CONVERGYS CORP
Form 10-Q
November 05, 2014

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

Form 10-Q

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from to .

Commission File Number 1-14379

CONVERGYS CORPORATION
(Exact name of registrant as specified in its charter)

Incorporated under the laws of the State of Ohio
201 East Fourth Street, Cincinnati, Ohio 45202
I.R.S. Employer Identification Number 31-1598292
Telephone - Area Code (513) 723-7000

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

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

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

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

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

At September 30, 2014, there were 100,345,469 common shares, without par value, outstanding, excluding amounts held in Treasury of 89,432,960.

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Form 10-Q
For the Period Ended
September 30, 2014
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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions, except per share amounts)	2014	2013	2014	2013
Revenues	$749.5	$521.0	$2,091.6	$1,518.8
Costs and Expenses:				
Cost of providing services and products sold	476.1	341.0	1,327.4	986.5
Selling, general and administrative	177.5	118.4	499.1	352.9
Research and development costs	1.9	2.0	5.7	6.3
Depreciation	38.8	22.2	104.8	64.3
Amortization	7.3	1.4	17.6	4.0
Restructuring charges	0.5	4.3	2.2	5.4
Loss (gain) on sale of real estate	—	0.4	(1.6)	1.5
Transaction and integration costs	5.4	—	35.5	—
Total Costs and Expenses	707.5	489.7	1,990.7	1,420.9
Operating Income	42.0	31.3	100.9	97.9
Other income (expense), net	0.3	2.5	(1.6)	4.8
Interest expense	(5.9)	(2.9)	(15.6)	(8.7)
Income before Income Taxes	36.4	30.9	83.7	94.0
Income tax expense	6.4	2.7	15.2	13.6
Income from Continuing Operations, net of tax	30.0	28.2	68.5	80.4
Income from Discontinued Operations, net of tax	2.8	5.7	3.2	2.0
Net Income	$32.8	$33.9	$71.7	$82.4
Basic Earnings Per Common Share:				
Continuing operations	$0.30	$0.27	$0.68	$0.77
Discontinued operations	0.03	0.06	0.03	0.02
Basic Earnings per Common Share	$0.33	$0.33	$0.71	$0.79
Diluted Earnings Per Common Share:				
Continuing operations	$0.28	$0.26	$0.65	$0.74
Discontinued operations	0.03	0.05	0.03	0.02
Diluted Earnings per Common Share	$0.31	$0.31	$0.68	$0.76
Weighted Average Common Shares Outstanding:				
Basic	100.7	103.0	101.0	104.1
Diluted	105.2	107.9	105.7	109.1
Cash Dividends Declared per Share	$0.07	$0.06	$0.20	$0.18

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2014	2013	2014	2013
Net Income	$32.8	$33.9	$71.7	$82.4
Other Comprehensive (Loss) Income, net of tax:				
Foreign currency translation adjustments	(28.0)	0.7	(21.6)	(2.6)
Change related to minimum pension liability	(6.1)	7.2	(3.7)	23.5
Unrealized holding loss on hedging activities	(21.3)	(6.0)	(1.3)	(33.7)
Total other comprehensive (loss) income	(55.4)	1.9	(26.6)	(12.8)
Total Comprehensive (Loss) Income	$(22.6)	$35.8	$45.1	$69.6

See Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS

(In millions)	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	$228.6	$580.8
Short-term investments	19.9	82.9
Receivables, net of allowances of $5.9 and $5.3	499.1	319.8
Deferred income tax assets	69.0	6.2
Prepaid expenses	41.6	25.2
Other current assets	33.6	45.5
Total Current Assets	891.8	1,060.4
Property and equipment, net	376.5	246.4
Goodwill	860.9	589.4
Other intangibles, net	366.8	20.4
Deferred income tax assets	11.0	8.9
Other assets	44.1	31.2
Total Assets	$2,551.1	$1,956.7
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Debt and capital lease obligations maturing within one year	$9.2	$0.9
Payables and other current liabilities	414.5	291.7
Total Current Liabilities	423.7	292.6
Long-term debt and capital lease obligations	403.5	60.2
Deferred income tax liabilities	238.9	150.8
Accrued pension liabilities	91.4	73.7
Other long-term liabilities	102.5	89.8
Total Liabilities	1,260.0	667.1
Convertible debentures conversion feature	64.6	65.5
Shareholders' Equity:		
Preferred shares – without par value, 5.0 authorized; none outstanding	—	—
Common shares – without par value, 500.0 authorized; 189.8 and 188.9 issued, 100.3 and 100.8 outstanding, as of September 30, 2014 and December 31, 2013, respectively	1,077.6	1,074.4
Treasury stock – 89.4 and 88.2 as of September 30, 2014 and December 31, 2013, respectively	(1,471.2)	(1,445.6)
Retained earnings	1,666.2	1,614.8
Accumulated other comprehensive loss	(46.1)	(19.5)
Total Shareholders' Equity	1,226.5	1,224.1
Total Liabilities and Shareholders' Equity	$2,551.1	$1,956.7

