CONVERGYS CORP
Form 10-K
February 27, 2009
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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, 2008

Commissions 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

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

Title of each class	Name of each exchange on which registered
Common Shares (no par value)	New York Stock Exchange
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 _X_ 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 _X_

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_X_ 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 _X_ 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 _X_

The aggregate market value of the voting shares held by non-affiliates of the registrant was $1,810,309,113, computed by reference to the closing sale price of the stock on the New York Stock Exchange on June 30, 2008, the last business day of the registrant s most recently completed second fiscal quarter.

At January 31, 2009, there were 122,196,141 common shares outstanding, excluding amounts held in treasury of 60,685,519.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement for the 2009 Annual Meeting of Shareholders to be held on April 21, 2009 are incorporated by reference into Part III of this report.

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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 (Company), are forward-looking statements and will contain words such as believes, expects, intends, could, should, will, plans, anticipates and other si 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 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 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. 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 1. 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 over 25 years, our unique combination of domain expertise, operational excellence and innovative technologies has delivered process improvement and actionable business insight to clients to enhance their relationships with customers and employees that now span more than 70 countries and 35 languages.

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 on the Company s 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 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 NYSE Euronext, 11 Wall Street, New York, New York 10005.

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

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Item 1. Business (continued)

following committees of our Board of Directors, being the Audit Committee, Finance Committee, Compensation and Benefits Committee and the Governance and Nominating Committee, are posted on our web site at www.convergys.com. The Company will post on our web site any amendments to the Code of Business Conduct and Financial Code of Ethics. Copies of these documents will be provided free of charge upon written request directed to Investor Relations, Convergys Corporation, 201 East Fourth Street, Cincinnati, Ohio 45202.

The Company s web site and the information contained therein are not considered as being incorporated into this Annual Report.

Business Segments

The Company has three segments: Customer Management, which provides agent-assisted services, automated self-service and technology solutions; Information Management, which provides business support system and operational support system (BSS/OSS) solutions; and Human Resources (HR) Management, which provides global human resource business process outsourcing (HR BPO) solutions.

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 17 of the Notes to Consolidated Financial Statements, are incorporated by reference in partial response to this Item 1.

Customer Management

Our Customer Management segment partners with clients to deliver customer solutions that enhance the value of their customer relationships, turning the customer experience into a strategic differentiator. As an end-to-end single-source provider of self-service, agent-assisted and proactive care, we combine consulting, innovative technology and agent-assisted services to optimize the customer experience and strengthen customer relationships. Whether contact center operations are on-premises, fully outsourced or blended, we customize our solutions to meet our clients needs.

Our global service delivery capabilities provide our clients with the right solution mix of skill sets, geographies, technology, operations management and industry expertise. We provide comprehensive and integrated multichannel care using a global service delivery infrastructure of agent-assisted and multichannel automated self-service that operate 24 hours a day, 365 days a year. Our services include multilingual program support.

Customer Management solutions are organized into two areas: 1) agent-assisted services, and 2) automated self-service and technology solutions.

Agent-Assisted Services

Every day our approximately 65,000 contact center employees handle millions of customer service interactions such as account service, billing inquiries and technical support and service in contact centers worldwide. Agent-assisted solutions include:

Customer Service Solutions

Our Customer Service Solutions include comprehensive outsourced business and consumer customer support functions.

Customer Acquisition Solutions

Our Customer Acquisition Solutions provide comprehensive sales and order support to identify and secure high-value consumer and business customers, maximize sales conversion rates and increase revenue per customer. In addition, we offer Direct Response Solutions to address the customer support needs of direct response marketers.

Customer Retention Solutions

Customer Retention Solutions leverage 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.

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Technical Support

Technical Support includes tier-one, tier-two and tier-three advanced services. Either online or by phone, our programs focus on first contact resolution. Our services span from simple how-to inquiries from new users to sophisticated trouble-shooting and technical support.

