \$10.5 | \$10.5    | \$—       | \$— |
| Convergys common stock | 1.3    | 1.3       | —         | —   |
| Money market accounts  | 0.6    | 0.6       | —         | —   |
| Total                  | \$12.4 | \$12.4    | \$—       | \$— |

#### 14. INCOME TAXES

The Company's provision for income taxes from continuing operations consists of the following:

|                       | Year Ended   |        |          |
|-----------------------|--------------|--------|----------|
|                       | December 31, |        |          |
|                       | 2017         | 2016   | 2015     |
| Current:              |              |        |          |
| United States federal | \$32.7       | \$0.1  | (\$21.3) |
| Non-U.S.              | 20.2         | 40.5   | 25.3     |
| State and local       | 2.9          | 2.4    | —        |
| Total current         | 55.8         | 43.0   | 4.0      |
| Deferred:             |              |        |          |
| United States federal | (35.0)       | 14.7   | 6.0      |
| Non-U.S.              | 29.5         | (5.0)  | (4.3)    |
| State and local       | 8.1          | 0.2    | 2.9      |
| Total deferred        | 2.6          | 9.9    | 4.6      |
| Total                 | \$58.4       | \$52.9 | \$8.6    |

The Company's combined pre-tax earnings from continuing operations relating to non-U.S. subsidiaries or branches were \$153.2, \$156.1 and \$139.5 during 2017, 2016 and 2015, respectively.

The 2017 Tax Act was signed into law on December 22, 2017. The 2017 Tax Act significantly revises the U.S. corporate income tax by, among other things, lowering the statutory corporate tax rate from 35% to 21% in 2018, eliminating certain deductions, imposing a mandatory one-time transition tax, or deemed repatriation tax, on accumulated earnings of foreign subsidiaries as of 2017 that were previously tax deferred, introducing new tax regimes, and changing how foreign earnings are subject to U.S. tax. While the effective date of the new corporate tax rates for the Company is January 1, 2018, the Company is required to calculate the effects of changes in tax rates and laws on deferred tax balances (including the effects of the one-time transition tax) in 2017, the period in which the legislation was enacted. The Company has not completed its determination of the accounting implications of the 2017 Tax Act on its tax accruals. However, the Company has reasonably estimated the effects of the 2017 Tax Act to be an increase in income tax expense of \$34.1. The Company recorded the \$34.1 income tax expense as a provisional estimate of the 2017 Tax Act in the consolidated financial statements as of December 31, 2017. The significant components of this expense include (i) the remeasurement of net deferred tax liabilities at the lower enacted U.S. federal corporate tax rate, which resulted in a net \$97.9 decrease in income tax expense; (ii) a \$20.3 net tax expense comprised of foreign withholding taxes related to certain non-U.S. earnings subject to repatriation offset by reversal of a deferred tax liability on previously undistributed foreign earnings; and (iii) the deemed repatriation tax on unremitted non-U.S. earnings and profits that were previously tax deferred and other tax impacts of the 2017 Tax Act, which resulted in a \$111.7 increase in income tax expense, net of deductions and credits. The Company has not completed its analysis of the tax impact of the currency translation adjustment related to the change in indefinite reinvestment assertion as the computation is significantly impacted by the provisional estimates discussed above. As the Company completes its analysis of the 2017 Tax Act, collects and prepares necessary data, and interprets any

Edgar Filing: CONVERGYS CORP - Form 10-K

additional guidance issued by the U.S. Treasury Department, the IRS, and other standard-setting bodies, the Company may make adjustments to the provisional amounts. Those adjustments may materially impact the Company's provision for income taxes in the period in which the adjustments are made.

The following is a reconciliation of the statutory federal income tax rate with the effective tax rate from continuing operations for the tax expense in 2017, 2016 and 2015, respectively:

|   | Year Ended   |        |        |
|---|--------------|--------|--------|
|   | December 31, |        |        |
|   | 2017         | 2016   | 2015   |
| U.S. federal statutory rate   | 35.0         | %35.0  | %35.0  |
| Permanent differences   | 3.1          | 4.5    | 2.3    |
| State and local income taxes, net of federal income tax                                 | 1.1          | 0.9    | 1.1    |
| International rate differential, including tax holidays                                 | (24.5)       | (24.5) | (21.2) |
| Non-U.S. valuation allowances   | 2.4          | 2.1    | 1.0    |
| Adjustments for uncertain tax positions   | (1.0 )       | (0.2 ) | (12.9) |
| Legal entity restructuring charges  | —            | 2.3    | —      |
| Tax credits and other   | (3.6 )       | (0.1 ) | 0.6    |
| Foreign repatriation, net of foreign tax credits  | 1.1          | 8.5    | (1.0 ) |
| Impact of the 2017 Tax Act  |              |        |        |
| Deemed repatriation of non-U.S. earnings, net of foreign tax credits, and other         | 62.1         | —      | —      |
| Non-U.S. withholding taxes related to certain non-U.S. earnings subject to repatriation | 11.3         | —      | —      |
| Remeasurement of U.S. net deferred tax liabilities from 35% to 21%                      | (54.5)       | —      | —      |
| Effective rate  | 32.5         | %28.5  | %4.9   |

The increase in the effective income tax rate in 2017 was primarily due to additional tax expense of \$34.1 related to enactment of the 2017 Tax Act. This additional expense included \$20.3 of net tax expense to record the deferred tax liability associated with a change in classification for a portion of undistributed earnings of the Company's foreign subsidiaries, reflecting management's plans to repatriate certain undistributed earnings of the Company's foreign subsidiaries. This increase in the 2017 effective income tax rate was slightly offset by a shift in the geographical mix of worldwide income. The 2016 effective income tax rate was driven by the restructuring of the Company's legal entity structure and repatriation of earnings into primarily non-U.S. jurisdictions to provide the Company with increased flexibility to manage its strategic priorities.