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	Nine Months Ended September 30, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$71.7	$82.4
Income from discontinued operations, net of tax	3.2	2.0
Income from continuing operations, net of tax	68.5	80.4
Adjustments to reconcile income from continuing operations, net of tax, to net cash provided by operating activities of continuing operations:		
Depreciation and amortization	122.4	68.3
(Gain) loss on sale of real estate	(1.6)	1.5
Deferred income tax benefit	(42.2)	(7.5)
Stock compensation expense	7.6	10.7
Changes in assets and liabilities, net of acquisition:		
Change in receivables	5.1	3.3
Change in other current assets	9.5	5.0
Change in deferred charges, net	2.1	0.7
Change in other assets and liabilities	6.7	(1.7)
Change in payables and other current liabilities	29.3	(12.2)
Net cash provided by operating activities of continuing operations	207.4	148.5
Net cash provided by operating activities of discontinued operations	—	0.8
Net cash provided by operating activities	207.4	149.3
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(86.5)	(43.2)
Proceeds from disposition of assets	—	47.6
Purchase of short-term investments	(7.2)	(120.5)
Proceeds from maturity of short-term investments	68.7	71.8
Acquisition, net of cash acquired	(802.6)	(16.4)
Net cash used in investing activities of continuing operations	(827.6)	(60.7)
Net cash provided by investing activities of discontinued operations	—	0.3
Net cash used in investing activities	(827.6)	(60.4)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of other long-term debt	350.0	—
Repayment of other long-term debt (term loan and capital lease obligations)	(104.1)	(4.8)
Proceeds from Asset Securitization Facility	318.0	—
Repayment of Asset Securitization Facility	(248.0)	—
Repurchase of common shares	(24.9)	(100.2)
Proceeds from exercise of stock options	1.4	2.8
Payments of dividends	(19.2)	(17.7)
Cash paid for debt issuance costs	(7.1)	—
Excess tax benefits from share-based payment arrangements	1.9	2.2
Net cash provided by (used in) financing activities	268.0	(117.7)
Net decrease in cash and cash equivalents	(352.2)	(28.8)
Cash and cash equivalents at beginning of period	580.8	554.7
Cash and cash equivalents at end of period	$228.6	$525.9

See Notes to Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Currency Amounts in Millions Except Per Share Amounts)
(Unaudited)

(1) BACKGROUND AND BASIS OF PRESENTATION

Convergys Corporation (the Company or Convergys) is a global leader in customer management, focused on bringing value to its clients through every customer interaction.
On March 3, 2014, Convergys completed its acquisition of SGS Holdings, Inc. (Stream), a global business process outsource provider specializing in customer relationship management, including technical support, customer care and sales, for Fortune 1000 companies. This acquisition expanded the Company's geographic footprint and capabilities. Combined, Convergys now has 125,000 employees working out of more than 150 locations in 31 countries, interacting with our clients' customers in 47 languages. Stream's complementary client portfolio also diversifies Convergys' client base through the addition of leading technology, communications and other clients. Stream's operating results are included in Convergys' Consolidated Statements of Income beginning on March 3, 2014. See Note 3, "Business Combinations" for additional information on the Stream acquisition.
On April 30, 2013, the Company acquired New Zealand-based Datacom's contact center operations with facilities in Kuala Lumpur, Malaysia and Manila, Philippines for $20.0 AUD (approximately $20.0 USD). The acquisition added 15 Asian languages to Convergys' language capabilities and approximately 1,000 employees, working in three Southeast Asia contact centers, to Convergys' global operations. See Note 3, "Business Combinations" for additional information on the Datacom acquisition.
The accompanying Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting (U.S. GAAP) and U.S. Securities and Exchange Commission (SEC) regulations, and, in the opinion of management, include all adjustments necessary for a fair presentation of the results of operations, financial position and cash flows for each period shown. All adjustments are of a normal and recurring nature. Certain information and footnote disclosures normally included in Financial Statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted. Interim Consolidated Financial Statements are not necessarily indicative of the financial position or operating results for an entire year. These interim Consolidated Financial Statements should be read in conjunction with the audited Financial Statements and the Notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed on February 28, 2014. Certain balances within the prior year consolidated balance sheet have been reclassified to conform to current year presentation.

(2) RECENT ACCOUNTING PRONOUNCEMENTS

In June 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (Topic 718)." This ASU requires a reporting entity to treat a performance target that affects vesting and that could be achieved after the requisite service period as a performance condition, and apply existing guidance under the Stock Compensation Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. This update will be applied prospectively and is effective for interim and annual periods beginning after December 15, 2015. This standard is not expected to have a material effect on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." The standard will apply 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. Once effective, this ASU will replace most of the existing revenue recognition requirements in U.S.

GAAP. This update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is currently assessing the effect that adoption of the new standard, including possible transition alternatives, will have on its consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." This ASU changes the criteria for a disposal to qualify as discontinued operations and requires new disclosures for individually material disposal transactions that do not meet the definition of a discontinued operation. Under the new standard, companies report discontinued operations when they have a disposal that represents a strategic shift that has or will have a major impact on operations or financial results. This update will be applied prospectively and is effective for annual periods, and interim periods within those years, beginning after December 15, 2014. This standard is not expected to have a material effect on the Company's consolidated financial statements, but will impact the reporting of any future dispositions.

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(3) BUSINESS COMBINATIONS

Stream Acquisition
Background and Financing

On January 6, 2014, the Company and its wholly-owned subsidiary (Merger Sub), entered into an Agreement and Plan of Merger (the Merger Agreement) with Stream and, for limited purposes, other Sellers listed in the Merger Agreement. On March 3, 2014, Merger Sub was merged with and into Stream (the Merger), with Stream continuing as the surviving corporation and as a wholly owned subsidiary of Convergys. At the time of the Merger, each share of Stream common stock was converted into the right to receive an amount in cash, without interest.

The total purchase price, net of cash acquired, was $802.6, which was funded using available cash, borrowings under the Accounts Receivable Securitization Facility and proceeds from a term loan under the February 28, 2014 Credit Agreement (the Credit Agreement). The Credit Agreement consists of a term loan in the amount of $350.0 and a revolving credit facility in the amount of $300.0 (see Note 9, "Debt and Capital Lease Obligations" for the definition of these terms and further discussion).

