

CONVERGYS CORP
Form 10-K
February 28, 2008
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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, 2007

Commission file number 1-14379

CONVERGYS CORPORATION

An Ohio
Corporation

I.R.S. Employer
No. 31-1598292

201 East Fourth Street, Cincinnati, Ohio 45202

Telephone Number (513) 723-7000

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

Title of each class	Name of each exchange
Common Shares (no par value)	on which registered New York Stock Exchange
Series A Preferred Share Purchase Rights	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 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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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The aggregate market value of the voting shares owned by non-affiliates of the registrant was \$3,301,588,596, computed by reference to the closing sale price of the stock on the New York Stock Exchange on June 30, 2007, the last trading day of the registrant's most recently completed second fiscal quarter.

At January 31, 2008, there were 126,756,263 common shares outstanding, excluding amounts held in treasury of 54,967,047.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the 2008 Annual Meeting of Shareholders are incorporated by reference into Part III of this report to the extent described herein.

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Safe Harbor Statement and Part I, Item 1. Business

Private Securities

Litigation Reform Act Of 1995

Safe Harbor Cautionary Statement

This report and the documents incorporated by reference contain forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995, that are based on current expectations, estimates and projections. Statements that are not historical facts, including statements about the beliefs and expectations of Convergys Corporation, are forward-looking statements. Sometimes these statements will contain words such as believes, expects, intends, could, should, will, plans, anticipates similar words. These statements discuss potential risks and uncertainties; and, therefore, 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 expressly states that it 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 projections or expectations include, but are not limited to: the loss of a significant client or significant business from a client; difficulties in completing a contract or implementing its provisions, or completing or integrating an acquisition; consolidation within the industries in which the Company's clients operate; changes in competition in markets in which the Company operates; the consequence of potential terrorist activities and the responses of the United States and other nations to such activities; changes in the legal or regulatory environment in which the Company and its clients operate; changes in the overall economy; changes in the demand for the Company's services; changes in technology that impact both the markets served and the types of services offered; changes in accounting principles generally accepted in the United States of America; and difficulties in conducting business internationally. The Risk Factors set forth in Part I, Item 1A of this report could also cause actual results to differ materially from the forward-looking statements.

Part I

Item I. Business

Overview

Convergys Corporation (the Company or Convergys) is a global leader in relationship management. We provide solutions that drive more value from the relationships our clients have with their customers and employees. Convergys turns these everyday interactions into a source of profit and strategic advantage for our clients. For 25 years, our unique combination of domain expertise, operational excellence and innovative technologies has delivered process improvement and actionable business insight to clients' customers and employees that now span more than 70 countries and 35 languages.

Our unified business focus is serving one overriding business need: relationship management. Our clients depend on our solutions and expertise, allowing them to focus more of their resources on their core competencies. By providing a wide range of relationship management solutions for our clients, we have developed a base of recurring revenues, generally under multiple year contracts. We provide our clients with comprehensive solutions to support their customers (Customer Solutions) and employees (HR

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Solutions). Our Customer Solutions enhance the value of their customer relationships, turning customer experience into a strategic differentiator. Our HR Solutions help transform large enterprises to drive more value from employee relationships, fostering greater organizational effectiveness and lowering costs. These solutions are supported by the business segments which are detailed below.

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 file annual, quarterly, current reports and proxy statements with the SEC. These filings are available to the public over the Internet on the SEC's Web site at <http://www.sec.gov> and at our Web site at <http://www.convergys.com>. You may also read and copy any document we file with the SEC at its public reference facilities in Washington, D.C. You can

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also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. You can also inspect reports, proxy statements and other information about Convergys at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

Business Segments

The Company has three segments: Customer Management, which provides outsourced customer care solutions as well as professional and consulting services to in-house customer care operations; Information Management, which provides convergent rating, charging and billing solutions for the global communications industry; and Human Resources Management, which provides human resource business process outsourcing (HR BPO) solutions and learning solutions. The Company's business segments were renamed in 2007 to align with the Company's rebranding efforts.

Pursuant to Rule 12b-23 under the Securities Exchange Act of 1934, as amended, the industry segment and geographic information included in Item 8, Note 12 of Notes to Consolidated Financial Statements, are incorporated by reference in partial response to this Item 1.

Customer Management

Our Customer Management (formerly Customer Care) segment partners with clients to deliver customer solutions that enhance the value of their customer relationships, turning the customer experience into a strategic differentiator. We combine consulting and innovative technology services to optimize the customer experience and strengthen customer relationships. We provide comprehensive and integrated multi-channel care using a global service delivery infrastructure of live agent and automated services that operate 24 hours a day, 7 days a week and 365 days a year. Our services include multi-lingual program support.

Solutions provided by Customer Management include:

Customer Service Solutions

Customer Service Solutions include comprehensive outsourced business and consumer customer support functions, as well as services for in-house contact center operations. We provide a full range of automated and live agent solutions that provide consumer support, business-to-business support and technical support.

Customer Acquisition Solutions

Our Customer Acquisition Solutions identify and secure high-value consumer and business customers, maximize sales conversion rates and increase revenue per customer. Utilizing a full range of 24 by 7 automated and live agent solutions, we provide comprehensive sales and order support. In addition, we offer Direct Response Solutions to address the customer support needs of direct response marketing.

Customer Retention Solutions

We combine agent services, automation and analytics to optimize the level of customer satisfaction, build customer loyalty and address customer churn. Our programs are designed to help our clients retain their customers and increase their lifetime value.

Back Office Solutions

We offer complete outsourced Back Office Solutions that combine integrated document management, data entry and transaction processing capabilities with process expertise and workflow management. This helps our clients provide a more integrated and comprehensive service experience to their customers. We also provide Finance & Accounting Solutions, which includes Accounts Receivable Management Solutions and Accounts Payable Solutions. Our global labor pool supports a 24 by 7 customer support environment.

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Item 1. Business (continued)

Customer Management Effectiveness Solutions

We offer Customer Management Effectiveness Solutions consisting of a combination of consulting, services and enabling technology designed to drive more proactive and customer-centric care. We focus on improving the customer experience and driving higher value from contact center operations and the broader enterprise, whether operations are in-house, fully outsourced or blended. Key solutions include: Customer Intelligence Services, Dynamic Decisioning Solution, Speech Solutions, Agent Performance Learning Solutions and Infinys Customer Service Manager.