The 2017 Tax Act imposes a mandatory one-time tax on certain accumulated earnings of non-U.S. subsidiaries and, as a result, all previously undistributed earnings have now been subjected to U.S. tax. Notwithstanding the U.S. taxation of these amounts, the Company recorded deferred tax liabilities of \$34.9 related to non-U.S. withholding taxes related to certain earnings likely to be repatriated in the future. As of December 31, 2017, the Company had \$390.6 of undistributed earnings of its non-U.S. subsidiaries for which it has not provided for non-U.S. withholding taxes because such earnings are intended to be reinvested indefinitely. It is not practicable to determine the amount of applicable taxes that would be due if such earnings were distributed.

The Company's non-U.S. taxes for 2017, 2016 and 2015 included \$5.2, \$5.1 and \$6.3, respectively, of benefit derived from tax holidays in the Philippines, the Dominican Republic, Costa Rica, El Salvador, Malaysia, Honduras, Nicaragua and Tunisia. This resulted in (2.9)%, (2.8)% and (3.6)% impact to the effective tax rate in 2017, 2016 and 2015, respectively. The tax holidays in the Philippines began to expire in 2017 and will continue to expire through 2020. The Company will apply to extend these tax holidays for additional terms of one to two years in accordance with local law. The tax holiday in Malaysia expired October 2, 2017.

The components of deferred tax assets and liabilities are as follows:

Edgar Filing: CONVERGYS CORP - Form 10-K

|                                      | At December 31, |           |
|--------------------------------------|-----------------|-----------|
|                                      | 2017            | 2016      |
| Deferred tax assets:                 |                 |           |
| Loss and credit carryforwards        | \$84.9          | \$95.0    |
| Pension and employee benefits        | 32.1            | 35.4      |
| Deferred revenue                     | 3.8             | 6.0       |
| Foreign currency hedges              | —               | 15.9      |
| Intercompany payables/receivables    | 0.2             | 57.2      |
| Other                                | 25.5            | 27.9      |
| Valuation allowances                 | (49.1)          | (37.6)    |
| Total deferred tax assets            | 97.4            | 199.8     |
| Deferred tax liabilities:            |                 |           |
| Depreciation and amortization        | 177.7           | 270.5     |
| Contingent debt and accrued interest | 67.4            | 89.5      |
| Foreign currency hedges              | 3.5             | —         |
| Unremitted non-U.S. earnings         | 42.0            | 15.9      |
| Other                                | 8.1             | 4.0       |
| Total deferred tax liabilities       | 298.7           | 379.9     |
| Net deferred tax liabilities         | (\$201.3)       | (\$180.1) |

The Company recorded a provisional adjustment to its U.S. federal deferred income tax assets and liabilities as of December 31, 2017 to reflect the reduction in the U.S. federal corporate income tax rate from 35% to 21% resulting from the 2017 Tax Act.

Deferred tax assets and liabilities in the preceding table, after netting by taxing jurisdiction, are in the following captions in the Consolidated Balance Sheets at December 31, 2017 and 2016.

|                                    | At December 31, |           |
|------------------------------------|-----------------|-----------|
|                                    | 2017            | 2016      |
| Non-current deferred tax asset     | \$21.3          | \$17.7    |
| Non-current deferred tax liability | 222.6           | 197.8     |
| Total deferred tax liability       | (\$201.3)       | (\$180.1) |

As of December 31, 2017 and 2016, \$16.9 and \$11.3, respectively, of the valuation allowances relate to the Company's non-U.S. operations.

As of December 31, 2017, the Company has federal, state, and non-U.S. operating loss carryforwards of \$43.1, \$840.2 and \$90.2, respectively. The federal operating loss carryforwards and state operating loss carryforwards expire between 2018 and 2037. The non-U.S. operating loss carryforwards include \$35.7 with no expiration date; the remainder will expire between 2018 and 2036. The federal and state operating loss carryforwards include losses of \$41.4 and \$101.6, respectively, which were acquired in connection with business combinations. Utilization of the acquired federal and state tax loss carryforwards may be limited pursuant to Section 382 of the Internal Revenue Code of 1986.

As of December 31, 2017 and 2016, the liability for unrecognized tax benefits was \$21.3 and \$20.8, respectively, including \$11.9 and \$11.5 of accrued interest and penalties, respectively, and is recorded in Other long-term liabilities in the Consolidated Balance Sheets. The total amount of net unrecognized tax benefits that would affect income tax expense, if ever recognized in the Consolidated Financial Statements, is \$17.2. This amount includes net interest and penalties of \$9.7. The Company's policy is to recognize interest and penalties accrued on unrecognized tax benefits as part of income tax expense. During 2017, the Company recognized a net benefit of \$0.1 in interest and penalties, compared to a net benefit of \$0.6 during 2016. The net benefit of \$0.1 in 2017 includes \$0 of expense related to interest and penalties accrued on positions still outstanding as of December 31, 2017.

A reconciliation of the beginning and ending total amounts of unrecognized tax benefits (exclusive of interest and penalties) is as follows:

|  | 2017   | 2016   |
|--|--------|--------|
| Balance at January 1   | \$10.5 | \$21.6 |
| Additions based on tax positions related to the current year | 0.6    | 0.4    |
| Additions for tax positions of prior years                   | 0.2    | 0.3    |
| Settlements  | (1.0)  | 0.4    |
| Reductions for tax positions of prior years                  | (0.2)  | —      |
| Lapse of statutes of limitations                             | (0.7)  | (12.2) |
| Balance at December 31                                       | \$9.4  | \$10.5 |

The liability for unrecognized tax benefits related to discontinued operations at December 31, 2017 and 2016 was \$1.5 and \$1.3, respectively.

The Company is currently attempting to resolve income tax audits relating to prior years in various jurisdictions. The Company has received assessments from these jurisdictions related to transfer pricing and deductibility of expenses. The Company believes that it is appropriately reserved with regard to these assessments as of December 31, 2017. Furthermore, the Company believes that it is reasonably possible that the total amounts of unrecognized tax benefits including interest will decrease between \$0.6 and \$16.2 prior to December 31, 2018, based upon resolution of audits; however, actual developments could differ from those currently expected.

The Company files income tax returns in the U.S. federal jurisdiction, and various states and non-U.S. jurisdictions. With a few exceptions, the Company is no longer subject to examinations by tax authorities for years before 2002.