The preliminary purchase price of Stream consisted of the following items:

Cash consideration for Stream stock [(1)]	$481.0	
Cash consideration for Stream stock options [(2)]	16.1	
Cash consideration for repayment of Stream 11.25% Senior Secured Notes [(3)]	243.0	
Cash consideration for repayment of Stream 10.0% Promissory Notes [(4)]	19.3	
Cash consideration for repayment of Stream Revolving Credit Facility [(5)]	63.4	
Cash consideration for transaction expenses of Stream [(6)]	7.8	
Total cash consideration	830.6	
Cash acquired [(7)]	(28.0	)
Net consideration transferred	$802.6	

(1) The cash consideration for the outstanding shares of Stream's common stock, which includes final settlement for working capital. Stream outstanding common shares totaled 0.7 as of March 3, 2014.
(2) The cash consideration paid per share of "in the money" stock option awards.
(3) The cash consideration to repay Stream's 11.25% Senior Secured Notes due 2014, which reflects the aggregate principal and interest amounts of $230.0 and $13.0, respectively, as of March 3, 2014.
(4) The cash consideration to repay Stream's 10.0% Promissory Notes, which reflects the aggregate principal and interest amounts of $16.1 and $3.2, respectively, as of March 3, 2014.
(5) The cash consideration to repay Stream's Revolving Credit Facility, which reflects the aggregate principal and interest amounts of $63.1 and $0.3, respectively, as of March 3, 2014.
(6) Pursuant to the Merger Agreement, Convergys reimbursed the holders of Stream common stock for expenses incurred by Stream in connection with the merger. These expenses primarily related to third-party consulting services.
(7) Represents the Stream cash balance acquired at acquisition.

The Company incurred $14.7 of direct transaction costs for the nine months ended September 30, 2014. These costs are included in Transaction and integration costs in the accompanying Consolidated Statements of Income.

Preliminary Purchase Price Allocation

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

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Preliminary purchase price allocation	At March 3, 2014
Assets:	
Receivables	$197.9
Other current assets	11.6
Property and equipment	159.3
Goodwill	281.4
Intangible assets	370.4
Other assets	13.7
Liabilities:	
Accounts payable	(11.9)
Accrued expenses	(99.5)
Other current liabilities	(3.8)
Debt	(34.6)
Deferred tax - net	(70.9)
Other long-term liabilities	(11.0)
Total purchase price	$802.6

As of September 30, 2014, the purchase price allocation for the acquisition was preliminary and subject to completion. Adjustments to the current fair value estimates in the above table may occur as the process conducted for various valuations and assessments is finalized, including tax assets, liabilities and other attributes. Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the estimated future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. The factors contributing to the recognition of goodwill are based on several strategic and synergistic benefits that are expected to be realized from the Stream acquisition. The benefits include an enhanced global footprint and expanded language capabilities. None of the goodwill is expected to be deductible for income tax purposes and was entirely allocated to the Customer Management - Agent Services reporting unit for purposes of the evaluation for any future goodwill impairment. The Company evaluated whether any adjustments in the prior period purchase price allocation was material and concluded no retrospective adjustment to prior period financial statements were required.

Intangible Assets Identified

The following details the total intangible assets identified:

Intangible asset type	Value	Life (years)
Customer relationship	$352.0	17
Trade name	17.0	4
Favorable lease contract	1.4	1 - 7
Total	$370.4	

The preliminary fair value of the customer relationship asset was determined using the income approach through an excess earnings analysis, with projected earnings discounted at a rate of 11.0%. The customer relationship intangible asset represents relationships between Stream and its customers. Convergys applied the income approach through a relief-from-royalty analysis to determine the preliminary fair value of the Stream trade name asset. The determination of the useful lives was based upon consideration of market participant assumptions and transaction specific factors.

Impact on Operating Results

The results of Stream's operations have been included in Convergys' Consolidated Financial Statements since the March 3, 2014 date of acquisition. The following table provides sales and results of operations from the acquired

Stream business included in Convergys' September 30, 2014 results:

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Stream results of operations	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014
Revenues	$247.4	$581.5
Income before income taxes	$7.2	$2.0

The following unaudited pro forma information assumes the acquisition of Stream occurred at the beginning of the respective periods presented. The unaudited pro forma information presented below is for illustrative purposes only and does not reflect future events that may occur after September 30, 2014 or any operating efficiencies or inefficiencies that may result from the Stream acquisition and related financing. Additionally, this unaudited pro forma information for the nine months ended September 30, 2014 includes certain one-time costs associated with the Company's integration of the acquired Stream operations. Therefore, the information is not necessarily indicative of results that would have been achieved had the business been combined during the periods presented or the results that the Company will experience going forward.

	Nine Months Ended September 30, 2014	
Unaudited pro forma information	2014	2013
Revenues	$2,263.0	$2,267.1
Income from Continuing Operations, net of tax	$62.8	$75.7
Earnings from Continuing Operations per share		
Basic	$0.62	$0.73
Diluted	$0.59	$0.69
Weighted average common shares outstanding		
Basic	101.0	104.1
Diluted	105.7	109.1

Datacom Acquisition

On April 30, 2013, the Company acquired the business process outsourcing operations of New Zealand-based Datacom, including contact centers in Kuala Lumpur, Malaysia and Manila, Philippines. The purchase price of $20.0 AUD (approximately $20.0 USD) included $15.0 of cash paid at closing and $5.3 of debt obligations assumed, which were immediately paid by the Company, as well as working capital adjustments that were finalized during the third quarter of 2013. In connection with the acquisition, the Company recognized $12.2 of goodwill and $7.0 of customer relationship intangible asset. The customer relationship intangible asset will be amortized over an estimated economic useful life of 8 years. The determination of the useful life was based upon consideration of market participant and transaction specific factors. The Company included various industry studies, historical acquisition experience, economic factors, future cash flows of the combined company and the relative stability of the acquired customer base. The acquired goodwill is not expected to be deductible for income tax purposes.