In 2007, a new group was established to accelerate the development of technology-enabled solutions that improve the quality and value of interactions across live agent and self-care channels. This group, called Relationship Technology Management, will focus on leveraging the latest advanced technologies in speech automation, real-time decisioning, web-based self-care, and multi-channel integration enhanced with analytics to capture and analyze intelligence from customer interactions. Revenues from these services are included within our Customer Management segment.

Over 90% of Customer Management's revenues are derived from agent-related services. We typically recognize these revenues as services are performed, based on staffing hours or the number of contacts handled by service agents using contractual rates. In a limited number of engagements where the client pays a fixed fee, we recognize revenues based on the specific facts and circumstances of the engagement, using the proportional performance method or upon final completion of the engagement. Customer Management's remaining revenues are derived from collection services and professional and consulting services. Revenues for professional and consulting services are recognized as the services are performed or upon completion of the engagement based on specific facts and circumstances of the engagement.

Information Management

Our Information Management segment partners with global communications clients to provide convergent rating, charging and billing solutions. Convergys combines our innovative business support system (BSS) software and unique operational expertise in customer and account management to provide solutions that enable clients to rapidly and cost-effectively provide innovative services, maximizing customer lifetime value.

Our Information Management convergent rating, charging and billing solutions include:

Convergys Infinys® Solutions

The Convergys Infinys Solution is our modular and convergent business support system software. It enables operators to implement a comprehensive business support system, or to choose single applications, such as the Convergys Infinys Rating and Billing Manager, configured to the operator's specific business and operational requirements. Infinys delivers innovative support of convergent services regardless of service channel or payment method. Our solutions enable clients to take products and services to market faster, leverage real-time marketing innovation, minimize risk and reduce operational costs. Infinys uses a modular, pre-integrated approach to reduce both capital and operating expenditures, while speeding the launch of convergent services and services bundles. Infinys' flexibility is a function of its three-layer design incorporating platform, applications and extensions.

Infinys Series 3, the current version of the software, provides clients the ability to support the following:

Content Enablement Solutions

Our end-to-end content enablement solution – a strong combination of products and services – provides essential merchandising, charging, policy management, digital rights management and partner/customer services capabilities. Focusing on providing a solution that fits the needs of our clients (end-to-end or a subset of applications), we make

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content services coherent, user-friendly and available to support the rapid launch of new offerings.

Convergent Charging Solutions

Our Convergent Charging Solutions facilitate the rollout of all new and advanced services and bundles to subscribers. This enables a real-time interface to, and/or co-location with, intelligent network platforms, supporting a single subscriber database and enterprise-wide product catalogue. The outcome is shared usage bundles within a single account, delivering engineering-grade scalability, availability and latency, and sustaining the major charging standards.

Enterprise Product Management Solutions

Using a blend of products and services, our Enterprise Product Management Solution can increase efficiencies across product management processes. This includes the ability to drive product consistency across the enterprise, centralize product data into a single enterprise-wide catalogue, create, manage and control products end-to-end, and provide a single view of all product and services customized for each customer.

Convergys ICOMS Solution

The Integrated Communications Operations Management System (ICOMS) solution is designed specifically for the broadband convergent video, high-speed data and telephony markets. It incorporates the power and flexibility of our cable television subscriber management system with the integrated support of high-speed data and wireline telephony.

Convergys WIZARD Solution

The WIZARD solution is designed to serve multimedia operators including direct broadcast satellite, direct-to-home, cable and cable telephony providers, by enabling them to extend their offerings to support voice, video and data services.

Consulting and Professional Services:

Consulting and Technology Services

Convergys provides strategic assessment, program management and program enhancements to help clients strengthen their competitive advantage.

Software Solutions

We deliver applications and solutions that support more innovative propositions and services for clients, including Infinys Series 3.

Global Service Delivery Options

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We provide our software in one of three delivery modes: outsourced (service bureau), licensed or build-operate-transfer (BOT). In the outsourced delivery mode, we provide the billing services by running our software in one of our data centers. In the licensed delivery mode, the software is licensed to clients who perform billing internally. Finally, under the BOT delivery mode, Information Management implements and initially runs our software in the client's data center where the client has the option to transfer the operation of the software to itself at a future date. Information Management has a rich history of building, implementing and operating a variety of BSS solutions for global providers.

Managed Operations

Managed Operations allows clients to maintain control of IT operations without operational responsibility. From business case development to implementation, execution and knowledge transfer, we can help determine the best model for each unique business situation. The objective of Convergys' operations practice is to help clients achieve measurable cost savings while continually driving efficiency through innovation. Our end-to-end services for managing client's operations include Application Management Services, Application Support Services and Infrastructure Services.

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Item 1. Business (continued)

These operations address a broad range of software solutions from Convergys products to commercial, off-the-shelf or home-grown applications. Day-to-day operations can be hosted either at a Convergys data center or the client's location. Our personnel models are created to provide the most optimal solution. It can include Convergys dedicated resources and shared resources.

License and related support and maintenance fees, which accounted for 31% of Information Management's revenues, are earned under perpetual and term license arrangements. We invoice our clients for licenses either up-front or monthly based on the number of subscribers, events or units processed using the software. We typically recognize professional and consulting services and license revenues using the percentage-of-completion method. Fees for support and maintenance normally are charged in advance either on an annual, quarterly or monthly basis and are recognized ratably over the term of the agreement. Professional services revenues, which accounted for 36% of Information Management's revenues, consist of fees charged for installation, implementation, customization, enhancement and managed services. We invoice our clients for these services based on time and material costs at contractually agreed upon rates, or in some instances, for a fixed fee. Information Management's remaining revenues consist of monthly fees for processing client transactions in Information Management's data centers and, in some cases, the clients' data centers, using Information Management's proprietary software. These data processing revenues are recognized based on the number of invoices, subscribers or events that are processed by Information Management using contractual rates. We sometimes earn supplemental revenues depending on the satisfaction of certain service levels or achievement of certain performance measurement targets. We recognize such supplemental revenues only after we achieve the required measurement target.

HR Management

Our Human Resources Management (formerly Employee Care) segment partners with clients to deliver HR BPO and learning solutions that help transform large enterprises to drive more value from employee relationships, fostering greater organizational effectiveness and lowering costs. For 25 years, Convergys Human Resource (HR) Solutions have enabled Global 1000 companies to optimize employee relationships through business process outsourcing. Convergys utilizes a transformational approach to help clients harmonize HR processes, standardize global HR technology, and improve service delivery. The result is a greater level of workforce insight that enables enterprises to make better decisions and better manage global talent as a corporate asset.