## 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):

|  | Foreign<br>Currency | Derivative<br>Financial<br>Instruments | Pension<br>Liability | Total     |
|--|---------------------|--|----------------------|-----------|
| Balance at December 31, 2015   | (\$38.2)            | (\$26.1)                               | (\$37.5)             | (\$101.8) |
| Other comprehensive (loss) income before reclassifications, net of tax       | (18.4)              | (15.7)                                 | (1.0)                | (35.1)    |
| Settlement of pension obligation, net of tax                                 | —                   | —                                      | 3.0                  | 3.0       |
| Amounts reclassified from accumulated other comprehensive income, net of tax | —                   | 16.3                                   | 3.8                  | 20.1      |
| Net current-period other comprehensive (loss) income                         | (18.4)              | 0.6                                    | 5.8                  | (12.0)    |
| Balance at December 31, 2016   | (\$56.6)            | (\$25.5)                               | (\$31.7)             | (\$113.8) |
| Other comprehensive income (loss) before reclassifications, net of tax       | 21.2                | 23.4                                   | (14.7)               | 29.9      |
| Settlement of pension obligation, net of tax                                 | —                   | —                                      | 1.5                  | 1.5       |
| Amounts reclassified from accumulated other comprehensive income, net of tax | —                   | 12.5                                   | 3.3                  | 15.8      |
| Net current-period other comprehensive income                                | 21.2                | 35.9                                   | (9.9)                | 47.2      |
| Balance at December 31, 2017   | (\$35.4)            | \$10.4                                 | (\$41.6)             | (\$66.6)  |

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

Edgar Filing: CONVERGYS CORP - Form 10-K

| Details about Accumulated Other Comprehensive Income (Loss) Components  | Amount<br>Reclassified<br>from<br>Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Affected Line Item in the Consolidated Statements<br>of Income                         |
|---|--|--|
| 2017:   |  |  |
| Loss on derivative instruments  | (\$20.3)   | ) Cost of providing services and products sold and Selling, general and administrative |
| Tax benefit   | 7.8  | Income tax expense   |
| Loss on derivative instruments, net of tax                              | (12.5)   | ) Income from Continuing Operations, net of tax  |
| Adjustments of pension and other post employment obligations            | (8.0)  | ) Selling, general and administrative  |
| Tax benefit   | 3.2  | Income tax expense   |
| Adjustment of pension and other post employment obligations, net of tax | (4.8)  | ) Income from Continuing Operations, net of tax  |
| Total reclassifications for the period                                  | (\$17.3)   | )  |
| 2016:   |  |  |
| Loss on derivative instruments  | (\$26.4)   | ) Cost of providing services and products sold and Selling, general and administrative |
| Tax benefit   | 10.1   | Income tax expense   |
| Loss on derivative instruments, net of tax                              | (16.3)   | ) Income from Continuing Operations, net of tax  |
| Adjustment of pension and other post employment obligations             | (10.9)   | ) Selling, general and administrative  |
| Tax benefit   | 4.1  | Income tax expense   |
| Adjustment of pension and other post employment obligations, net of tax | (6.8)  | ) Income from Continuing Operations, net of tax  |
| Total reclassifications for the period                                  | (\$23.1)   | )  |

16. ADDITIONAL FINANCIAL INFORMATION

|                                    | At<br>December 31, |           |
|------------------------------------|--------------------|-----------|
|                                    | 2017               | 2016      |
| Property and equipment, net:       |                    |           |
| Land                               | \$6.9              | \$6.9     |
| Buildings                          | 104.8              | 104.8     |
| Leasehold improvements             | 348.4              | 325.9     |
| Equipment                          | 538.2              | 552.1     |
| Software                           | 350.0              | 366.7     |
| Construction in progress and other | 26.2               | 32.8      |
|                                    | 1,374.5            | 1,389.2   |
| Less: Accumulated depreciation     | (1,114.5)          | (1,085.1) |
|                                    | \$260.0            | \$304.1   |

## Payables and other current liabilities:

|  |         |         |
|--|---------|---------|
| Accounts payable                       | \$41.3  | \$53.9  |
| Accrued income and other taxes         | 41.9    | 44.1    |
| Accrued payroll-related expenses       | 131.6   | 132.0   |
| Derivative liabilities                 | 17.6    | 33.6    |
| Accrued expenses, other                | 63.5    | 63.7    |
| Restructuring and exit costs           | 8.7     | 0.8     |
| Deferred revenue and government grants | 17.5    | 17.7    |
|  | \$322.1 | \$345.8 |

## 17. INDUSTRY SEGMENT AND GEOGRAPHIC OPERATIONS

## Geographic Operations

The following table presents certain geographic information regarding the Company's operations. The Company attributes revenues from external customers to the country of domicile of the Convergys legal entity that is party to each customer contract.

|               | Year Ended December 31, |           |           |
|---------------|-------------------------|-----------|-----------|
|               | 2017                    | 2016      | 2015      |
| Revenues:     |                         |           |           |
| United States | \$2,066.6               | \$2,321.2 | \$2,385.6 |
| Rest of World | 725.5                   | 592.4     | 565.0     |
|               | \$2,792.1               | \$2,913.6 | \$2,950.6 |

|                    | At December 31, |           |
|--------------------|-----------------|-----------|
|                    | 2017            | 2016      |
| Long-lived Assets: |                 |           |
| United States      | \$832.6         | \$869.3   |
| Philippines        | 176.5           | 192.6     |
| Rest of World      | 547.9           | 525.1     |
|                    | \$1,557.0       | \$1,587.0 |

## Concentrations

The Company derives significant revenues from AT&T. Revenues from AT&T (including DIRECTV in all years) were 16.8%, 20.5% and 21.3% of the Company's consolidated revenues from continuing operations for 2017, 2016 and 2015, respectively. Related accounts receivable from AT&T totaled \$69.4 and \$93.7 at December 31, 2017 and 2016, respectively. No other client accounted for more than 10% of our consolidated revenues for 2017, 2016 or 2015.