(4) DIVESTITURES AND DISCONTINUED OPERATIONS

On May 16, 2012, the Company completed the sale of its Information Management line of business to NEC Corporation. During the three and nine months ended September 30, 2014, the Company recorded additional gains of $2.8 and $3.2, respectively, net of tax, compared to gains of $5.7 and $2.0 during the three and nine months ended September 30, 2013, respectively, as certain contingencies and tax positions related to Information Management were settled or adjusted.

The results of the Information Management business have been classified as discontinued operations for all periods presented. Certain costs previously allocated to the Information Management segment that do not qualify for discontinued operations accounting treatment are now reported as costs from continuing operations. The Company has taken action to reduce these costs and the transition services revenue from services provided to the buyer subsequent to completion of the sale substantially offset the remainder of these costs. During the nine months ended September 30, 2014, the Company earned $8.2 in revenue under these transition services agreements, compared to $3.8 and $13.3 for the three and nine months ended September 30, 2013, respectively.

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All transition services agreements expired by the end of the June 2014 quarter, and the Company has substantially eliminated the related costs.
The results of the Information Management business included in discontinued operations for the three and nine months ended September 30, 2014 and 2013 are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue	$—	$—	$—	$—
Gain (loss) on disposition	—	1.1	0.5	(6.6)
Income (loss) before income taxes	—	1.1	0.5	(6.6)
Income tax benefit:				
Benefit related to gain on disposition	(2.8)	(4.6)	(2.7)	(8.6)
Income from discontinued operations, net of tax	$2.8	$5.7	$3.2	$2.0

(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:

		Continuing Operations		Discontinued Operations		Total
Three Months Ended September 30, 2014	Shares	Income	Per Share Amount	Income	Per Share Amount	Per Share Amount
Basic EPS	100.7	$30.0	$0.30	$2.8	$0.03	$0.33
Effect of dilutive securities:						
Stock-based compensation arrangements	0.8	—	(0.01)	—	—	(0.01)
Convertible Debt	3.7	—	(0.01)	—	—	(0.01)
Diluted EPS	105.2	$30.0	$0.28	$2.8	$0.03	$0.31
Nine Months Ended September 30, 2014						
Basic EPS	101.0	$68.5	$0.68	$3.2	$0.03	$0.71
Effect of dilutive securities:						
Stock-based compensation arrangements	1.0	—	(0.01)	—	—	(0.01)
Convertible Debt	3.7	—	(0.02)	—	—	(0.02)
Diluted EPS	105.7	$68.5	$0.65	$3.2	$0.03	$0.68
Three Months Ended September 30, 2013						
Basic EPS	103.0	$28.2	$0.27	$5.7	$0.06	$0.33
Effect of dilutive securities:						
Stock-based compensation arrangements	0.9	—	—	—	—	—
Convertible Debt	4.0	—	(0.01)	—	(0.01)	(0.02)
Diluted EPS	107.9	$28.2	$0.26	$5.7	$0.05	$0.31
Nine Months Ended September 30, 2013						
Basic EPS	104.1	$80.4	$0.77	$2.0	$0.02	$0.79
Effect of dilutive securities:						
Stock-based compensation arrangements	1.0	—	(0.01)	—	—	(0.01)
Convertible Debt	4.0	—	(0.02)	—	—	(0.02)
Diluted EPS	109.1	$80.4	$0.74	$2.0	$0.02	$0.76

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The diluted EPS calculation excludes the effect of 0.5 outstanding stock options for the three and nine months ended September 30, 2014 and 0.7 outstanding stock options for the three and nine months ended September 30, 2013 because their effect is anti-dilutive. The calculation at September 30, 2014 also excludes 0.6 performance-based restricted stock units (0.3 granted in both 2014 and 2013) as the performance criteria have not yet been fully defined, thereby precluding a mutual understanding of the terms of the stock-based awards.
As described more fully in Note 9, the Company issued approximately $125.0 aggregate principal amount of 5.75% Junior Subordinated Convertible Debentures due 2029 (2029 Convertible Debentures). The 2029 Convertible Debentures were initially convertible, subject to certain conditions, into common shares of the Company at an initial conversion price of approximately $12.07 per share, or eighty-two and eighty-two hundredths shares per one thousand in principal amount of debentures. The conversion rate is subject to adjustment for certain events outlined in the indenture governing the debentures (the Indenture), including payment of dividends. As of September 30, 2014, the implied conversion rate for the 2029 Convertible Debentures was $11.69 per share, or eighty-five and fifty-three hundredths shares per one thousand in principal amount of debentures. There were 3.7 dilutive shares related to the 2029 Convertible Debentures for the three and nine months ended September 30, 2014. As of October 1, 2014, the 2029 Convertible Debentures were convertible at the option of the holders.
Shareholders' Equity
The Company repurchased 0.8 and 1.3 of its common shares during the three and nine months ended September 30, 2014, respectively, at an average price of $19.12 and $20.10 per share for a total of $15.3 and $26.3 under current authorizations approved by the Company's Board of Directors. Based upon timing of the transactions, $1.4 of shares repurchased had not settled as of September 30, 2014. These shares are excluded from outstanding shares at the end of the current quarter and will be settled in cash during the fourth quarter of 2014. As of September 30, 2014, the Company had the authority to repurchase an additional $107.0 of outstanding common shares pursuant to current authorizations.
The Company also repurchased 0.4 shares at an average price of $18.41 for aggregate proceeds of $6.8 subsequent to September 30, 2014 through November 5, 2014.
Dividends
During 2013 and 2014, the Company's Board of Directors approved, and the Company has paid, the following dividends per common share:

Announcement Date	Record Date	Dividend Amount	Payment Date
February 7, 2013	March 22, 2013	$0.06	April 5, 2013
April 30, 2013	June 21, 2013	$0.06	July 5, 2013
July 30, 2013	September 20, 2013	$0.06	October 4, 2013
November 6, 2013	December 27, 2013	$0.06	January 10, 2014
February 5, 2014	March 21, 2014	$0.06	April 4, 2014
May 12, 2014	June 19, 2014	$0.07	July 3, 2014
August 11, 2014	September 19, 2014	$0.07	October 3, 2014

On November 5, 2014, the Company announced that its Board of Directors declared a quarterly cash dividend of $0.07 per common share to be paid on January 9, 2015 to shareholders of record as of December 26, 2014.
The Board expects that future cash dividends will be paid on a quarterly basis. However, any decision to pay future cash dividends will be subject to Board approval, and will depend on the Company's future earnings, cash flow, financial condition, financial covenants and other relevant factors.