Our large suite of HR BPO solutions includes the following:

Benefits Administration Solutions

We manage the complexities of benefits administration and provide clients the business intelligence they need to improve benefit-related processes, services and costs. Our solution combines self-service tools and state-of-the-art multilingual service centers to provide services to employees, including health and welfare administration services, retirement services and pension administration, absence management, carrier administration and tuition reimbursement.

Compensation Solutions

We help companies improve the clarity and parity of their global compensation plans while assuming global administration to lower overall costs and deliver key analytics. By aligning global compensation with other key HR processes, Convergys can help improve

employee understanding of compensation strategies resulting in increased employee engagement.

Human Resource Administration Solutions

We help organizations transform the task of managing global employee paperwork and data into a harmonized, automated and highly-efficient process. Our solution incorporates process improvements and technology innovations to streamline global HR administration.

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Learning Solutions

Learning helps companies manage the employee life cycle to get more from the talent that they have and develop the talent they need. Convergys integrates comprehensive learning services into its HR BPO solutions. By outsourcing select learning functions such as administration, operations, content development and sourcing to us, companies gain a better return on their investment.

Organizational Development/Performance Management Solutions

As a full-service HR BPO solutions provider, we offer effective Organizational Development and Performance Management that integrates aspects of Recruiting and Resourcing, Compensation, Learning and Workforce Intelligence to increase employee engagement and improve employee performance.

Payroll Administration Solutions

Our payroll services range from end-to-end payroll outsourcing to targeted process management for each point between employee time entry and payroll check production. We can manage the complexities of global payroll, including controls for accuracy and compliance to local regulations.

Recruiting and Resourcing Solutions

Our global Recruiting and Resourcing Solution can free HR departments from the administrative aspects of finding, hiring and on-boarding employees so that they can focus on higher-value activities such as staffing strategies and hiring decisions.

Workforce Intelligence Solutions

We offer comprehensive Workforce Intelligence solutions that turn HR information into business insight. Our solutions give HR the business intelligence it needs to make better decisions and better manage the global workforce.

We are a market leader in HR BPO solutions, the fastest growing HR services segment and a multibillion-dollar industry, by providing:

Established global footprint Our operations encompass North America, Latin America, EMEA and the Asian Pacific regions. Our clients gain the benefits of worldwide capacity, coupled with local and regional delivery capabilities.

Comprehensive service delivery model Our delivery model includes services for employees, managers and HR staff. We offer both self-service capabilities and live agent support from client-dedicated teams. Additionally, we focus on back-office requirements, compliance issues and more.

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Unifying technologies and ERP expertise Convergys technologies provide a cohesive system for managing workforce information, which allows companies to make fact-based decisions that add to business success.

Recognized HR and BPO expertise Our wins with several large, global companies and our long-standing relationships with our existing clients are a testament to our world-class capabilities.

We typically recognize revenues produced by HR Management once services are performed based on the number of employees or participants served by HR Management using contractual rates. We sometimes earn supplemental revenues depending on the satisfaction of certain service levels or achievement of certain performance measurement targets. We recognize such supplemental revenues only after we achieve the required measurement target. Prior to commencing our HR Management services for a client, we normally perform significant implementation activities including the installation and configuration of software, migration of participant data and development of methods and procedures. These set-up activities or implementations can take anywhere from one year to in excess of two years. We capitalize all direct and incremental set-up or implementation costs. To the extent

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Item 1. Business (continued)

a client pays directly for the set-up activities, we defer the proceeds. Once we begin to render services, we recognize the capitalized costs and fees ratably over the term of the arrangement.

Strategy

Our strategy is to enable our clients to gain more value from the relationships with their customers and employees. This value drives improved business performance and a sustainable competitive advantage for our clients. Key elements of our strategy include:

Deliver a Differentiated Value Proposition to Clients. As a global leader in Relationship Management, Convergys provides solutions that drive more value from the relationships our clients have with both their customers and employees. We will continue to provide operationally superior solutions by cost-effectively enabling the best technology and processes to deliver performance improvements for our clients. We leverage our unique blend of capabilities and strengths in four critical areas: business and customer strategy development, business and customer analytics, technology enablement and operational excellence to deliver superior operating performance and create a highly differentiated market position. Our strategy development capability helps clients to better define their customer experience and workforce effectiveness strategies. Our analytics and continuous improvement capabilities help clients better understand their customer loyalties, behaviors and segments, as well as the root causes of challenges in key business processes. Our technology knowledge enables our clients to implement intelligent self-care strategies for both their customers and employees. Our experience delivering excellent customer and employee operations allows us to help clients drive revenue generation and transform the HR workforce life cycle.

Invest in Our Business to Expand our Addressable Markets and Strengthen our Solutions. Our growth strategy is to continue to broaden and deepen our offer portfolio to provide our clients with comprehensive solutions to support their customers and employees. We will invest in the business wherever required (i.e., acquire new capabilities, expand into new global locations, attract and retain employee personnel with desired talent) to expand our addressable markets. We continue to identify and to operate in attractive markets where we can effectively provide differentiated value and deliver superior returns. We intend to expand operations globally with employees and partners who strengthen our ability to successfully serve and satisfy the demands of multinational clients.

Expand Our Relationships with Existing Clients. We focus on client satisfaction to maintain and grow our base business. Our intent is to grow by cross-selling new solutions and expanding our relationship management footprint within our clients' organizations. Our clients have generally renewed their agreements, reflecting what we believe is a high degree of satisfaction and stability in our client base.

Aggressively Grow Our Client Base. We believe that the global market for relationship management solutions is large and underserved, and we intend to make significant investments to aggressively pursue this market. We continue to emphasize a consultative selling approach to further strengthen our leadership in the customer management and HR outsourcing markets by cross-selling other services. We are growing our consulting and professional services capabilities that leverage our combined expertise in communications business support software and services development, and customer care and HR outsourcing operating best practices.

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Sustain Our High-Performance Culture to Drive Business Results. We believe that people drive performance, and we are committed to hiring and retaining the best performers and ensuring that they are committed to the success of our clients. Our competencies include our proven strength in recruiting, training, equipping, deploying and effectively managing very large groups of people with diverse skills on a global basis (people), expertise in operations and cost-effective service delivery (process), and design, development and

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delivery of innovative, scalable transactions and interaction applications (technology). We adhere to the principles of strategic HR, including emphasizing collaboration, goal alignment, pay for performance, continuous improvement and focus on accountability and results. We believe this approach drives superior execution, enabling us to consistently deliver significant value to our customers.

