



Convergys Reports Second Quarter Results

August 09, 2010

(Cincinnati; August 9, 2010) - - - Convergys Corporation (NYSE: CVG)

- Revenue from continuing operations of \$528 million;
- Consolidated GAAP diluted EPS of \$0.22; Non-GAAP EPS from continuing operations of \$0.19; GAAP EPS from continuing operations of \$0.09;
- Adjusted free cash flow of \$79 million, including \$13 million from Cellular Partnerships;
- Net debt of \$36 million at June 30, 2010;
- Tightened 2010 full-year guidance.

[Convergys Corporation](#) (NYSE: CVG), a global leader in [relationship management](#), today announced its financial results for the second quarter of 2010. Revenue from continuing operations was \$528 million. Total consolidated GAAP earnings was \$27 million net income (discontinued and continuing operations), or \$0.22 per diluted share. GAAP income from continuing operations was \$11 million, or \$0.09 per diluted share; non-GAAP income from continuing operations was \$24 million, or \$0.19 per diluted share. In the second quarter of 2010, adjusted free cash flow was \$79 million, including \$13 million from the Cellular Partnerships.

“We generated strong cash flow from operations and substantially completed the sale of our HR Management business in the second quarter,” said Jeff Fox, President and CEO of Convergys. “Customer Management revenue and profitability came in slightly below our expectations due to continued volume weakness at the beginning of the quarter. We are encouraged by solid new business signings with existing and new clients and expect profit improvement in the third and fourth quarters. The Information Management business remained on track in the second quarter, achieving a double-digit operating margin. We successfully went live with our smart-meter billing solution for a large utilities company, and the investment in our technology and distribution capabilities is paying off with key client wins in the communications industry.”

Fox continued, “We are focused on listening to our clients and prospects and delivering great operating performance. In a challenging market, we are simplifying our operations and are executing improvement plans across our businesses, as reflected in the restructuring charges for severance and facilities in the quarter. We have tightened our 2010 outlook, and are optimistic that our actions will improve our performance in the third and fourth quarters.”

Reconciliation tables of GAAP to non-GAAP and adjusted EBITDA and adjusted free cash flow results are attached.

Revenue – Second-quarter 2010 revenue from continuing operations was \$528 million, compared with \$610 million in the same period last year.

Operating Income – Second-quarter 2010 GAAP operating income from continuing operations was \$8 million, including \$18 million severance charges and \$3 million HR Management-related costs incurred prior to the close of the sale of the business, compared with \$40 million in the same period last year, including \$8 million HR Management-related costs. On a non-GAAP basis, second-quarter 2010 operating income from continuing operations was \$28 million, compared with \$48 million in the same period last year.

Adjusted EBITDA – Adjusted EBITDA in the second quarter of 2010 was \$67 million, compared with \$85 million in the same period last year. This includes earnings from continuing operations before interest, taxes, depreciation and amortization, and excludes restructuring costs and the HR Management-related costs.

Income – Second-quarter 2010 income from continuing operations was \$11 million, or \$0.09 per diluted share, compared with \$26 million, or \$0.21 per diluted share, in the same period last year. On a non-GAAP basis, second-quarter 2010 income from continuing operations was \$24 million, or \$0.19 per diluted share, compared with \$32 million, or \$0.25 per diluted share, in the

same period last year.

Net Debt - Net debt, defined as cash and cash equivalents less long-term debt and debt maturing in one year, was \$36 million at the end of the second quarter of 2010, compared with \$272 million at the end of the same period last year, and \$109 million at March 31, 2010. Included in net debt is a \$55 million on-balance-sheet liability that replaces a previously off-balance-sheet synthetic lease that was refinanced during the second quarter of 2010.

Adjusted Free Cash Flow – Second-quarter 2010 adjusted free cash flow was \$79 million, compared with \$114 million in the same period last year. Both periods include cash from the Cellular Partnerships, which is now reported in operating activities.

Second Quarter Segment Performance

Customer Management – Second-quarter 2010 Customer Management revenue was \$446 million, compared with \$495 million in the same period last year. Second-quarter 2010 Customer Management operating income was \$8 million, including \$15 million restructuring charges, and operating margin was 1.8 percent, compared with operating income of \$37 million and operating margin of 7.5 percent, in the same period last year. On a non-GAAP basis, second-quarter 2010 Customer Management operating income was \$23 million and operating margin was 5.2 percent.

Information Management – Information Management revenue in the second quarter of 2010 was \$78 million, compared with \$115 million in the same period last year. Second-quarter 2010 operating income was \$9 million and operating margin was 12.1 percent, compared with operating income of \$17 million and operating margin of 14.8 percent, in the same period last year.

Corporate and Other – Second-quarter 2010 Corporate and Other operating results includes \$4 million of revenue related to transition services provided after the sale of the HR Management business. Corporate and Other operating loss of \$10 million in the second quarter of 2010 includes \$5 million for restructuring and related charges, \$3 million costs previously allocated to the HR Management business incurred prior to the close of the sale that are required to be included in continuing operations, and \$2 million of other costs.