(6) EMPLOYEE BENEFIT PLANS
The Company sponsors a frozen defined benefit pension plan, which includes both a qualified and non-qualified portion, for eligible employees in North America (the Cash Balance Plan). The Company recorded a net liability of $49.1 and $33.7 as of September 30, 2014 and December 31, 2013, respectively, for the Cash Balance Plan. In addition, the Company sponsors unfunded defined benefit plans for certain eligible employees in the Philippines and France. The Company recorded a liability of $36.6 and $31.5 as of September 30, 2014 and December 31, 2013, respectively, for these non-U.S. plans. Components of pension cost for these plans are as follows:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Interest cost on projected benefit obligation	$2.4	$2.6	$7.7	$8.8
Service cost	1.7	1.9	5.0	5.7
Expected return on plan assets	(2.3)	(2.2)	(6.9)	(8.0)
Amortization and deferrals, net	2.1	2.3	6.0	9.1
Settlement charge	2.9	4.4	2.9	11.9
Pension cost	$6.8	$9.0	$14.7	$27.5

During the three and nine months ended September 30, 2014, the Company recognized a non-cash pension settlement charge of $2.9 resulting from a high volume of lump sum distributions. During the three and nine months ended September 30, 2013, the Company recognized non-cash pension settlement charges of $4.4 and $11.9, respectively. The Company contributed $10.0 to fund the Cash Balance Plan during the first nine months of 2013.
The Company also sponsors a non-qualified, unfunded executive deferred compensation plan. Components of pension cost for the unfunded executive pension plans are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Interest cost on projected benefit obligation	$0.1	$0.1	$0.4	$0.3
Service cost	0.3	—	0.9	—
Amortization and deferrals, net	—	—	—	0.2
Pension cost	$0.4	$0.1	$1.3	$0.5

On July 25, 2013, the Company's Board of Directors authorized the Company to reinstate the Executive Deferred Compensation Plan (the “EDCP”), effective January 1, 2014, for eligible participants, including executive officers. This plan was previously frozen as of December 31, 2011. Under this authorization, 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.

(7) RESTRUCTURING

2014 Restructuring

The Company recorded severance expense of $2.7 and $10.5 during the three and nine months ended September 30, 2014, respectively, related to the elimination of certain redundant executive and non-executive positions as a result of the Company's integration of the Stream business. These amounts are included within Transaction and integration costs on the Consolidated Statements of Income and are expected to be substantially paid in cash by June 30, 2015. The total remaining liability under these severance-related actions, which is included within Payables and other current liabilities on the Company's Consolidated Balance Sheets, was $3.1 as of September 30, 2014 compared to $2.3 as of June 30, 2014.
During the first quarter of 2014, the Company also recorded a severance charge of $1.7 related to restructuring actions impacting approximately 400 employees. These actions were initiated to continue the Company's efforts to refine its operating model and reduce costs. During the third quarter of 2014 the Company recognized an additional $0.5 of severance expense, in a continued effort to reduce costs. The severance charges are included within Restructuring charges on the Consolidated Statement of Income and are expected to be substantially paid in cash by June 30, 2015. The total remaining liability under this severance-related restructuring plan, which is included within Payables and other current liabilities on the Company's Consolidated Balance Sheets, was $1.7 as of September 30, 2014.

2013 Restructuring

During the third quarter of 2013, the Company recorded a severance charge of $4.3 related to restructuring actions impacting approximately 800 employees. These actions were initiated to continue the Company's efforts to refine its operating model and reduce costs. These severance-related charges were fully paid in cash by September 30, 2014, pursuant to the Company's severance policies. The total remaining liability was $2.3 at December 31, 2013. The Company also recorded other restructuring expenses of $1.1 during the fourth quarter of 2013.

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(8) STOCK-BASED COMPENSATION PLANS

The Company’s operating results for the three and nine months ended September 30, 2014 included stock compensation expense of $2.4 and $7.6, respectively, compared to $3.3 and $10.7, respectively, for the same periods in 2013.

Stock Options

A summary of stock option activity for the nine months ended September 30, 2014 is presented below:

Shares in Millions Except Per Share Amounts	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Weighted Average Fair Value at Date of Grant (per share)
Options outstanding at January 1, 2014	0.8	$13.11	7.2	$3.74
Options exercisable at January 1, 2014	0.2	$13.14	5.8	$4.01
Granted	—			
Exercised	(0.1)	12.37		
Forfeited	—			
Options outstanding at September 30, 2014	0.7	$13.24	6.9	$3.72
Options exercisable at September 30, 2014	0.5	$13.41	6.7	$3.83

Stock compensation expense for the 2011 and 2012 stock option grants was $0.2 for the nine months ended September 30, 2014.

Time-based Restricted Stock Units

During the nine months ended September 30, 2014 and 2013, the Company granted 0.7 shares and 0.6 shares, respectively, of time-based restricted stock units. The weighted-average fair values of these grants were $20.53 and $16.35 per share, respectively. The 2014 and 2013 time-based grants are scheduled to vest 25% at the completion of year one after the grant date, 25% after year two and 50% after year three. The 2012 time-based grants are scheduled to vest 50% at the end of year two and 50% at the end of year three.