Clients

Both our Customer Management and Information Management segments derive significant revenues from AT&T Inc. (AT&T). Revenues from AT&T were 16.3%, 17.3% and 22.2% of our consolidated revenues for 2007, 2006 and 2005, respectively.

Customer Management

Our Customer Management segment principally focuses on developing long-term strategic outsourcing relationships with large companies in customer-intensive industries and governmental agencies. 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. In terms of Convergys' revenues, our largest Customer Management clients during 2007 were AT&T, Comcast Corporation (Comcast), The DirecTV Group, Inc. (DirecTV), General Motors Corporation and Sprint Nextel Corp. (Sprint Nextel). We provide customer management services to Sprint Nextel as a subcontractor to International Business Machines (IBM).

Information Management

Our Information Management segment serves clients principally by providing and managing complex billing and information software that addresses all segments of the communications industry. In terms of Convergys' revenues, our largest Information Management clients during 2007 were AT&T, ALLTEL Corporation, Inc. (ALLTEL), Sprint Nextel, Time Warner Inc. and Virgin Media, Inc.

Human Resource Management

Our Human Resource Management (HR Management) segment primarily focuses on implementing human resource and learning services and solutions with large companies and governmental agencies. In terms of Convergys' revenues, our largest HR Management clients during 2007 were Boston Scientific Corporation, E.I. du Pont de Nemours & Co. (DuPont), the State of Florida, the State of Texas and Whirlpool Corporation.

Operations

We operate approximately 80 contact centers averaging approximately 63,000 square feet per center, with approximately 42,000 production workstations with 24 hours per day and 7 days per week availability. Our contact centers are located in various parts of the world including the United States, Canada, India and the Philippines. New contact centers are established to accommodate anticipated growth in business or in response to a specific customer need. We are currently adding contact centers to accommodate client needs.

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Our contact centers employ a broad range of state-of-the-art 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. This technology enables us to improve our call, 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 and employees. With this technology, we are able to respond to changes in client call volumes and move call volume traffic based on agent availability. Additionally, we use this technology to collect information concerning the contacts, including number, response time, duration and results of the contact. This information is reported to the client on a periodic basis for purposes of monitoring quality of service and accuracy of the related billing.

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Item 1. Business (continued)

We operate two primary data centers, one in Orlando, Florida, and the other in Cincinnati, Ohio, comprising, in total, approximately 170,000 square feet of space. Our technologically advanced data centers provide 24 hours per day and 7 days per week 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 billing, customer management and HR management systems, enables us to meet initial and ongoing needs of large-scale and rapidly growing companies and government entities. By employing the scale and efficiencies of common application platforms, we are able to provide client-specific enhancements and modifications without incurring many of the costs of a full custom application. This allows us to be in a position to be a value-added provider of billing, customer and employee support products and services.

Technology, Research and Development

We intend to continue to emphasize the design, development and deployment of scalable billing, customer management and HR management systems to increase our market share, both domestically and internationally. During 2007, 2006 and 2005, we spent \$73.4 million, \$84.9 million and \$76.9 million, respectively, for research and development to advance the functionality, flexibility and scalability of our products and services. The majority of this spending is incurred in Information Management and reflects our commitment to further develop our proprietary solutions. The success of both our Customer Management and HR Management segments depends, in part, on our advanced technology used in the delivery of services to clients. As a result, we continue to invest in the enhancement and development of our contact center and human resource technology. We are being selective in our approach to research and development spending, focusing our efforts on only the highest impact areas. We are also adding some development efforts in Asia.

Our intellectual property consists primarily of proprietary business methods and software systems protected under copyright law, by U.S. and foreign patents and applications, and by registered or pending trademarks and service marks.

We own 42 patents, 32 of which relate to Customer Management and HR Management and ten of which relate to Information Management. Patents protect our technology and business methods that we use both to manage our internal systems and processes effectively and give us competitive advantages in developing innovative technologies to provide customer management, HR management and billing services to our clients. The first of these patents was issued in May 1998, while the most recent patent was granted in September 2007. These patents generally have a life of 17 years. Additional applications for U.S. and foreign patents currently are pending.

Our name and logo and the names of our primary software products are protected 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 50 foreign countries.

Employees

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We employ approximately 75,000 people, approximately 67,000 of whom work for Customer Management, approximately 4,000 of whom work for Information Management, approximately 3,000 of whom work for HR Management, with the remainder working in various corporate functions.

Competition

The industries in which we operate are extremely competitive. Our competitors include: (i) existing clients and potential clients with substantial resources and the ability to provide billing and customer management and HR management capabilities internally; (ii) other customer management companies, such as Accenture Ltd. (Accenture), APAC Customer Services Inc., IBM, ICT Group Inc., SITEL Corp., Sykes Enterprises Inc., Teleperformance, TeleTech Holdings Inc., West Corporation and Wipro Spectramind Services; (iii) other HR management companies, such as Accenture, Affiliated Computer Services Inc.,

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Items 1. (continued), 1A., 1B. and 2.

ExcellerateHRO, Hewitt Associates Inc. and IBM; and (iv) other billing software and/or services companies such as Amdocs Ltd., Comverse Technology Inc. and CSG Systems International Inc. In addition, niche providers or new entrants could capture a segment of the market by developing new systems or services that could impact our market potential.

Interests in Cellular Partnerships

We own limited partnership interests in Cincinnati SMSA Limited Partnership, a provider of wireless communications in central and southwestern Ohio and northern Kentucky, and Cincinnati SMSA Tower Holdings LLC, an operator of cellular tower space (the Cellular Partnerships). We account for our interests in the Cellular Partnerships under the equity method of accounting. In June 2005, the general partner of Cincinnati SMSA Limited Partnership merged certain operating assets acquired from AT&T Wireless into the partnership. Although we had the option of contributing cash into the partnership in order to maintain our 45% ownership interest in the partnership, we did not exercise this option. As a result of this merger, our ownership interest in this partnership decreased to 33.8%. The merger did not impact the carrying value of our investment in the partnership. Our 45% ownership interest in the Cincinnati SMSA Tower Holdings LLC did not change.

Cincinnati SMSA Limited Partnership conducts its operations as a part of AT&T. AT&T is the general partner and a limited partner of Cincinnati SMSA Limited Partnership with a partnership interest of approximately 66%. AT&T is the general partner and a limited partner of Cincinnati SMSA Tower Holdings LLC, with a partnership interest of approximately 53%.