## 18. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

|                                   | 1st<br>Quarter | 2nd<br>Quarter | 3rd<br>Quarter | 4th<br>Quarter<br>(a) | Total     |
|-----------------------------------|----------------|----------------|----------------|-----------------------|-----------|
| 2017:                             |                |                |                |                       |           |
| Revenues                          | \$727.6        | \$686.8        | \$688.3        | \$689.4               | \$2,792.1 |
| Operating Income                  | 48.8           | 48.8           | 48.1           | 51.5                  | 197.2     |
| Net Income                        | 37.9           | 39.8           | 34.8           | 8.9                   | 121.4     |
| Basic Earnings Per Common Share   | \$0.40         | \$0.42         | \$0.38         | \$0.10                | \$1.30    |
| Diluted Earnings Per Common Share | \$0.38         | \$0.40         | \$0.35         | \$0.09                | \$1.22    |

|   | 1st<br>Quarter | 2nd<br>Quarter | 3rd<br>Quarter | 4th<br>Quarter<br>(b) | Total     |
|---|----------------|----------------|----------------|-----------------------|-----------|
| 2016:   |                |                |                |                       |           |
| Revenues  | \$722.2        | \$692.3        | \$741.2        | \$757.9               | \$2,913.6 |
| Operating Income                                | 60.4           | 46.3           | 50.6           | 57.2                  | 214.6     |
| Income from Continued Operations, net of tax    | 44.5           | 33.2           | 37.7           | 17.5                  | 133.0     |
| Income from Discontinued Operations, net of tax | —              | —              | 10.0           | —                     | 10.0      |
| Net Income                                      | 44.5           | 33.2           | 47.7           | 17.5                  | 143.0     |
| Basic Earnings Per Common Share:                |                |                |                |                       |           |
| Continuing Operations                           | \$0.46         | \$0.35         | \$0.39         | \$0.18                | \$1.39    |
| Discontinued Operations                         | —              | —              | 0.11           | —                     | 0.10      |
| Basic Earnings Per Common Share                 | \$0.46         | \$0.35         | \$0.50         | \$0.18                | \$1.49    |
| Diluted Earnings Per Common Share               |                |                |                |                       |           |
| Continuing Operations                           | \$0.43         | \$0.32         | \$0.36         | \$0.17                | \$1.30    |
| Discontinued Operations                         | —              | —              | 0.10           | —                     | 0.10      |
| Basic Earnings Per Common Share                 | \$0.43         | \$0.32         | \$0.46         | \$0.17                | \$1.40    |

(a) Fourth quarter 2017 includes a decrease in operating income of \$8.2 resulting from \$0.4 of integration-related expenses associated with Convergys' acquisition of Stream and buw, \$0.6 of depreciation expense resulting from the fair value write-up of property and equipment acquired from Stream and buw and \$7.2 of amortization expense related to acquired intangible assets. Fourth quarter 2017 also includes a \$0.5 pension settlement charge and a \$32.3 net impact to income tax expense resulting from the enactment of the 2017 Tax Act.

(b) Fourth quarter 2016 includes a decrease in operating income of \$9.9 resulting from \$1.4 of integration-related expenses associated with Convergys' acquisition of Stream and buw, \$0.1 of expense associated with the acquisition of buw, \$1.1 of depreciation expense resulting from the fair value write-up of property and equipment acquired from Stream and buw and \$7.3 of amortization expense related to acquired intangible assets. Fourth quarter 2016 also includes a \$4.8 pension settlement charge and \$20.3 of tax expense associated with the restructuring of the Company's legal entity structure and repatriation of earnings into primarily non-U.S. jurisdictions that provided the Company with increased flexibility to manage its strategic priorities.

The sum of the quarterly earnings per common share may not equal the annual amounts reported because per share amounts are computed independently for each quarter and for full year based on respective weighted-average common shares outstanding and other dilutive potential common shares.



ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer, together with the Company's General Counsel, Chief Accounting Officer and other key members of management, evaluated the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Act)) as of the end of the year ended December 31, 2017 (Evaluation Date). Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of the Evaluation Date to provide reasonable assurance that the information required to be disclosed by the Company in the reports that it files or submits under the Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Changes in Internal Control

There were no changes in the Company's internal control over financial reporting during the fourth quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



## REPORT OF MANAGEMENT

### Management's Responsibilities for and Audit Committee Oversight of the Financial Reporting Process

The management of Convergys Corporation is responsible for the preparation, integrity and fair presentation of the Consolidated Financial Statements and all related information appearing in this Annual Report. The Consolidated Financial Statements and notes have been prepared in conformity with accounting principles generally accepted in the United States and include certain amounts, which are estimates based upon currently available information, and management's judgment of current conditions and circumstances.

The Audit Committee, consisting entirely of independent directors, meets regularly with management, the compliance officer, internal auditors and the independent registered public accounting firm, and reviews audit plans and results, as well as management's actions taken in discharging responsibilities for accounting, financial reporting and internal control. Ernst & Young LLP, independent registered public accounting firm, and the internal auditors have direct and confidential access to the Audit Committee at all times to discuss the results of their examinations.

### Management's Report on Internal Control over Financial Reporting

Convergys' management is also responsible for establishing and maintaining adequate internal control over financial reporting that is designed to produce reliable Financial Statements in conformity with accounting principles generally accepted in the United States. The system of internal control over financial reporting is evaluated for effectiveness by management and tested for reliability through a program of internal audits. Actions are taken to correct potential deficiencies as they are identified. Any internal control system, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and may not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to Financial Statement preparation and presentation.

Convergys' management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. In making this assessment, it used the criteria set forth in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Based on its assessment, management has concluded that, as of December 31, 2017, the Company's internal control over financial reporting was effective based on the COSO criteria.

Convergys engaged Ernst & Young LLP in 2017 to perform an integrated audit of the Consolidated Financial Statements in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Their report appears on page 40. Additionally, Ernst & Young LLP has issued an audit report on the Company's internal control over financial reporting. That report appears on page 81.