Business Outlook

For 2010, Convergys expectations for continuing operations are:

- Customer Management revenue of \$1.8 billion to \$1.85 billion;
- Information Management revenue to approximate \$350 million;
- Adjusted EBITDA to approximate \$310 million;
- Non-GAAP EPS from continuing operations of \$0.95 to \$1.05;
- Adjusted free cash flow to exceed \$190 million, including approximately \$40 million cash from the Cellular Partnerships.

Not included in full year 2010 adjusted EBITDA, non-GAAP EPS, and adjusted free cash flow guidance for continuing operations are HR Management-related impacts, including its sale, as well as the litigation reserve reduction and the CEO transition costs discussed in the first quarter results and the second quarter restructuring charges.

Convergys will take opportunities to further streamline the business as they are identified. Any future restructuring actions are not included in this guidance.

Forward-Looking Statements Disclosure and "Safe Harbor" Note:

This news release contains forward-looking statements that reflect Convergys' expectations as of August 9, 2010. Actual results of Convergys could differ materially from those discussed herein. For us, particular uncertainties that could adversely or positively affect our future results include: the behavior of financial markets including fluctuations in interest or exchange rates; continued volatility and further deterioration of the capital markets; the impact of regulation and regulatory, investigative, and legal actions; strategic actions, including acquisitions and dispositions; future integration of acquired businesses; future financial performance of major industries which we serve; the loss of a significant client or significant business from a client; difficulties in completing a contract or implementing its provisions; and numerous other matters of national, regional, and global scale including those of the political, economic, business, and competitive nature. These uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. Please refer to Convergys' most recent news releases and filings with the SEC for additional information including risk factors. We do not undertake to

update our forward-looking statements as a result of new information or future events or developments.

Non-GAAP Financial Measures:

This news release contains non-GAAP financial measures as defined by the Securities and Exchange Commission Regulation G. Pursuant to the requirements of this regulation, reconciliations of these non-GAAP measures to their comparable GAAP measures are included in the attached financial tables.

Management uses free cash flow and adjusted free cash flow to assess the financial performance of the company. Convergys' management believes that free cash flow and adjusted free cash flow is useful to investors because it relates the operating cash flow of the company to the capital that is spent to continue and improve business operations, such as investment in the company's existing businesses. Further, free cash flow facilitates management's ability to strengthen the company's balance sheet, to repurchase the company's stock, and to repay the company's debt obligations. Management also believes the presentation of these measures will enhance the 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 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. There are no material purposes for which we use these non-GAAP measures beyond the purposes described above.

Management uses operating income, income from continuing operations, net of tax, net income and earnings per share data excluding the HR Management related impacts, litigation reserve reduction, CEO transition costs and restructuring charges to assess the current operational performance of the business for the year and to have a basis to compare results to prior and future periods. These charges and credits are relevant in evaluating the overall performance of the business. Limitations associated with the use of the non-GAAP measures include that these measures do not include all of the amounts associated with our results as determined in accordance with GAAP. Management compensates for these limitations by using both the non-GAAP measures, operating income, income from continuing operations, net of tax, net income and diluted earnings per share excluding the charges and credits, and the GAAP measure operating income, income from continuing operations, net of tax, net income and diluted earnings per share, in its evaluation of performance. There are no material purposes for which we use these non-GAAP measures beyond those described above.

The Company presents the non-GAAP financial measures EBITDA and Adjusted EBITDA because management uses these measures to monitor and evaluate the performance of the business and believes the presentation of these measures will enhance the investors' ability to analyze trends in the business and evaluate the Company's underlying performance relative to other companies in the industry.

These non-GAAP measures should be considered supplemental in nature and should not be considered in isolation or be construed as being more important than comparable GAAP measures. The non-GAAP financial information that we provide may be different from that provided by our competitors or other companies.

Webcast Presentation:

Convergys will hold its Second Quarter Financial Results webcast presentation at 8:30 A.M., Eastern Daylight Time, Tuesday, August 10. It will feature President and CEO Jeff Fox and CFO Earl Shanks. The webcast presentation will take place live and will then be available for replay at this link - <http://investor.shareholder.com/convergys/events.cfm>
The replay will be available through September 7, 2010.

About Convergys

Convergys Corporation (NYSE: CVG) is a global leader in relationship management. We provide solutions that drive more value from the relationships our clients have with their customers. Convergys turns these everyday interactions into a source of profit and strategic advantage for our clients.

For more than 30 years, our unique combination of domain expertise, operational excellence, and innovative technologies has delivered process improvement and actionable business insight to marquee clients all over the world.

Convergys has approximately 65,000 employees in 68 customer contact centers and other facilities in the United States, Canada, Latin America, Europe, the Middle East, and Asia, and our global headquarters in Cincinnati, Ohio. For more information, visit www.convergys.com

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