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 to help meet our clients back office needs in customer care, accounts receivable management for early-stage collections, finance and accounting, and accounts payable. Our global labor pool supports a 24 hours a day, seven days a week customer support environment.

Convergys Business-to-Business Solutions

Business-To-Business Solutions include inside sales and account management, marketing campaigns, customer service and self-service programs. Focused on supporting the needs of the business-to-business market, Convergys offers a way to expand the reach of our clients sales force and to improve the effectiveness of their channel partnerships. Whether working with current business customers or tapping new and traditionally under-served markets, we become an extension of our clients sales force to drive sales and profits higher while enhancing the value of their customer relationships.

Agent-assisted services are deployed via multishore delivery capabilities that have grown to more than 80 contact centers worldwide with an infrastructure designed to cost-effectively support customer care requirements. Our seamless and integrated network of onshore and offshore centers provides a high degree of availability and redundancy. Offshore culture and communication training combined with the Six-Sigma quality assurance system ensures quality. Home agent delivery is enabled via a secure network for client data with applications that reside behind our firewall for desk-top security. Our home agents are closely integrated and monitored by agents sitting in our contact centers. The flexibility of telecommuting, coupled with an expanded labor pool, results in a more cost-effective and versatile agent solution.

Automated Self-Service and Technology Solutions

Within the Customer Management segment is the Relationship Technology Management unit that focuses on leveraging the latest advanced technologies in voice portals and speech automation, real-time decisioning, web-based self-service, multichannel integration, mobile services and enhanced analytics to improve the quality and value of interactions across agent-assisted and self-service channels.

In September 2008, Convergys purchased Intervoice, Inc. (Intervoice). The purchase was made to augment the Company s relationship management solutions. This acquisition expands Convergys integrated automated and agent-assisted offering and provides a complementary growth platform. Convergys and Intervoice clients now have the opportunity to benefit from a wider array of industry-leading, premise-based and hosted customer management solutions that are expected to drive greater value from their customer and employee relationships. The portfolio of software, services and solutions is called relationship technology management solutions designed to address our clients key business challenges.

Our automated self-service solutions include:

- *Cost Containment Solutions*, which provide multichannel interaction efficiency and increased containment within self-service channels.
- *Adoption Acceleration Solutions*, which ensure customers use, enjoy and benefit from self-service offerings.
- *Revenue Realization Solutions*, which enable organizations to take advantage of frequent, information-rich interactions to capture new revenue opportunities, present targeted upsell offers and highlight cross-sell promotions.

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Item 1. Business (continued)

Experience Enrichment Solutions, which help increase satisfaction and loyalty by making interactions more personalized and intuitive.

Our technology solution components include:

Intervoice Voice Portal 6.0

Intervoice Voice Portal 6.0 (IVP 6) enables clients to create highly personalized speech solutions, leveraging a set of rules and policies that can be easily constructed by integrating with the Convergys Dynamic Decisioning Solution. This includes a voice portal platform designed to facilitate the development of multi-channel applications.

Interaction Composer

Interaction Composer enables both contact center programmers and IT developers to quickly build, deploy and manage complex voice or multi-channel applications. For enterprises with legacy interactive voice response (IVR) applications, Interaction Composer also enables the migration of legacy-IVR applications to open-standards applications for more efficient self-service calls.

Convergys Dynamic Decisioning Solution

Convergys Dynamic Decisioning Solution includes software that can be leveraged with IVP 6 to create highly personalized applications. The use of Dynamic Decisioning Solution with IVP brings an enhanced level of customer service by enabling applications to automatically trigger personalized interactions and respond to changes in a customer s profile in real-time improving each customer s self-service experience.

IP Contact Center

IP Contact Center (IPCC) is a multi-channel contact and agent routing application for on-site and remote agents. IPCC is available integrated with Intervoice Voice Portal or a separate solution and is also available in a dedicated hosted environment.