/s/ Andrea J. Ayers  
Andrea J. Ayers  
Chief Executive Officer

/s/ Andre S. Valentine  
Andre S. Valentine  
Chief Financial Officer

February 21, 2018

Convergys Corporation 2017 Annual Report 20



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Convergys Corporation

### Opinion on Internal Control over Financial Reporting

We have audited Convergys Corporation's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Convergys Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and financial statement schedule listed in the Index at Item 15(a), and our report dated February 21, 2018, expressed an unqualified opinion thereon.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Report of Management". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Cincinnati, Ohio  
February 21, 2018

Convergys Corporation 2017 Annual Report 21

---

## ITEM 9B. OTHER INFORMATION

### A. Ayers Separation and Consulting Agreement

As previously disclosed, on January 25, 2018, the Company announced that Andrea Ayers will transition from her role as President and Chief Executive Officer following a nearly 30-year career at the Company. On February 20, 2018, the Company and Ms. Ayers entered into a Separation and Consulting Agreement (the “Separation Agreement”). Under the Separation Agreement, Ms. Ayers is expected to remain employed by the Company until the earliest to occur of the following dates (the “Separation Date”): (i) the date that a successor Chief Executive Officer commences employment with the Company, (ii) the date that Ms. Ayers’ employment is terminated without Cause (as defined in the Company’s Senior Executive Severance Pay Plan) or due to death or disability, and (iii) December 31, 2018. Upon the Separation Date, and generally subject to Ms. Ayers’ execution and delivery, without revocation, of a general release of claims, Ms. Ayers will be entitled to the following separation benefits pursuant to the Senior Executive Severance Pay Plan:

- a cash lump sum payment equal to the sum of two times Ms. Ayers’ base salary and two times Ms. Ayers’ target (i) annual cash incentive award (\$3,990,000) payable on the first payroll date occurring six months following the Separation Date;
- (ii) a prorated annual cash incentive award reflecting the portion of the year that Ms. Ayers was employed payable at the same time as other plan participants;
- (iii) continued medical, dental and vision benefits for 24 months; and
- (iv) outplacement services of up to \$20,000.

In addition, Ms. Ayers’ outstanding time-based restricted stock unit (“TRSU”) awards and performance-based restricted stock unit (“PRSU”) awards will vest on a pro rata basis based on months of service through the Separation Date. Vesting of the PRSU awards will be based on actual Company performance during the performance period and will be payable after the conclusion of the performance period at the same time as other plan participants. The remaining unvested portion of Ms. Ayers’ TRSU and PRSU awards will remain outstanding and eligible to vest while Ms. Ayers provides consulting services to the Company, as described below. Upon a change of control, Ms. Ayers’ then outstanding and unvested awards will vest immediately.

Beginning on the Separation Date, Ms. Ayers will provide such consulting services to the Company as are reasonably requested by the Board of Directors or the successor Chief Executive Officer. Such services will not exceed thirty hours per month and will continue until February 28, 2021 unless terminated earlier by the Company or Ms. Ayers. Ms. Ayers will receive an annual consulting fee of \$360,000, payable monthly in arrears, for the duration of such services. If the consulting services are terminated by the Company without Cause or by Ms. Ayers due to the Company’s material breach of the Separation Agreement, Ms. Ayers’ outstanding TRSU and PRSU awards will continue to vest on the regularly scheduled vesting dates and, in the case of PRSU awards, based on actual Company performance. If Ms. Ayers terminates the consulting services (other than due to the Company’s material breach of the Separation Agreement), she will forfeit all unvested TRSU and PRSU awards that remain outstanding.

The Agreement also extends the scope and duration of certain non-competition and non-solicitation restrictive covenants applicable to Ms. Ayers under the terms of her non-disclosure and non-competition agreement from one year following termination of employment until the later of (x) two years following Ms. Ayers’ termination of employment and (y) the last day of Ms. Ayers’ consulting services. Upon the occurrence of a change of control, such period will automatically be extended through February 28, 2021.

### Senior Executive Severance Pay Plan

Effective February 14, 2018, the Company amended its Senior Executive Severance Pay Plan to provide that all executive officers designated by the Board of Directors are entitled to cash severance equal to two times base salary and two times target annual cash incentive award in connection with a termination without cause or resignation for good reason that is not in connection with a change of control. Prior to this amendment, executive officers other than the Chief Executive Officer and the Chief Financial Officer would have been entitled to cash severance equal to one times base salary and one times target annual cash incentive award in connection with a termination without cause or

resignation for good reason that is not in connection with a change of control.

Amendment to C. Twomey Service Agreement

Effective February 14, 2018, Convergys CMG UK Limited, a wholly owned subsidiary of the Company, and Cormac Twomey, the Company's Chief Commercial Officer, amended Mr. Twomey's Service Agreement to conform the severance benefits payable upon a termination without cause or resignation for good reason to the severance benefits payable to executive officers designated

Convergys Corporation 2017 Annual Report 22

---



by the Board of Directors under the Senior Executive Severance Pay Plan, as amended on February 14, 2018 and described above under “-Senior Executive Severance Pay Plan.”

\* \* \* \* \*

The foregoing descriptions of the Separation Agreement, the amended Senior Executive Severance Pay Plan, and the amendment to Mr. Twomey’s Service Agreement do not purport to be complete and are qualified in their entirety by reference to the applicable documents filed as Exhibits 10.34, 10.19, and 10.33, respectively, to this Form 10-K and are incorporated in this Item 9B by reference.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this Item 10 is incorporated herein by reference to information contained in the Company's proxy statement relating to its annual meeting of shareholders to be held on April 25, 2018 under the headings "Corporate Governance-Governance Policies," "Board of Directors," "Board Committees," "Proposals Requiring Your Vote-Proposal No. 1: Election of Directors" and "Beneficial Ownership of Securities-Section 16(a) Beneficial Ownership Reporting Compliance." Information concerning the executive officers of the Company is contained on page 16 of this Form 10-K and is incorporated herein by reference.

### ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item 11 is incorporated herein by reference to information contained in the Company's proxy statement relating to its annual meeting of shareholders to be held on April 25, 2018 under the headings "Board Committees-Compensation," "Compensation Discussion and Analysis," "CEO Pay Ratio," "2017 Summary Compensation Table," "Grants of Plan-Based Awards in Fiscal 2017," "Outstanding Equity Awards at 2017 Fiscal Year-End," "Option Exercises and Stock Vested in Fiscal 2017," "Pension Benefits," "Non-Qualified Deferred Compensation," "Potential Payments upon Termination or in Connection with a Change of Control," and "Director Compensation."