The general partners are authorized to conduct and manage the business of the Cellular Partnerships. We, as a limited partner, do not take part in the day-to-day management of the Cellular Partnerships. Limited partners are entitled to their percentage share of earnings and cash distributions and are responsible for their share of losses.

Item 1A. Risk Factors

The information required by Item 1A is included in Item 7 beginning on page 38 of this Form 10-K.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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We own our corporate headquarters facility in Cincinnati, Ohio, which is used by the three segments, and an office complex in Jacksonville, Florida, which is used predominantly by Customer Management and HR Management. As discussed more fully in Note 10 of Notes to Consolidated Financial Statements, in July 2006, we sold a data center facility in Jacksonville, Florida and entered into an agreement with the buyer to lease part of the building back for 10 years.

We lease space for offices, data centers and contact centers on commercially reasonable terms. Domestic facilities are located in Arizona, California, Colorado, Florida, Georgia, Idaho, Illinois, Kansas, Kentucky, Louisiana, Minnesota, Missouri, Nebraska, New Mexico, New Jersey, North Carolina, Ohio, Oklahoma, Pennsylvania, Tennessee, Texas, Utah, Virginia and Wisconsin. International facilities are located in Argentina, Australia, Brazil, Canada, China, Egypt, England, France, Germany, Hong Kong, Hungary, India, Indonesia, Israel, Japan, Malaysia, the Philippines, Scotland, Singapore, Spain, Sri Lanka, Switzerland, Thailand and the United Arab Emirates. Customer Management and HR Management use the majority of these facilities. Upon the expiration or termination of any such leases, we believe we could obtain comparable office space. As discussed more fully in Note 10 of Notes to Consolidated Financial Statements, we lease an office complex in Orlando, Florida under an agreement that expires June 2010. Upon termination or expiration, we must either purchase the property from the lessor for \$65.0 million or arrange to have the office complex sold to a third party.

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Items 2. (continued), 3. and 4.

We also lease some of the computer hardware, computer software and office equipment necessary to conduct our business. In addition, we own computer, 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

None.

Item 4. Submission of Matters to a Vote of the Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of 2007.

Table of Contents**Executive Officers of the Registrant**

The following information responds to the provisions of Part III, Item 10.

As of February 28, 2008 our Executive Officers were:

Name	Age	Title
David F. Dougherty ^[a]	51	President and Chief Executive Officer
Andrea J. Ayers	44	President, Relationship Technology Management
Karen R. Bowman	44	General Counsel and Corporate Secretary
James P. Boyce	50	President, Communications, Technology, Media, Entertainment and Canada Groups
John B. Gibson	41	President, HR Management
Clark D. Handy	52	Senior Vice President, Human Resources
Jean-Hervè Jenn	50	President, Information Management International
Robert A. Lento	47	President, Information Management
Earl C. Shanks	51	Chief Financial Officer
Clint F. Streit	51	President, Customer Management
Timothy M. Wesolowski	49	Senior Vice President, Controller and Treasurer

[a]Member of the Board of Directors.

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

DAVID F. DOUGHERTY, President and Chief Executive Officer since April 17, 2007; President and Chief Operating Officer, 2005-2007; Executive Vice President, Global Information Management, 2003-2005; Chief Development Officer of the Company, 2000-2003.

ANDREA J. AYERS, President, Relationship Technology Management since September 1, 2007; President, Government and New Markets, 2005-2007; Vice President, Customer Management Marketing, 2003 2005; General Manager, DBS Division, 2000 2003.

KAREN R. BOWMAN, General Counsel and Corporate Secretary since September 1, 2007; President, Human Resource Management, 1999-2007.

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JAMES P. BOYCE, President, Communications, Technology, Media, Entertainment and Canada Groups since December 1, 2007; President, Communications, Media and Entertainment Group, 2007; President, AT&T Group, 2005-2006; Senior Vice President, Customer Management Client Business Development, 2002-2005.

JOHN B. GIBSON, President, HR Management since September 1, 2007; Senior Vice President, HR Management Client Services, 2007; Senior Vice President, HR Management Global Operations, 2005-2007; Senior Vice President, HR Management Operations, Americas and India, 2004-2005; Executive Vice President, EPIX Holding Corporation, 2001-2004.

CLARK D. HANDY, Senior Vice President, Human Resources since December 11, 2006; Executive Vice President, Human Resources of Teleflex, Incorporated, 2003-2006; Vice President, Human Resources in the Global Research and Development Division of Wyeth Pharmaceuticals, 2000-2003.

JEAN-HERVÉ JENN, President, Information Management International since August 1, 2007; President, EMEA, 2003-2007; Vice President at Goldman-Sachs, 2000-2003.

ROBERT A. LENTO, President, Information Management since August 1, 2007; President, Communications, Technology, Automotive Group, 2003-2007; Senior Vice President, Global Information Management Sales, 2002-2003.

EARL C. SHANKS, Chief Financial Officer since November 13, 2003; Senior Vice President and Chief Financial Officer of NCR Corporation, 2001-2003.

CLINT F. STREIT, President, Customer Management since September 1, 2007; Executive Vice President, Global Customer Management Operations, 2006-2007; Executive Vice President, North American Customer Management

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Operations, 2005-2006; Chief Operating Officer, RMH Teleservices, 2002-2004.

TIMOTHY M. WESOLOWSKI, Senior Vice President, Controller and Treasurer since December 5, 2007; Senior Vice President and Controller, 2005-2007; Vice President and Treasurer, 2004-2005; Director of Finance/Group Controller, Fiberglass-Composite Pipe Group of Ameron International, 2002-2004.

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Part II

Item 5. Market for the Registrant's Common Equity, Related Security Holder Matters and Issuer Purchases of Equity Securities

Convergys Corporation (symbol: CVG) common shares are listed on the New York Stock Exchange. As of January 31, 2008, there were 11,252 holders of record of the 126,756,263 common shares of Convergys, excluding amounts held in Treasury (181,723,310 outstanding common shares of Convergys, of which 54,967,047 were held in Treasury).

The high, low and closing prices of our common shares for each quarter in 2007 and 2006 are listed below:

Quarter	1st	2nd	3rd	4th
2007				
High	\$27.18	\$27.26	\$24.85	\$19.18
Low	\$23.84	\$23.95	\$14.67	\$15.86
Close	\$25.41	\$24.24	\$17.36	\$16.46
2006				
High	\$18.67	\$19.87	\$21.26	\$24.93
Low	\$15.43	\$17.73	\$18.09	\$19.91
Close	\$18.21	\$19.50	\$20.65	\$23.78

We did not declare any dividends during 2007 or 2006 and do not anticipate doing so in the near future.