Media Exchange with HomeZone

The Media Exchange with HomeZone is an application delivery platform for fixed and mobile operators. Applications include a variety of subscriber self-service, messaging and call completion applications including speech-enabled IVR, voicemail, video mail, SMS and missed call alert.

Information Management

Information Management provides BSS/OSS capability across a broad functional footprint, combining software, partner products, integration and business consulting services, and operational expertise to create solutions that help service providers meet their business goals.

The Information Management solution portfolio is organized into three functional areas: revenue management, enterprise product management, and customer relationship solutions. All solutions are billed using Infinys components.

Revenue Management Solutions

Revenue Management Solutions enable the creation of compelling service bundles to differentiate offers in the marketplace, and provide real-time capabilities that enable revenue generation from all customer segments, regardless of payment type. Our revenue management solutions include:

Rating and Billing Manager

Infinys Rating and Billing Manager is a highly scalable and reliable convergent charging, rating and billing management system that supports existing and emerging services across multiple vertical markets.

Active Mediation

Infinys Active Mediation seamlessly bridges many protocols and/or data formats to meet convergent mediation business requirements. It is equally suitable for deployment in traditional batch environments and in next-generation networks that require a real-time, bidirectional dialog for end-to-end service delivery.

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Real-Time Convergent Charging Solution

The Real-Time Convergent Charging Solution provides an end-to-end solution, including pre-integrated network control, real-time rating and charging, balance management, payment management, customer self-service and CSR care. This end-to-end solution allows service providers to access all segments for service, regardless of payment method (pre-/post-paid).

Enterprise Product Management Solutions

Enterprise Product Management Solutions speed product development times, and also simplify the increasing complexity associated with managing a growing product and service portfolio. Our enterprise product management solutions include:

Product Control Manager

Infinys Product Control Manager automates manual and disjointed product management practices, as well as multiple product catalogues, throughout the enterprise. It can coexist with existing product repositories, centralizing and normalizing data and processes.

Offer Management Solution

Offer Management enables targeted selling and reduced order fallout, qualified offers based on the individual customer, and the presentation of only relevant offers via the call center application directly to agents.

Customer Relationship Solutions

Customer Relationship Solutions are designed specifically for communications service providers and help them provide the right customer experience to stand out from the competition. These solutions provide significant flexibility for service providers to deliver the right experience through any channel, and to find the optimal balance of agent and self-service care to increase customer satisfaction, loyalty and profits. Our customer relationship solutions include:

Customer Service Manager

Infinys Customer Service Manager is an end-to-end relationship management system for communications and media providers. The system provides automated end-to-end order orchestration and sophisticated human factors engineering to meet and exceed subscriber, order, and customer care needs. Solutions can include Convergys Dynamic Decisioning software that includes both a set of tools and a policy engine in order to enable the execution of real-time customer service policies and proactive upsell offers that increases customer retention.

Field Service Manager

Infinys Field Service Manager enables communications service providers to predict service demand, then plan, schedule and execute service delivery in a way that maximizes value across their extended enterprise.

In addition to the modular solution portfolio above, Information Management offers service providers a pre-configured, end-to-end solution to meet specific business requirements.

Infinys/ICOMS

The Infinys 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.

HR Management

Our HR Management segment partners with clients to deliver HR solutions that transform their global HR to drive more value from employee relationships, fostering greater organizational effectiveness and lowering costs. Convergys helps clients harmonize HR processes, standardize global HR technology and improve service delivery. The result is a greater level of workforce insight that enables HR to make better decisions and better manage global talent as a corporate asset.

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Item 1. Business (continued)

Convergys HR Solutions include the following:

Benefits Administration Solution

We manage the complexities of benefits administration, which enables us to predict benefit expenses and provide clients the business intelligence they need to improve benefit-related processes, services and costs. Our service delivery model combines self-service tools and multilingual service centers to provide services to employees, including health and welfare administration services, retirement services and pension administration, absence management, flexible spending account administration, carrier administration and tuition reimbursement.

Compensation Solution

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 Solution

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.