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The share ownership of certain beneficial owners, directors and officers is incorporated herein by reference to the information contained in the Company's proxy statement relating to its annual meeting of shareholders to be held on April 25, 2018 under the heading "Beneficial Ownership of Securities."

The remaining information called for by this Item 12 relating to securities authorized for issuance under equity compensation plans is incorporated herein by reference to Note 10 of the Notes to Consolidated Financial Statements.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this Item 13 is incorporated herein by reference to the information contained in the Company's proxy statement relating to its annual meeting of shareholders to be held on April 25, 2018 under the headings "Corporate Governance-Related Party Transactions" and "Board of Directors-Director Independence."

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this Item 14 is incorporated herein by reference to the information contained in the Company's proxy statement relating to its annual meeting of shareholders to be held on April 25, 2018 under the heading "Proposals Requiring Your Vote-Proposal No. 2: Ratification of Appointment of Independent Registered Public Accounting Firm."

## PART IV

## ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE

The following consolidated financial statements of Convergys are included in Part II, Item 8:

|   | Page      |
|---|-----------|
| (1) Consolidated Financial Statements:                  |           |
| Report of Independent Registered Public Accounting Firm | <u>10</u> |
| Consolidated Statements of Income                       | <u>11</u> |
| Consolidated Statements of Comprehensive Income         | <u>12</u> |
| Consolidated Balance Sheets                             | <u>13</u> |
| Consolidated Statements of Cash Flows                   | <u>14</u> |
| Consolidated Statements of Shareholders' Equity         | <u>15</u> |
| Notes to Consolidated Financial Statements              | <u>17</u> |
| (2) Financial Statement Schedule:                       |           |
| II - Valuation and Qualifying Accounts                  | <u>25</u> |

Financial statement schedules other than that listed above have been omitted because the required information is not required or applicable.

CONVERGYS CORPORATION  
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS  
(In millions)

| Description                            | Additions                      |                 |                               | Deductions | Balance at End of Period |
|--|--------------------------------|-----------------|-------------------------------|------------|--------------------------|
|  | Balance at Beginning of Period | Charged Expense | Acquisition and Other Changes |            |                          |
| Year 2017                              |                                |                 |                               |            |                          |
| Allowance for Doubtful Accounts        | \$5.8                          | \$5.1           | \$—                           | (\$6.1)    | ) [a] \$4.8              |
| Deferred Tax Asset Valuation Allowance | \$37.6                         | \$14.2 [b]      | \$—                           | (\$2.7)    | ) [c] \$49.1             |
| Year 2016                              |                                |                 |                               |            |                          |
| Allowance for Doubtful Accounts        | \$5.3                          | \$6.2           | \$0.6                         | (\$6.3)    | ) [a] \$5.8              |
| Deferred Tax Asset Valuation Allowance | \$36.2                         | \$3.6 [d]       | \$—                           | (\$2.2)    | ) [e] \$37.6             |
| Year 2015                              |                                |                 |                               |            |                          |
| Allowance for Doubtful Accounts        | \$8.1                          | \$4.2           | \$—                           | (\$7.0)    | ) [a] \$5.3              |
| Deferred Tax Asset Valuation Allowance | \$39.3                         | \$3.1 [d]       | \$—                           | (\$6.2)    | ) [e] \$36.2             |

[a] Primarily includes amounts written-off as uncollectible.

Primarily relates to valuation allowances recorded for state operating loss carryforwards, foreign operating loss carryforwards, and capital loss carryforwards, as well as the impact of a reduction in the U.S. federal benefit of state income tax as a result of the reduction in the U.S. federal tax rate from 35% to 21%.

[c] Primarily relates to the impact on existing valuation allowances of the U.S. federal tax rate reduction from 35% to 21%.

[d] Amounts related to valuation allowances recorded for state and non-U.S. operating loss carryforwards and capital loss carryforwards.

[e] Primarily includes the release of state and non-U.S. valuation allowances related to the utilization of net operating losses and adjustments of valuation allowances related to state net operating losses and state tax credits.

(3) EXHIBITS:

Exhibits identified in parenthesis below, on file with the Securities and Exchange Commission (SEC), are incorporated herein by reference as exhibits hereto.

Exhibit Number

- 2.1 Share and Partnership Purchase Agreement, dated July 6, 2016. (Incorporated by reference from Exhibit 2.1 to Form 8-K filed on July 7, 2016.)
- 3.1 Amended Articles of Incorporation of the Company. (Incorporated by reference from Exhibit 3.1 to Form 10-Q filed on May 5, 2010.)
- 3.2 Amended and Restated Code of Regulations of Convergys Corporation. (Incorporated by reference from Exhibit 3.1 to Form 8-K filed on May 2, 2011.)
- 4.1 Indenture, dated October 13, 2009, by and between Convergys Corporation and U.S. Bank National Association, as trustee, relating to Convergys Corporation's 5.75% Junior Subordinated Convertible Debentures due 2029. (Incorporated by reference from Exhibit 4.1 to Form 8-K filed October 13, 2009.)
- 4.2 Convergys Corporation Retirement and Savings Plan (PPA Restatement) dated January 28, 2013. (Incorporated by reference from Exhibit 4.2 to Form 10-K filed on February 23, 2016.)
- 4.3 Amendment to Convergys Corporation Retirement and Savings Plan (PPA Restatement) dated July 8, 2014. (Incorporated by reference from Exhibit 4.1 to Form 10-Q filed on November 5, 2014.)
- 4.4 Amendment to Convergys Corporation Retirement and Savings Plan (PPA Restatement) dated December 19, 2014. (Incorporated by reference from Exhibit 4.5 to Form 10-K filed on February 18, 2015.)
- 4.5 Amendment to Convergys Corporation Retirement and Savings Plan (PPA Restatement) dated July 31, 2015. (Incorporated by reference from Exhibit 4.1 to Form 10-Q filed on November 4, 2015.)
  