The total compensation cost related to non-vested time-based restricted stock units not yet recognized as of September 30, 2014 was approximately $15.8, which is expected to be recognized over a weighted average of 1.1 years. Changes to non-vested time-based restricted stock and restricted stock units for the nine months ended September 30, 2014 were as follows:

Shares in Millions Except Per Share Amounts	Number of Shares	Weighted Average Fair Value at Date of Grant
Non-vested at December 31, 2013	1.4	$14.62
Granted	0.7	20.53
Vested	(0.6)	14.27
Forfeited	(0.1)	18.72
Non-vested at September 30, 2014	1.4	$17.62

Performance-based Restricted Stock Units

During the nine months ended September 30, 2014 and 2013, the Company granted 0.3 shares and 0.4 shares, respectively, of performance-based restricted stock units. The 2014 and 2013 grants each include 0.3 shares that provide for payout based upon the extent to which the Company achieves certain EPS targets, as determined by the Compensation and Benefits Committee of the Board of Directors, over three-year periods. Payout levels range from 50% to 200% of award shares earned. No payout can be earned if performance is below the minimum threshold level. As the targets for the third year of 2013 grants and second and third years of 2014 grants have not yet been set, the key

terms have not been effectively communicated to the recipients, and as such the expense related to these grants cannot be recognized until the key terms are established. These grants have been excluded from the table below.

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Changes to non-vested performance-based restricted stock and restricted stock units for the nine months ended September 30, 2014 were as follows:

Shares in Millions Except Per Share Amounts	Number of Shares	Weighted Average Fair Value at Date of Grant
Non-vested at December 31, 2013	0.3	$12.90
Granted	—	—
Vested	(0.3)	12.90
Forfeited	—	—
Non-vested at September 30, 2014	—	$—

(9) DEBT AND CAPITAL LEASE OBLIGATIONS

Debt and capital lease obligations consist of the following:

	September 30, 2014	December 31, 2013
2014 Term Loan, due 2019	$265.0	$—
2009 Convertible Debentures, due 2029	60.4	59.5
Capital Lease Obligations	17.3	1.6
Accounts Receivable Securitization	70.0	—
Total debt	412.7	61.1
Less current maturities	9.2	0.9
Long-term debt	$403.5	$60.2

Credit Facility

On February 28, 2014, the Company entered into a Credit Agreement establishing an unsecured credit facility in the aggregate amount of $650.0 (Credit Agreement). In connection with entering into the Credit Agreement, Convergys terminated the $300.0 Four-Year Competitive Advance and Revolving Credit Facility Agreement dated March 11, 2011 (the 2011 Credit Facility). The Credit Agreement consists of term loans (the Term Loan) in the aggregate amount of $350.0, a Level 1 measure, and a revolving credit facility (the Revolving Credit Facility) in the amount of $300.0. The conditions for the funding of the Term Loan and the Revolving Credit Facility were satisfied on March 3, 2014. Both mature on March 3, 2019, unless extended pursuant to the terms of the Credit Agreement. Outstanding amounts bear interest at one of the rates described in the Credit Agreement. During the three and nine months ended September 30, 2014, voluntary Term Loan principal payments of $50.0 and $85.0, respectively, were made by the Company. The next required principal payment is not due until September 30, 2017. While amounts borrowed and repaid under the Revolving Credit Facility may be re-borrowed amounts repaid under the Term Loan may not be borrowed again under the Credit Agreement. Total borrowing capacity remaining under the Revolving Credit Facility was $300.0, with $265.0 outstanding principal on the Term Loan as of September 30, 2014. 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 September 30, 2014.

Convertible Debentures

In the fourth quarter of 2009, the Company announced an offer to exchange one thousand twenty dollars in principal amount of its 5.75% Junior Subordinated Convertible Debentures due September 2029 (2029 Convertible Debentures) for each one thousand dollars in principal amount of its 4.875% Unsecured Senior Notes (4.875% Senior Notes) due December 15, 2009. Convergys issued a total of $125.0 aggregate principal amount of the 2029 Convertible Debentures in exchange for $122.5 of the 4.875% Senior Notes. At the date of issuance, the Company recognized the liability component of the 2029 Convertible Debenture at its fair value of $56.3. The liability component is recognized

as the fair value of a similar instrument that does not have a conversion feature at issuance. The equity component, which is the value of the conversion feature at issuance, was recognized as the difference between the proceeds from the issuance of the debentures and the fair value of the liability component, after adjusting for the deferred tax impact of $32.7. The 2029 Convertible Debentures were issued at a coupon rate of 5.75%, which was below that of a similar instrument that does not have a conversion feature. Therefore, the valuation of the debt component, using the income approach, resulted in a debt discount. The debt discount 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.

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Amortization is based upon the effective interest rate method and is included within the interest expense caption in the accompanying 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 interest based on the trading price of the Debentures exceeding a specified threshold at specified times, commencing on September 15, 2019, as outlined in the Indenture. The maximum amount of contingent interest that will accrue is 0.75% per annum of the average trading price of the Debentures during the periods specified in the Indenture. The fair value of this embedded derivative was not significant at September 30, 2014 or December 31, 2013.

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 stock 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 commencing after December 31, 2009, if the last reported sales price of the Company's common stock 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 (currently $15.20) 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 after 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 initially convertible, subject to certain conditions, into common shares of the Company at an initial 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 September 30, 2014, the implied conversion rate for the 2029 Convertible Debentures was $11.69 per share, or eighty-five and fifty-three hundredths per one thousand in principal amount of debentures. The conversion rate will be subject to adjustment for certain events outlined in the indenture governing the Debentures (the Indenture), including payment of dividends. The conversion rate will increase for a holder who elects to convert this Debenture in connection with certain share exchanges, mergers or consolidations involving the Company, as described in the Indenture.