Learning Solution

Learning helps companies manage the employee life cycle to get more from the talent that they have and develop the talent that they need. By outsourcing select learning functions such as administration, operations and content development and sourcing to us, companies gain better return on investment.

Organizational Development/Performance Management Solution

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 to improve employee performance.

Payroll Administration Solution

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 Solution

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 Solution

Workforce Intelligence Solutions 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.

Talent Management Solution

We offer integrated talent management technology and processes that leverage valuable recruiting, compensation, learning, performance management and succession planning data enabling organizations to acquire, align, manage and develop talent in a way that creates the most effective workforce environment.

Strategy

Our strategy is to enable our clients to gain more value from their relationships with their customers and employees. We do this by providing clients comprehensive relationship management software, services and solutions. The value we create 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

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relationships our clients have with both their customers and their employees. Convergys turns these everyday interactions into a source of profit and strategic advantage for our clients. Our differentiated solution set includes Customer Solutions, BSS/OSS Solutions, HR Solutions and industry-specific solutions. Our Customer Solutions enhance the value of customer relationships, turning the customer experience into a strategic differentiator for our clients. Customer Solutions provide end-to-end support for customer acquisition, service, retention, technical support, back office and automated self-service. These solutions deliver support using live agents staffed around the world, self-service technology (speech, IVR, web and e-mail) that intelligently automates the handling of interactions, along with analytics for real-time decisioning and deep customer management process expertise. Additionally, BSS/OSS Solutions address the critical customer care, billing and product-related issues that face the communications industry specific to managing customer relationships, revenue management and enterprise product management. Our BSS/OSS Solutions deliver real-time rating and charging, accelerate the product lifecycle and improve the customer experience. Our HR Solutions deliver greater organizational effectiveness through comprehensive HR BPO and integrated talent management strategies. We provide industry-specific solutions to serve the following vertical markets: communications, financial services, healthcare, manufacturing, retail, technology and transportation. Additionally, we provide tailored solutions for the government sector.

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. We will invest in the business as required (e.g., to acquire new capabilities, to expand into new global locations and to employ new personnel with desired talent) to expand our addressable markets. We continue to identify and 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. Specifically for HR Solutions, we are strategically aligning with partners to reduce risks in our business model.

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 organization. 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 investments to aggressively pursue this market. We emphasize a consultative selling approach leveraging our expertise in four critical areas, 1) business and customer strategy development, 2) business and customer analytics, 3) technology enablement, and 4) operational excellence to deliver superior operating performance and further strengthen our leadership by cross-selling other services.

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 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

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Item 1. Business (continued)

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 18.2%, 16.3% and 17.3% of our consolidated revenues for 2008, 2007 and 2006, 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 2008 were AT&T, Comcast Corporation (Comcast), the DirecTV Group, Inc. (DirecTV), General Motors Corporation and Sprint Nextel Corporation (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 BSS/OSS services that address all segments of the communications industry. In terms of Convergys revenues, our largest Information Management clients during 2008 were AT&T, Cincinnati Bell Inc., Sprint Nextel, T-Mobile Inc. and Time Warner Inc.

Human Resource Management

Our HR Management segment primarily focuses on providing human resource outsourcing solutions for large companies and governmental agencies. In terms of Convergys revenues, our largest HR Management clients during 2008 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 83 contact centers averaging approximately 61,000 square feet per center, with approximately 42,500 production workstations with 24 hours a day and seven days a 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 center capacity in the Philippines to accommodate client needs.

Our contact centers employ a broad range of technology including digital switching, intelligent call routing and tracking, proprietary workforce management systems, case management tools, proprietary software systems, computer telephony integration, interactive voice response, advanced speech recognition, web-based tools and relational database management systems. 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.

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 a day and seven days a 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 BSS/OSS,

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customer management and HR management solutions, enable 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 2008, 2007 and 2006, we spent $54.9 million, $73.4 million and $84.9 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 solutions. We are being selective in our approach to research and development spending, focusing our efforts on only what we consider the highest impact areas. We are also adding development efforts in Asia and acquiring technology through product partnerships and small acquisitions. 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 technology.