- 10.1 Convergys Corporation Deferred Compensation and Long-Term Incentive Plan Award Deferral Plan for Non-Employee Directors as amended and restated effective February 24, 2004. (Incorporated by reference from Exhibit 10.24 to Form 10-Q filed on August 9, 2004.) \*
- 10.2 Convergys Corporation Deferred Compensation Plan for Non-Employee Directors dated August 26, 2008. (Incorporated by reference from Exhibit 10.2 to Form 10-Q filed on November 5, 2008.) \*
- 10.3 Convergys Corporation Amended and Restated Long-Term Incentive Plan, effective January 31, 2013. (Incorporated by reference to Exhibit 10.3 to Form 10-Q filed on April 30, 2013.) \*
- 10.4 Convergys Corporation Supplemental Executive Retirement Plan amended effective February 20, 2007. (Incorporated by reference from Exhibit 10.1 to Form 10-Q filed on August 7, 2007.) \*
- 10.5 Convergys Corporation Supplemental Executive Retirement Plan as amended dated August 26, 2008. (Incorporated by reference from Exhibit 10.3 to Form 10-Q filed on November 5, 2008.) \*
- 10.6 Amendment to Convergys Corporation Supplemental Executive Retirement Plan dated December 22, 2011. (Incorporated by reference from Exhibit 10.12 to Form 10-K filed on February 23, 2012.) \*
- 10.7 Convergys Corporation Executive Deferred Compensation Plan as amended October 29, 2001. (Incorporated by reference from Exhibit 10.9 to Form 10-K filed on February 28, 2008.) \*
- 10.8 Amendment to Convergys Corporation Executive Deferred Compensation Plan dated February 24, 2004. (Incorporated by reference from Exhibit 10.25 to Form 10-Q filed on August 9, 2004.) \*
- 10.9 Convergys Corporation Executive Deferred Compensation Plan as amended dated December 21, 2005. (Incorporated by reference from Exhibit 10.14 to Form 10-K filed on February 27, 2009.) \*
- 10.10 Convergys Corporation Executive Deferred Compensation Plan as amended dated October 21, 2008. (Incorporated by reference from Exhibit 10.15 to Form 10-K filed on February 27, 2009.) \*
- 10.11 Amendment to Convergys Corporation Executive Deferred Compensation Plan dated April 1, 2011. (Incorporated by reference to Exhibit 10.50 to Form 10-K filed on February 23, 2012.) \*
- 10.12 Amendment to Convergys Corporation Executive Deferred Compensation Plan dated December 22, 2011. (Incorporated by reference from Exhibit 10.17 to Form 10-K filed on February 23, 2012.) \*
- 10.13

Edgar Filing: CONVERGYS CORP - Form 10-K

- Amendment to Convergys Corporation Executive Deferred Compensation Plan. (Incorporated by reference from Exhibit 10.1 to Form 10-Q filed on November 6, 2013.) \*
- 10.14 Convergys Corporation Annual Executive Incentive Plan, as Amended and Restated, Effective on February 2, 2012. (Incorporated by reference from Exhibit 10.2 to Form 10-Q filed on May 8, 2012.) \*
- 10.15 Convergys Corporation Pension Plan (PPA Restatement) dated January 28, 2013. (Incorporated by reference from Exhibit 4.6 to Form 10-K filed on February 28, 2014.) \*
- 10.16 Amendment to Convergys Corporation Pension Plan (PPA Restatement) dated December 19, 2014. (Incorporated by reference from Exhibit 10.22 to Form 10-K filed on February 18, 2015.) \*
- 10.17 Amendment to Convergys Corporation Pension Plan (PPA Restatement) dated December 15, 2017.\*
- 10.18 2012 Form of Executive Officer Severance Agreement. (Incorporated by reference from Exhibit 10.4 to Form 10-Q filed on July 31, 2012.) \*
- 10.19 2012 Convergys Corporation Senior Executive Severance Pay Plan dated February 14, 2018.
- 10.20 2011 Form of Stock Option Award Agreement for Employees (Incorporated by reference from Exhibit 10.43 to Form 10-K filed on February 25, 2011.) \*
- 10.21 2015, 2016 and 2017 Form of Performance Restricted Stock Unit Award Agreement. (Incorporated by reference from Exhibit 10.1 to Form 8-K filed on January 28, 2015.) \*
- 10.22 2015, 2016 and 2017 Form of Time-Based Restricted Stock Unit Award Agreement. (Incorporated by reference from Exhibit 10.2 to Form 8-K filed on January 28, 2015.) \*
- 10.23 Form of 2018 Time-Based Restricted Stock Unit Award Agreement.\*
- 10.24 Form of 2018 Performance Restricted Stock Unit Award Agreement.\*
- 10.25 Form of 2018 Time-Based Restricted Stock Unit Award Agreement (A. Ayers).\*
- 10.26 Form of 2018 Performance Restricted Stock Unit Award Agreement (A. Ayers).\*
- 10.27 Trust Agreement, dated as of December 23, 2011, between Convergys Corporate and Fidelity Management Trust Company for the Convergys Corporation Executive Deferred Compensation Plan and Convergys Corporate Deferred Compensation Plan for Non-Employee Directors. (Incorporated by reference from Exhibit 10.42 to Form 10-K file on February 23, 2012.) \*
- 10.28 First Amendment to Trust Agreement between Fidelity Management Trust Company and Convergys Corporation, dated as of January 27, 2017. (Incorporated by reference from Exhibit 10.25 to Form 10-K filed on February 22, 2017.)\*
- 10.29 Amended and Restated Letter Agreement, dated October 30, 2012, between the Company and Jeffrey H. Fox. (Incorporated by reference from Exhibit 10.42 to Form 10-K filed on February 21, 2013.) \*
- 10.30 Transition letter, dated April 26, 2013, between the Company and Jeffrey H. Fox. (Incorporated by reference from Exhibit 10.1 to Form 8-K filed on April 26, 2013.) \*
- 10.31 Service Agreement, dated October 27, 2017, between Convergys CMG UK Limited and Cormac Twomey.\*
- 10.32 Offer Letter, dated October 26, 2017.\*
- 10.33 Amendment to Service Agreement, dated February 14, 2018, between Convergys CMG UK Limited and Cormac Twomey.\*
- 10.34 Separation and Consulting Agreement, dated February 20, 2018, between Convergys Corporation and Andrea Ayers.\*
- 10.35 Separation Agreement and Release of All Claims, dated December 18, 2017, between Convergys Corporation and Marge Connelly.\*
- 10.36 Receivables Sale Agreement, dated as of June 30, 2009, between Convergys Corporation, as Originator, and Convergys Funding Inc., as Buyer. (Incorporated by reference from Exhibit 10.1 to Form 10-Q filed on August 4, 2009.)
- 10.37 Receivables Purchase Agreement, dated as of June 30, 2009, among Convergys Funding Inc. as Seller, Convergys Corporation as Servicer, National Association, Liberty Street Funding LLC, The Bank of Nova Scotia and Wachovia Bank, National Association as Administrative Agent. (Incorporated by reference from Exhibit 10.2 to Form 10-Q filed on August 4, 2009.)
- 10.38