During 2007, the Company fully utilized the previous share repurchase authorizations. On August 14, 2007, the Company's Board of Directors authorized the repurchase of an additional 20 million of the Company's common shares. We repurchased 9.9 million shares of Convergys common shares for \$184.0 million during 2007 pursuant to these authorizations. At December 31, 2007, the Company was authorized to repurchase up to 14.7 million additional common shares.

From January 1, 2008 to February 22, 2008, we purchased 1.9 million shares of Convergys stock for \$29.0 million pursuant to these authorizations.

Our fourth quarter 2007 repurchases of common shares were as follows:

Period	Total Number Of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced	Maximum Number of Shares That May Yet Be Purchased Under The Plans

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			Plans Or Programs	or Programs at 12/31/07
October	1,013,247	\$ 17.52	1,013,247	16,862,111
November	1,047,868	\$ 17.13	1,047,868	15,814,243
December	1,071,144	\$ 16.80	1,071,144	14,743,099

Convergys Corporation 2007 Annual Report 15

Table of Contents**Performance Graph**

The following Performance Graph compares, for the period from December 31, 2002 through December 31, 2007, the percentage change of the cumulative total shareholder return on the Company's common shares with the cumulative total return of the S&P 500 Stock Index and the Custom Composite Index. The Custom Composite Index consists of our peer groups.

	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07
Convergys Corp.	\$ 100	\$ 115	\$ 99	\$ 105	\$ 157	\$ 109
S&P 500®	\$ 100	\$ 129	\$ 143	\$ 150	\$ 173	\$ 183
Custom Composite Index	\$ 100	\$ 138	\$ 162	\$ 170	\$ 180	\$ 167

The Custom Composite Index consists of Affiliated Computer Services, Inc., Amdocs LTD, APAC Customer Services Inc., Converse Technology Inc., CSG Systems International Inc., Hewitt Associates Inc. (beginning 3Q 2002), ICT Group, Inc., Sykes Enterprises, Inc., and Teletch Holdings Inc.

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Table of Contents**Item 6. Selected Financial and Operating Data**

(Amounts in Millions Except Per Share Amounts)	2007	2006	2005	2004	2003
Results of Operations					
Revenues	\$ 2,844.3	\$ 2,789.8	\$ 2,582.1	\$ 2,487.7	\$ 2,288.8
Costs and expenses ^[1]	2,599.5	2,536.9	2,358.5	2,302.2	1,996.4
Operating income	244.8	252.9	223.6	185.5	292.4
Equity in earnings (loss) of Cellular Partnerships ^[2]	14.3	11.8	12.4	2.0	(12.6)
Other income (expense), net	4.0	2.7	(1.4)	(3.8)	(1.3)
Interest expense	(17.5)	(22.8)	(21.2)	(10.3)	(6.9)
Income before income taxes	245.6	244.6	213.4	173.4	271.6
Income taxes ^[3]	76.1	78.4	90.8	61.9	100.0
Net income	\$ 169.5	\$ 166.2	\$ 122.6	\$ 111.5	\$ 171.6
Earnings per share:					
Basic	\$ 1.26	\$ 1.20	\$ 0.88	\$ 0.79	\$ 1.18
Diluted	\$ 1.23	\$ 1.17	\$ 0.86	\$ 0.77	\$ 1.15
Weighted average common shares outstanding:					
Basic ^[4]	134.1	138.4	140.0	141.4	145.7
Diluted ^[4]	137.7	141.7	142.9	145.4	148.8
Financial Position					
Total assets	\$ 2,564.2	\$ 2,540.3	\$ 2,411.4	\$ 2,198.8	\$ 1,810.2
Total debt	259.9	343.5	432.2	351.7	134.8
Shareholders' equity	1,521.7	1,455.1	1,355.1	1,285.3	1,151.7
Other Data					
Cash provided (used) by:					
Operating activities	\$ 209.9	\$ 353.4	\$ 232.7	\$ 195.4	\$ 373.5
Investing activities	(74.8)	(127.5)	(138.3)	(364.9)	(237.2)
Financing activities	(250.7)	(186.0)	43.2	190.7	(111.3)
Free cash flows ^[5]	108.6	256.9	206.8	114.2	174.7

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- [1] This includes restructuring charges of \$3.4, \$12.5, \$21.2 and \$30.4 recorded during 2007, 2006, 2005 and 2004, respectively.
- [2] Equity in earnings (loss) of Cellular Partnerships includes a \$9.9 (\$6.4 after tax) loss from the settlement of a lawsuit during 2003.
- [3] In 2005, we incurred \$11.4 in incremental tax expenses related to the repatriation of approximately \$187 in funds from foreign subsidiaries.
- [4] Basic and diluted common shares outstanding at December 31, 2007 were 128.6 and 131.8, respectively.
- [5] Free cash flows are not defined under accounting principles generally accepted in the United States and are calculated as cash flows from operations excluding the impact of the accounts receivable securitization less capital expenditures (net of proceeds from disposals). The Company uses free cash flow to assess the financial performance of the Company. Management believes that 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 common shares and to repay the Company's debt obligations. Limitations associated with the use of free cash flow include that it does not represent the residual cash flow available for discretionary expenditures as it does 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 measure, 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 this non-GAAP measure beyond the purposes described above. For more detail and a reconciliation of cash flows from operations to free cash flows, see the Financial Condition, Liquidity and Capital Resources section of this report.

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**Item 7. Management's Discussion and Analysis
of Financial Condition and Results of Operations**

(Amounts in Millions Except Per Share Amounts)

Overview

Customer Management

Our Customer Management segment (formerly Customer Care), which accounted for 66% of our consolidated revenues in 2007, manages customer relationships on behalf of our clients through our multi-channel customer management contact centers and through consulting engagements. Phone and Web-based agent-assisted service channels provide customers with assistance across the entire customer lifecycle. We deliver these services using a variety of tools including computer telephony integration, interactive voice response, advanced speech recognition, knowledge-based management and the Internet through agent-assisted and self-service channels.

Customer Management principally focuses on developing long-term strategic outsourcing relationships with large companies and governmental agencies with the need for more cost-effective customer management services. As a global leader in Relationship Management, we provide solutions that enhance the value of customer relationships, turning customer experience into a strategic differentiator.