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

We own 168 patents, 155 of which relate to Customer Management and HR Management and 13 of which relate to Information Management. Customer Management patents include 112 from the Intervoice acquisition. 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 February 1990, while the most recent patent was granted in November 2008. 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 their historic use, and by trademarks and service marks that are registered or pending in the U.S. Patent and Trademark Office and under the laws of more than 50 foreign countries.

Employees

We employ approximately 75,000 people, approximately 68,000 of whom work for Customer Management, approximately 3,000 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) 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 Ltd.; (ii) other HR management companies, such as Accenture, Affiliated Computer Services Inc., ExcellerateHRO, Hewitt Associates Inc., IBM and Tata Consultancy Services; and (iii) other BSS/OSS services companies such as Amdocs Ltd., Comverse Technology Inc., CSG Systems International Inc. and Intec Telecom Systems. 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.

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Items 1. (continued), 1A., 1B., 2., 3. and 4.

Interests in Cellular Partnerships

The Company owns a 33.8% limited partnership interest in Cincinnati SMSA Limited Partnership, a provider of wireless communications in central and southwestern Ohio and northern Kentucky, and a 45% interest in the 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. Refer to Note 2 of the Notes to Consolidated Financial Statements for more details related to these partnerships.

Item 1A. Risk Factors

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We own our corporate headquarters facility in Cincinnati, Ohio, which is used by the three segments, an office complex in Jacksonville, Florida, which is used predominantly by Customer Management and HR Management and an office facility in Dallas, Texas, which is used by Customer Management.

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, Kansas, Kentucky, Louisiana, Missouri, Nebraska, New Mexico, North Carolina, Ohio, Oklahoma, Pennsylvania, Tennessee, Texas, Utah, Virginia and Wisconsin. International facilities are located in Australia, Brazil, Canada, China, Egypt, England, France, Germany, Hong Kong, Hungary, India, Indonesia, Israel, Malaysia, the Philippines, Saudi Arabia, Scotland, Singapore, Spain, Sri Lanka, Taiwan, 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 12 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.

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

The information required by Item 3 is included in Note 12 of the Notes to Consolidated Financial Statements of this Form 10-K.

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 2008.

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Executive Officers of the Registrant

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

As of February 27, 2009, our Executive Officers were:

Name	Age	Title
David F. Dougherty [(a)]	52	President and Chief Executive Officer
Earl C. Shanks	52	Chief Financial Officer
Karen R. Bowman	45	Senior Vice President, General Counsel and Corporate Secretary
Clark D. Handy	52	Senior Vice President, Human Resources
Jean-Hervè Jenn	51	Executive Vice President, Global IM Market and Client Development
Timothy M. Wesolowski	50	Senior Vice President, Controller and Treasurer
Andrea J. Ayers	45	President, Customer Management
Michael J. Betzer	47	Senior Vice President, Relationship Technology Management
James P. Boyce	51	President, Global Business Units
John B. Gibson	42	President, HR Management
Robert A. Lento	47	President, Global Information Management

(a)Member of the Board of Directors.

Officers are appointed 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.

EARL C. SHANKS, Chief Financial Officer since November 13, 2003.

KAREN R. BOWMAN, Senior Vice President, General Counsel and Corporate Secretary since September 1, 2007; President, HR Management, 1999 2007.

CLARK D. HANDY, Senior Vice President, Human Resources since December 11, 2006; Executive Vice President, Human Resources of Teleflex, Incorporated, 2003 2006.

JEAN-HERVÈ JENN, Executive Vice President, Global IM Market and Client Development since January 1, 2009; President, Information Management International, 2007 2008; President, EMEA, 2003 2007.

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.

ANDREA J. AYERS, President, Customer Management since April 1, 2008; President, Relationship Technology Management, 2007 2008; President, Government and New Markets, 2005 2007; Vice President, Customer Management Marketing, 2003 2005.