As of October 1, 2014, the 2029 Convertible Debentures were convertible at the option of the holders. This conversion right, which will remain available at least until December 31, 2014, was triggered upon satisfaction of the Sales Price Condition (the closing price of the Company's common shares was greater than or equal to $15.20, 130% of the conversion price of the 2029 Convertible Debentures at September 30, 2014, for at least 20 of the last 30 consecutive trading days ending on September 30, 2014). As a result, the equity component of the 2029 Convertible Debentures equal to $64.6 (the difference between the par value and carrying value of the 2029 Convertible Debentures at September 30, 2014), has been classified as temporary equity within the September 30, 2014 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.

During the September 2014 quarter, Convergys identified a reclassification adjustment impacting the December 31, 2013 Consolidated Balance Sheet, as well as the interim periods within that year, and the March 31 and June 30, 2014 Consolidated Balance Sheets, related to the classification of the equity component associated with the 2029 Convertible Debentures. As a result of the trading price of the Company's common shares and satisfaction of the Sales Price Condition, the 2029 Convertible Debentures were initially convertible at the option of the holders at March 31, 2013 and have remained convertible at the option of the holder through September 30, 2014. Accordingly, a portion of the equity component of the 2029 Convertible Debentures, equal to $65.5 at December 31, 2013 (the difference between the par value and carrying value of the 2029 Convertible Debentures), should have been classified as temporary equity within the Consolidated Balance Sheets at December 31, 2013 and the interim periods within that year and at March 31 and June 30, 2014. These amounts were originally classified within total shareholders' equity. Convergys assessed the quantitative and qualitative impact of this adjustment and determined the effects on prior period financial statements were immaterial. Convergys has adjusted the reported balances at December 31, 2013 to correct the classification resulting from

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this immaterial error. This prior period reclassification had no impact on the Consolidated Statements of Income, Consolidated Statements of Comprehensive Income, Consolidated Statements of Cash Flow or Retained earnings balances during any period in 2014 or 2013.
Based on quoted market prices, a Level 1 measure, at September 30, 2014, the fair value of the $125.0 aggregate principal amount of the Company’s 2029 Convertible Debentures is $225.3.
Asset Securitization Facility
During January 2014, the Company extended the terms of an asset securitization facility collateralized by accounts receivable of certain of the Company's subsidiaries, with a purchase limit of $150.0 expiring in January 2017. The asset securitization program is conducted through Convergys Funding Inc., a wholly-owned bankruptcy remote subsidiary of the Company. As of September 30, 2014, Convergys had drawn $70.0 in available funding from qualified receivables as part of the financing related to the acquisition of Stream. Amounts have been classified under this facility as long-term debt within the Consolidated Balance Sheets. As of December 31, 2013, the facility was undrawn.
At September 30, 2014, future minimum payments of the Company’s debt arrangements are as follows:

2014	$2.9
2015	7.8
2016	3.6
2017	82.8
2018	35.6
2019	219.2
Thereafter	125.4
Total	$477.3

(10) COMMITMENTS AND CONTINGENCIES

Commitments
At September 30, 2014, the Company had outstanding letters of credit of $26.8 and other bond obligations of $2.6 related to performance and payment guarantees. The Company believes that any guarantee obligation that may arise will not be material. The Company also has purchase commitments with telecommunications providers of $10.1 for the remainder of 2014.
At September 30, 2014, the Company had an outstanding performance bond obligation of $30.0 related to a performance and payment guarantee for the Company’s former HR Management line of business which was sold in 2010 to NorthgateArinso. Subsequent to completion of the sale of the HR Management business, the Company continues to be responsible for this bond obligation. As part of the gain on disposition, the Company recognized a liability equal to the present value of probability weighted cash flows of potential outcomes, a Level 3 fair value measurement. Although the buyer is obligated to indemnify the Company for any and all losses, costs, liabilities and expenses incurred related to these performance bonds, as of September 30, 2014, the Company maintains a liability of $0.5 for these obligations. The Company's guarantee for this bond obligation expires in August 2016.
Contingencies
The Company from time to time is involved in various loss contingencies, including tax and legal contingencies that arise in the ordinary course of business. The Company accrues for a loss contingency when it is probable that a liability has been incurred and the amount of such loss can be reasonably estimated. At this time, the Company believes that the results of any such contingencies, either individually or in the aggregate, will not have a materially adverse effect on the Company’s results of operations or financial condition. However, the outcome of any litigation cannot be predicted with certainty. An unfavorable resolution of one or more pending matters could have a materially adverse impact on the Company’s results of operations or financial condition in the future.
In November 2011, one of the Company's call center clients, Hyundai Motor America (Hyundai), tendered a contractual indemnity claim to Convergys Customer Management Group Inc., a subsidiary of the Company, relating

to a putative class action captioned Brandon Wheelock, individually and on behalf of a class and subclass of similarly situated individuals, v. Hyundai Motor America, Orange County Superior Court, California, Case No. 30-2011-00522293-CU-BT-CJC. The lawsuit alleges that Hyundai violated California's telephone recording laws by recording telephone calls with customer service representatives without providing a disclosure that the calls might be recorded.

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Convergys Customer Management Group Inc. is not named as a defendant in the lawsuit, and there has been no determination as to whether Convergys Customer Management Group Inc. will be required to indemnify Hyundai. The Company believes Convergys Customer Management Group Inc. has meritorious defenses to Hyundai's demand for indemnification and also believes there are meritorious defenses to Plaintiff's claims in the lawsuit. Pursuant to a Memorandum of Understanding dated April 29, 2014, Hyundai, Plaintiff and Convergys Customer Management Group Inc. agreed in principle to settle the lawsuit. As contemplated under the agreement in principle, the three parties recently executed a formal settlement agreement that is subject to approval by the Court. As a result of the agreement in principle to settle the lawsuit, the Company accrued a liability that is representative of the best estimate of the loss expected to be incurred with the resolution of Hyundai’s contractual indemnity claim. The ultimate resolution of the indemnity claim is not expected to have a material impact on the Company’s liquidity, results of operations or financial condition.