As more fully described below under the heading, *Customer Management*, Customer Management's revenues increased 3% from the prior year to \$1,866.1. The revenue growth in 2007 came from the communications vertical. Customer Management's 2007 operating income and operating margin were \$176.7 and 9.5%, respectively, compared with \$202.4 and 11.2% in 2006. The decline in operating income and operating margin in 2007 reflects additional foreign exchange-related expense due to the weakened U.S. dollar as well as capacity expansion costs associated with ramping new business. We continue to address these challenges and are focused on driving growth in revenue and operating income for 2008 as the demand for outsourcing and automated solutions is strong.

Information Management

Our Information Management segment serves clients principally by providing and managing complex billing and information software that addresses all segments of the communications industry. We provide our software products in one of three delivery modes: licensed, build-operate-transfer (BOT) or outsourced.

In 2007, Information Management accounted for 25% of our consolidated revenues. Data processing revenues accounted for 33% and professional and consulting services accounted for 36% of Information Management's revenues in 2007. The remaining Information Management revenues consisted of license and related support and maintenance fees earned under perpetual and term license arrangements. As more fully described below under the heading *Information Management*, Information Management's revenues of \$723.0 decreased 7% compared to the prior year mainly due to two large North American client migrations. Information Management's 2007 operating income and operating margin were \$130.9 and 18.1%, respectively, compared with \$124.5 and 16.1%, respectively, in 2006. This significant improvement resulted primarily from our continued focus on reducing costs.

Information Management continues to face competition as well as consolidation within the communications industry. In December 2006, AT&T and Bell South Corporation (Bell South) merged. Prior to the merger, Cingular (a joint venture between AT&T and Bell South) was our largest client in terms of revenue. As a result of the merger, AT&T is now our largest client in terms of revenue. We have assisted AT&T with its strategy to migrate subscribers off of the AT&T Wireless billing systems (that we supported) onto AT&T's two systems (one of which we support through a managed services agreement). The migration was completed during early 2007. In January 2008, AT&T informed us that it intends to migrate its subscribers from the system that we currently support through a managed services agreement onto AT&T's other system over the next two years. Once this migration is complete, AT&T will continue to be an important client. In September 2005, Sprint PCS, a large data processing outsourcing client, completed its acquisition of Nextel Communications. In

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Item 7. Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

2006, Sprint Nextel informed us that it intended to consolidate its billing systems onto a competitor's system. Sprint Nextel's current plan is to complete the migration of most of its subscribers from our billing system during 2008. The migration began in 2006.

Information Management continues to make steady progress around the world, while dealing with the near-term challenges due to client migrations in North America. During the past year, we entered into new Infinys license arrangements with multiple clients. We believe this is evidence of the market's acceptance of Infinys, and we see an opportunity to build on these successes.

Human Resource Management

Our Human Resource Management (HR Management) segment (formerly Employee Care) provides a full range of human resource business processing outsourcing solutions including benefits administration, compensation, human resource administration, learning, payroll administration, performance management, recruiting and sourcing services to large companies and governmental entities. We take advantage of our economies of scale in order to standardize human resource processes across departments, business lines, language differences and national borders. For 25 years, our unique combination of domain expertise, operational excellence and innovative technologies has delivered process improvement and actionable business insight to clients' customers and employees that now span more than 70 countries and 35 languages.

HR Management accounted for 9% of our consolidated revenues in 2007. As more fully described below under the heading Human Resource Management, HR Management's revenues increased 21% to \$255.2 from the prior year and its operating loss remained essentially flat at \$38.3 reflecting additional costs incurred during early stages of new client programs. During the past few years, we have transformed HR Management into a leading player in the growing human resource outsourcing market. In connection with our efforts to grow the business and build a global infrastructure of human resource expertise and know-how, we have incurred significant start-up costs. Furthermore, despite our success in winning long-term outsourcing arrangements with several clients, the sales cycles for these arrangements have ranged from twelve to twenty-four months. For these reasons, coupled with the fact that we are in the early stages with many of our outsourcing arrangements, where margins tend to be lower, we have generated significant operating losses over the past few years.

Demand for human resource outsourcing is strong and we are one of the leaders in the large and growing human resource outsourcing market. Based on the contracts signed to date and opportunities in our sales pipeline, we remain confident that we will become profitable with this business in the future.

Table of Contents**Results of Operations****Consolidated Results**

	2007	2006	% Change 07 vs. 06	2005	% Change 06 vs. 05
Revenues	\$ 2,844.3	\$ 2,789.8	2	\$ 2,582.1	8
Costs and Expenses:					
Costs of products and services ^[1]	1,837.9	1,754.8	5	1,583.0	11
Selling, general and administrative expenses	554.9	542.0	2	530.1	2
Research and development costs	73.4	84.9	(14)	76.9	10
Depreciation	115.4	130.1	(11)	126.1	3
Amortization	14.5	12.6	15	21.2	(41)
Restructuring charges	3.4	12.5	(73)	21.2	(41)
Total costs and expenses	2,599.5	2,536.9	2	2,358.5	8
Operating Income	244.8	252.9	(3)	223.6	13
Equity in earnings of Cellular Partnerships	14.3	11.8	21	12.4	(5)
Other income/(expense), net	4.0	2.7	48	(1.4)	
Interest expense	(17.5)	(22.8)	(23)	(21.2)	8
Income Before Income Taxes	245.6	244.6	0	213.4	15
Income taxes	76.1	78.4	(3)	90.8	(14)
Net Income	\$ 169.5	\$ 166.2	2	\$ 122.6	36
Diluted Earnings Per Common Share	\$ 1.23	\$ 1.17	5	\$ 0.86	36
Operating Margin	8.6%	9.1%		8.7%	

^[1] Exclusive of depreciation and amortization, with the exception of amortization of deferred charges as disclosed in Note 2 of Notes to Consolidated Financial Statements.

2007 vs. 2006

Consolidated revenues for 2007 were \$2,844.3, up 2% from 2006. The increase reflects 3% growth in Customer Management revenues and 21% growth in HR Management revenues. Revenues from Information Management declined 7% compared to prior year, primarily due to anticipated client migrations. Operating income was \$244.8 compared to \$252.9 in the previous year. The decline in operating income in 2007 was primarily due to \$25.7 decline in Customer Management's operating income, which was partially offset by a decrease of \$11.6 in long-term incentive plan expenses recorded at Corporate, largely reflecting the impact of our recent share price performance and Convergys' pay-for-performance policy, as well as a \$6.4 increase in operating income at

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Information Management. Operating income included restructuring charges of \$3.4 and \$12.5 during 2007 and 2006, respectively.