MICHAEL J. BETZER, Senior Vice President, Relationship Technology Management since May 1, 2008; Vice President, CRM Siebel/Oracle, 2004 2008; Chief Executive Officer and Founder, Ineto, 1999 2004.

JAMES P. BOYCE, President, Global Business Units since January 1, 2009; President, North America Business Units, 2008; President, Communications, Technology, Media, Entertainment and Canada Groups, 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.

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Executive Officers of the Registrant (continued)

ROBERT A. LENTO, President, Global Information Management since January 1, 2009; President, Information Management, 2007 2008; President, Communications, Technology, Automotive Group, 2003 2007.

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PART II

Item 5. Market for the Registrant s Common Equity, Related

Stockholder Matters and Issuer Purchases of Equity Securities

Convergys Corporation s shares of common stock, no par value, are listed on the New York Stock Exchange under the symbol CVG. As of January 31, 2009, there were 10,823 holders of record of the 122,196,141 common shares of Convergys, excluding amounts held in Treasury (182,881,660 outstanding common shares of Convergys, of which 60,685,519 were held in Treasury).

The high, low and closing prices of our common shares for each quarter in 2008 and 2007 are listed below:

Quarter	1st	2nd	3rd	4th
2008				
High	**$ 16.60**	**$ 16.75**	**$ 16.99**	**$ 14.93**
Low	**$ 13.66**	**$ 14.62**	**$ 11.77**	**$ 4.02**
Close	**$ 15.06**	**$ 14.86**	**$ 14.78**	**$ 6.41**
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

We have not paid cash dividends on our common stock, including during the periods of 2008 and 2007. Our Board of Directors re-evaluates this policy periodically. There is no current anticipation of paying cash dividends in the future.

During 2008, we repurchased 7.7 million shares of Convergys common stock for a total cost of $116.6 million. At December 31, 2008, the Company has the authority to purchase an additional 7.1 million common shares of its common stock. We did not repurchase any shares during the fourth quarter of 2008 and at the current time do not anticipate executing additional share repurchases in 2009. The timing and terms of any future transactions depend on a number of considerations including market conditions and our liquidity.

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Performance Graph

The following Performance Graph compares, for the period from December 31, 2003 through December 31, 2008, the percentage change of the cumulative total shareholder return on the Company s shares of common stock with the cumulative total return of the S&P 500 Stock Index and the Custom Composite Index (old and new), based on an initial investment of $100 on December 31, 2003, with dividends reinvested. The Custom Composite Index consists of our peer groups. In 2008, we changed our peer group by including certain companies to reflect the change in our competitive landscape.

	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08
Convergys Corp.	$ 100	85.85	90.78	136.20	94.27	36.71
S&P 500®	$ 100	110.88	116.33	134.70	142.10	89.53
Old Custom Composite Index	$ 100	116.54	122.14	129.28	119.62	79.08
New Custom Composite Index	$ 100	131.20	141.66	180.87	173.34	89.73

The Old Custom Composite Index consists of Affiliated Computer Services, Inc., Amdocs LTD, APAC Customer Services Inc., Comverse Technology Inc., CSG Systems International Inc., Hewitt Associates Inc., ICT Group, Inc., Sykes Enterprises, Inc., and Teletech Holdings Inc.

The New Custom Composite Index consists of all of the companies in the Old Custom Composite Index in addition to Teleperformance, Wipro Ltd, Tata Consultancy Services Ltd., and Intec Telecom Systems.