(11) 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 to measure assets and liabilities at fair value. A financial asset or liability’s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.
At September 30, 2014 and December 31, 2013, the Company had foreign currency forward contracts measured at fair value on a recurring basis. The fair values of these instruments were measured using valuations based upon quoted prices for similar assets and liabilities in active markets (Level 2) and are valued by reference to similar financial instruments, adjusted for terms specific to the contracts. There were no transfers between the three levels of the fair value hierarchy during the nine months ended September 30, 2014 and 2013. The assets and liabilities measured at fair value on a recurring basis as of September 30, 2014 and December 31, 2013 were as follows:

	September 30, 2014	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivatives:				
Foreign currency forward contracts (asset position)	$2.7	$ —	$2.7	$—
Foreign currency forward contracts (liability position)	$42.7	$ —	$42.7	$—

	December 31, 2013	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivatives:				
Foreign currency forward contracts (asset position)	$4.5	$ —	$4.5	$—
Foreign currency forward contracts (liability position)	$41.0	$ —	$41.0	$—

The Company also had investment securities held in a grantor trust for the benefit of participants of the executive deferred compensation plan measured at fair value at September 30, 2014 and December 31, 2013. 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 nine months ended September 30, 2014 and 2013. The assets measured at fair value on a recurring basis as of September 30, 2014 and December 31, 2013 were as follows:

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	September 30, 2014	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities:				
Mutual funds	$10.3	$ 10.3	$—	$—
Convergys common stock	1.8	1.8	—	—
Money market accounts	0.6	0.6	—	—
Total	$12.7	$ 12.7	$—	$—

	December 31, 2013	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities:				
Mutual funds	$11.0	$ 11.0	$—	$—
Convergys common stock	2.3	2.3	—	—
Money market accounts	0.9	0.9	—	—
Total	$14.2	$ 14.2	$—	$—

At December 31, 2013, the Company held time deposits with maturities greater than 90 days and less than 180 days measured at fair value. The valuation technique used to measure the fair value of the time deposits was based on observable market data. There were no transfers between the three levels of the fair value hierarchy. The assets measured at fair value on a recurring basis as of September 30, 2014 and December 31, 2013 were as follows:

	September 30, 2014	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments:				
Cash time deposits	$7.2	$ —	$7.2	$—
Total	$7.2	$ —	$7.2	$—

	December 31, 2013	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments:				
Cash time deposits	$68.7	$ —	$68.7	$—
Total	$68.7	$ —	$68.7	$—

Fair values of cash equivalents and current accounts receivable and payable approximate the carrying amounts because of their short-term nature, and are classified as Level 2 measurements within the fair value hierarchy.

(12) FINANCIAL INSTRUMENTS

Derivative Instruments

The Company is exposed to a variety of market risks, including the effects of changes in foreign currency exchange rates and interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices. The Company's risk management strategy includes the use of derivative instruments to reduce the effects on its operating results and cash flows from fluctuations caused by volatility in currency exchange rates.

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The Company serves many of its U.S.-based clients using contact center capacity in various countries such as the Philippines, India, Canada and Colombia. Although the contracts with these clients are typically priced in U.S. dollars, a substantial portion of the costs incurred to render services under these contracts are denominated in Philippine pesos (PHP), Indian rupees (INR), Canadian dollars (CAD) or Colombian pesos (COP), which represents a foreign exchange exposure. The Company has hedged a portion of its exposure related to the anticipated cash flow requirements denominated in these foreign currencies by entering into forward exchange contracts and options with several financial institutions to acquire a total of PHP 45,351.0 at a fixed price of $1,033.0 at various dates through September 2017, INR 9,914.0 at a fixed price of $153.8 at various dates through September 2017, CAD 18.2 at a fixed price of $16.9 at various dates through December 2015 and COP 5,250.0 at a fixed price of $2.7 at various dates through December 2014. These instruments mature within the next 36 months and had a notional value of $1,206.3 at September 30, 2014 and $965.5 at December 31, 2013. The derivative instruments discussed above are designated and effective as cash flow hedges. The following table reflects the fair values of these derivative instruments:

	September 30, 2014	December 31, 2013
Forward exchange contracts and options designated as hedging instruments:		
Included within other current assets	$1.3	$4.3
Included within other non-current assets	1.4	0.2
Included within other current liabilities	22.9	21.2
Included within other long-term liabilities	18.3	19.8

The Company recorded a deferred tax benefit of $14.8 and $14.1 related to these derivatives at September 30, 2014 and December 31, 2013. A total of $23.8 and $22.5 of deferred losses, net of tax, related to these cash flow hedges at September 30, 2014 and December 31, 2013, respectively, were included in accumulated other comprehensive income (loss) (OCI). As of September 30, 2014, deferred losses of $21.4 ($13.2 net of tax), on derivative instruments included in accumulated OCI are expected to be reclassified into earnings during the next twelve months. The following table provides the effect of these derivative instruments on the Company's Consolidated Financial Statements for the three and nine months ended September 30, 2014 and 2013:

	Loss Recognized in OCI on Derivative (Effective Portion)	(Loss) Gain Reclassified from Accumulated OCI into Income (Effective Portion)	Location of (Loss) Gain Reclassified from Accumulated OCI into Income (Effective Portion)
Three Months Ended September 30, 2014			
Foreign exchange contracts	$ (36.5)	$ (1.3)	- Cost of providing services and products sold and Selling, general and administrative
Nine Months Ended September 30, 2014			
Foreign exchange contracts	$ (11.6)	$ (9.9)	- Cost of providing services and products sold and Selling, general and administrative