As a percentage of revenues, costs of products and services were 64.6% compared to 62.9% in the prior year. The 170 basis point increase in costs of products and services as a percentage of revenues was due to an increase in Customer Management costs due to the negative impact of the weakening U.S. dollar as well as higher labor costs, and an increase in HR Management costs largely due to new client programs and implementations. These increases were partially offset by lower costs of products and services as a percentage of revenues incurred at Information Management. Selling, general and administrative expense of \$554.9 increased 2% compared to the prior year. As a percentage of revenues, selling, general and administrative expenses were 19.5% compared to 19.4% in the prior year. This increase primarily reflects additional capacity expansion costs at Customer Management. The 14% decrease in research and development costs largely reflects increased efficiency and focused spending on Infinys software. The 11% decrease in depreciation expense primarily reflects assets that became fully depreciated. The 15% increase in amortization expense reflects impairment of certain acquired intangible assets in the fourth quarter of 2007.

As discussed more fully under the heading, Restructuring Charges, we recorded net restructuring charges of \$3.4 in 2007 versus \$12.5 in 2006. In addition, operating income for 2007 was positively impacted by a decrease of \$11.6 in long-term incentive plan expense recorded at Corporate

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Item 7. Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

largely reflecting the impact of our recent share price performance and Convergys' pay-for-performance policy. In 2007, we recorded equity income in the Cellular Partnerships of \$14.3 compared to \$11.8 recorded in 2006. Interest expense of \$17.5 decreased from \$22.8 in the prior year primarily reflecting a lower level of debt. The \$1.3 increase in other income/(expense), net in 2007 was mainly due to decrease in our foreign exchange transaction losses. Our effective tax rate was 31.0% for 2007 compared to 32.0% in the prior year. The lower effective tax rate in 2007 was largely due to an increase in income in countries with current tax holidays. See Note 6 of Notes to Consolidated Financial Statements for further discussion related to effective tax rates.

As a result of the foregoing, 2007 net income and earnings per diluted share increased to \$169.5 and \$1.23 compared with \$166.2 and \$1.17 in 2006. Beginning January 1, 2007, we adopted FIN 48, Accounting for Uncertainty in Income Taxes. Refer to Note 6 of the Notes to Consolidated Financial Statements for details related to the adoption of this Standard. The adoption of this Standard resulted in a reduction of \$7.8 to our retained earnings at January 1, 2007.

2006 vs. 2005

Consolidated revenues for 2006 were \$2,789.8, up 8% from 2005. The increase reflects 10% growth in Customer Management revenues and 30% growth in HR Management revenues. Revenues from Information Management were relatively flat compared to the prior year. Operating income of \$252.9 increased 13% compared to the prior year, while operating margin grew to 9.1% versus 8.7% in 2005. Revenue growth with existing and new clients and increased productivity, utilization and efficiency contributed to the improvement in results. Operating income included restructuring charges of \$12.5 in 2006 and \$21.2 in 2005.

As a percentage of revenues, costs of products and services were 62.9% compared to 61.3% in the prior year. The 160 basis point increase in costs of products and services as a percentage of revenues was due to an increase in HR Management costs due to new client programs and implementations, and an increase in Information Management costs largely due to a change in the revenue mix from data processing to relatively lower margin professional and consulting services. These increases were partially offset by lower costs of products and services as a percentage of revenues incurred at Customer Management. Selling, general and administrative expense of \$542.0 increased 2% compared to the prior year. As a percentage of revenues, selling, general and administrative expenses were 19.4% compared to 20.5% in the prior year, reflecting savings from ongoing cost actions and operational efficiencies. The 10% increase in research and development costs reflects increased spending by Information Management on Infinys software. The 41% decrease in amortization expense primarily reflects acquired client contracts that became fully amortized during the first quarter of 2006.

As discussed more fully under the heading, Restructuring Charges, we incurred net restructuring charges of \$12.5 in 2006 versus \$21.2 in 2005. In addition, operating income for 2006 was negatively impacted by an increase of approximately \$12 in long-term compensation expenses, recorded at corporate, related to restricted stock awards, stock options and long-term performance cash awards. The increase in the long-term compensation expense in 2006 primarily related to restricted stock units awarded in 2006 pursuant to the Company's long-term incentive plan. Beginning January 1, 2006, we adopted SFAS 123(R), Accounting for Stock-Based Compensation. The primary effect of the adoption of SFAS 123(R) resulted in compensation expense being recorded for stock options. See Note 9 to the Notes to Consolidated Financial Statements for further discussion related to stock-based compensation plans. The impact of adoption of this accounting Standard in 2006 was an additional expense of approximately \$1.

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In 2006, we recorded equity income in the Cellular Partnerships of \$11.8 compared to \$12.4 recorded in 2005. Interest expense of \$22.8, compared to \$21.2 in the prior year, reflects higher interest rates on lower levels of debt.

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Other income of \$2.7 compared to other expense of \$1.4 in the prior year, mainly as a result of higher interest income. Our effective tax rate was 32.0% for 2006 compared to 42.6% in 2005. The lower effective tax rate in 2006 was largely due to improved international performance allowing the realization of previously unrecognized foreign deferred tax assets and an increase in income in countries with current tax holidays. See Note 6 of Notes to Consolidated Financial Statements for further discussion related to effective tax rates. The higher effective rate in 2005 largely related to additional tax expense resulting from repatriating approximately \$187 in funds from foreign subsidiaries.

As a result of the foregoing, 2006 net income and earnings per diluted share increased to \$166.2 and \$1.17 compared with \$122.6 and \$0.86 in 2005.

Customer Management

	2007	2006	% Change 07 vs. 06	2005	% Change 06 vs. 05
Revenues:					
Communications	\$ 1,075.0	\$ 953.2	13	\$ 886.6	8
Technology	155.2	157.1	(1)	139.3	13
Financial services	259.0	262.2	(1)	246.3	6
Other	376.9	430.6	(12)	369.3	17
Total revenues	1,866.1	1,803.1	3	1,641.5	10
Costs and Expenses:					
Costs of products and services	1,244.1	1,180.4	5	1,077.2	10
Selling, general and administrative expenses	380.7	335.8	13	308.2	9
Research and development costs	4.6	8.6	(47)	8.6	