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Item 6. Selected Financial Data

(Amounts in Millions Except Per Share Amounts)	**2008**	2007	2006	2005	2004
Results of Operations					
Revenues	**$ 2,785.8**	$ 2,844.3	$ 2,789.8	$ 2,582.1	$ 2,487.7
Costs and expenses [(1)] [(2)]	**2,977.1**	2,599.5	2,536.9	2,358.5	2,302.2
Operating (loss) income	**(191.3)**	244.8	252.9	223.6	185.5
Equity in earnings of Cellular Partnerships	**35.7**	14.3	11.8	12.4	2.0
Other income (expense), net	**14.3**	4.0	2.7	(1.4)	(3.8)
Interest expense	**(22.6)**	(17.5)	(22.8)	(21.2)	(10.3)
(Loss) income before income taxes	**(163.9)**	245.6	244.6	213.4	173.4
Income tax (benefit) expense [(3)]	**(71.0)**	76.1	78.4	90.8	61.9
Net (loss) income	**$ (92.9)**	$ 169.5	$ 166.2	$ 122.6	$ 111.5
(Loss) earnings per share:					
Basic	**$ (0.75)**	$ 1.26	$ 1.20	$ 0.88	$ 0.79
Diluted	**$ (0.75)**	$ 1.23	$ 1.17	$ 0.86	$ 0.77
Weighted average common shares outstanding:					
Basic [(4)]	**123.5**	134.1	138.4	140.0	141.4
Diluted [(4)]	**123.5**	137.7	141.7	142.9	145.4
Financial Position					
Total assets	**$ 2,841.4**	$ 2,564.2	$ 2,540.3	$ 2,411.4	$ 2,198.8
Total debt	**665.9**	259.9	343.5	432.2	351.7
Shareholders equity	**1,150.1**	1,521.7	1,455.1	1,355.1	1,285.3
Other Data					
Cash provided (used) by:					
Operating activities	**$ 192.3**	$ 209.9	$ 353.4	$ 232.7	$ 195.4
Investing activities	**(365.1)**	(74.8)	(127.5)	(138.3)	(364.9)
Financing activities	**292.5**	(250.7)	(186.0)	43.2	190.7
Free cash flow [(5)]	**100.2**	108.6	256.9	206.8	114.2

(1) This includes restructuring charges of $34.4, $3.4, $12.5, $21.2 and $30.4 recorded during 2008, 2007, 2006, 2005 and 2004, respectively.
(2) In 2008, we incurred $334.0 of asset impairment and implementation charges at HR Management, of which $207.5 related to impairment of deferred charges, $61.1 related to impairment of goodwill and $65.4 related to expensing of implementation costs.
(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, 2008 were 122.1 and 122.1, respectively.
(5) Free cash flow is not defined under accounting principles generally accepted in United States and is calculated as cash flows from operations excluding the impact of the accounts receivable securitization less capital expenditures (net of proceeds from disposal). The Company uses free cash flow to assess the financial performance of the Company. Convergys 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 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)

The following information should be read in conjunction with our Consolidated Financial Statements and related notes, included elsewhere in this Annual Report on Form 10-K. In addition to historical information, this discussion and analysis may contain forward-looking statements that involve risks, uncertainties and assumptions, which could cause actual results to differ materially from management s expectations. Please see additional risks and uncertainties described above in Disclosure Regarding Forward-Looking Statements, which appears in Part 1, and in Item 1A. Risk Factors, which appears elsewhere in this Annual Report.

Overview

Customer Management

Our Customer Management segment, which accounted for 70% of our consolidated revenues in 2008, partners with clients to deliver solutions that enhance the value of their customer relationships, turning the customer experience into a strategic differentiator. As an end-to-end single-source provider of self-service, agent-assisted and proactive care, we combine consulting, innovative technology and agent-assisted services to optimize the customer experience and strengthen customer relationships. Whether contact center operations are on-premises, fully outsourced or blended, we customize our solutions to meet our clients needs.

On September 3, 2008, we acquired 100 percent of the outstanding common shares of Intervoice, a developer of automated voice response systems, for cash consideration of $338.8. Intervoice is a market leader in the delivery of personalized, multi channel automated information solutions that connect people with information, empowering them to control the way they interact with a business. We expect the integration of Intervoice s speech automation and mobile applications with the Company s agent-assisted services will enable us to build upon our leadership position in relationship management solutions. Our solutions result in improved operational efficiencies, new revenue streams and, most importantly, enhanced differentiation in the large and growing automated services market. The operating results of Intervoice have been included within the Customer Management segment as of the date of the acquisition.