Edgar Filing: CONVERGYS CORP - Form 10-K

- Amendment No. 1 to Receivables Purchase Agreement, dated as of June 29, 2010. (Incorporated by reference from Exhibit 10.1 to Form 10-Q filed on August 9, 2010.)
- 10.39 Amendment No. 2 to Receivables Purchase Agreement, dated as of June 20, 2011. (Incorporated by reference from Exhibit 10.30 to Form 10-K filed on February 23, 2016.)
- 10.40 Amendment No. 3 to Receivables Purchase Agreement, dated as of June 24, 2011. (Incorporated by reference from Exhibit 10.1 to Form 8-K filed on June 29, 2011.)
- 10.41 Amendment No. 4 to Receivables Purchase Agreement, dated as of June 24, 2013. (Incorporated by reference from Exhibit 10.32 to Form 10-K filed on February 23, 2016.)
- 10.42 Amendment No. 5 to Receivables Purchase Agreement, dated as of January 6, 2014. (Incorporated by reference from Exhibit 10.46 to Form 10-K filed on February 28, 2014.)
- 10.43 Amendment No. 6 to Receivables Purchase Agreement, dated as of June 24, 2014. (Incorporated by reference from Exhibit 10.34 to Form 10-K filed on February 23, 2016.)
- 10.44 Amendment No. 7 to Receivables Purchase Agreement, dated as of March 13, 2015. (Incorporated by reference from Exhibit 10.1 to Form 8-K filed on March 16, 2015.)
- 10.45 Amendment No. 8 to Receivables Purchase Agreement dated as of June 9, 2015. (Incorporated by reference from Exhibit 10.4 to Form 8-K on June 12, 2015.)
- 10.46 Amendment No. 9 to Receivables Purchase Agreement, dated as of December 2, 2016. (Incorporated by reference from Exhibit 10.38 to Form 10-K filed on February 22, 2017.)
- 10.47 Amendment No. 10 to Receivables Purchase Agreement, dated as of January 4, 2017. (Incorporated by reference from Exhibit 10.39 to Form 10-K filed on February 22, 2017.)
- 10.48 Amendment No. 11 to Receivables Purchase Agreement, dated as of January 3, 2018.
- 10.49 Credit Agreement, dated as of January 11, 2017, by and among Convergys Corporation, the lenders party thereto, and Citibank, N.A., as Administrative Agent. (Incorporated by reference from Exhibit 10.1 to Form 8-K/A filed on January 17, 2017.)
- 12 Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Dividends.
- 21 Subsidiaries of Convergys Corporation.
- 23 Consent of Ernst & Young LLP.
- 24 Powers of Attorney.
- 31.1 Rule 13a - 14(a) Certification by Chief Executive Officer.
- 31.2 Rule 13a - 14(a) Certification by Chief Financial Officer.
- 32.1 Certification by Chief Executive Officer of Periodic Financial Reports Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification by Chief Financial Officer of Periodic Financial Reports Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- The following financial statements from the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed on February 21, 2018, formatted in XBRL (Extensible Business Reporting Language):
- 101 (i) Consolidated Statements of Income and Comprehensive Income, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Cash Flows, (iv) Consolidated Statements of Shareholders' Equity, and (v) the Notes to Consolidated Financial Statements.
- \* Management contract or compensatory plan or arrangement.

ITEM 15(b) AND (c). EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

The responses to these portions of Item 15 are submitted as a separate section of this report.





SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CONVERGYS  
CORPORATION

February 21, 2018 By /s/ Andre S. Valentine  
Andre S. Valentine  
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

| Signature                                    | Title  | Date              |
|--|--|-------------------|
| /s/ ANDREA J. AYERS<br>Andrea J. Ayers       | Chief Executive Officer and Director (Principal Executive Officer) | February 21, 2018 |
| /s/ ANDRE S. VALENTINE<br>Andre S. Valentine | Chief Financial Officer (Principal Financial Officer)              | February 21, 2018 |

|  |   |                   |
|--|---|-------------------|
| /s/ TAYLOR C. GREENWALD<br>Taylor C. Greenwald | Senior Vice President and Controller (Chief Accounting Officer) | February 21, 2018 |
|--|---|-------------------|

|                                     |          |
|-------------------------------------|----------|
| CHERYL K. BEEBE*<br>Cheryl K. Beebe | Director |
|-------------------------------------|----------|

|   |          |
|---|----------|
| RICHARD R. DEVENUTI*<br>Richard R. Devenuti | Director |
|---|----------|

|                                     |          |
|-------------------------------------|----------|
| JEFFREY H. FOX*<br>Jeffrey H. Fox   | Chairman |
| JOSEPH E. GIBBS*<br>Joseph E. Gibbs | Director |

|   |          |
|---|----------|
| JOAN E. HERMAN*<br>Joan E. Herman                   | Director |
| ROBERT E. KNOWLING, JR.*<br>Robert E. Knowling, Jr. | Director |
| THOMAS L. MONAHAN III*<br>Thomas L. Monahan III     | Director |

|                                       |          |
|---------------------------------------|----------|
| RONALD L. NELSON*<br>Ronald L. Nelson | Director |
|---------------------------------------|----------|

\*By: /s/ Andre S. Valentine  
Andre S. Valentine  
as attorney-in-fact

February 21, 2018