As more fully described below under the heading, Customer Management, Customer Management revenues increased 5% from the prior year to $1,954.8. Customer Management 2008 operating income and operating margin were $92.6 and 4.7%, respectively, compared with $176.7 and 9.5% in 2007. The positive impact from both the Intervoice acquisition and operating efficiency improvements were more than offset by the negative foreign currency impact of approximately $38, as well as investments in our consulting and relationship technology resources and infrastructure costs. Results for 2008 also include $14.0 restructuring charges to streamline operations and reduce headcount.

Information Management

Our Information Management segment serves clients principally by providing and managing complex business support system and operational support system (BSS/OSS) services that address all segments of the communications industry.

In 2008, Information Management accounted for 21% of our consolidated revenues. License and related support and maintenance fees, which accounted for 38% of Information Management revenues in 2008, are earned under perpetual and term license arrangements. Professional and consulting services accounted for 38% and data processing revenues accounted for 24% of Information Management revenues in 2008. As more fully described below under the heading Information Management, Information Management revenues of $571.5 decreased 21% compared to the prior year due to the expected negative impact of client migrations in North America as well as project completions. Information Management 2008 operating income and operating margin were $96.4 and 16.9%, respectively, compared with $130.9 and 18.1%, respectively, in 2007. The decline in operating income in 2008 was due to the revenue decline. Results for 2008 and 2007 also include $9.7 and $3.4,

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respectively, of restructuring charges to streamline operations and reduce headcount.

Information Management continues to face competition as well as consolidation within the communications industry. In January 2008, AT&T, our largest client, informed us that it intended to migrate its subscribers from the legacy wireless billing system that we currently support through a managed services agreement onto AT&T s other wireless billing system over the next two years. While the migration is subject to change, we anticipate that this will result in a loss of revenue of an amount equal to approximately $35 and $60 in 2009 and 2010, respectively, compared to our 2008 Information Management revenues. The impact of this migration on our 2008 revenues was approximately $6 compared to our 2007 Information Management revenues.

In September 2005, Sprint PCS, a large data processing outsourcing client, completed its acquisition of Nextel Communications. In 2006, Sprint Nextel informed us that it intended to consolidate its billing systems onto a competitor s system. The migration began in 2006 and was substantially completed by June 30, 2008. Revenues from Sprint Nextel were down 46%, or approximately $53, in 2008 compared to the corresponding period last year. We expect revenue from Sprint Nextel to be down by approximately $50 in 2009, compared to 2008. This revenue decline is incorporated in our 2009 guidance discussed in the Business Outlook section, and we do not expect these migrations to have a material impact on our liquidity and capital resources.

In the third quarter of 2008, we announced that we were evaluating a potential separation of the Information Management business from Convergys to create two independent, publicly traded companies, each focused on its own set of business opportunities. We retained a third-party financial advisor to assist us with this process. In January 2009, given reduced technology spending by the communications industry and turmoil in capital markets, we determined that the Company is not currently in a position to separate the Information Management business from Convergys at this time. However, we will continue to evaluate this option and provide updates regarding the plan as the year progresses in 2009.

Human Resource Management

Our HR Management segment provides a full range of human resource 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.

HR Management accounted for 9% of our consolidated revenues in 2008. As more fully described below under the heading Human Resource Management, HR Management revenues increased 2% to $259.5 from the prior year. HR Management operating loss for 2008 was $358.8 compared to a loss of $38.3 in the prior year. The 2008 operating loss includes $334.0 in asset impairment and implementation charges, of which $268.6 relates to deferred charges and goodwill impairment and $65.4 relates to expensing of implementation costs. These charges reflect challenges with complex implementations which have caused an increase in overall implementation and delivery costs and an assessment of capitalized implementation expenses and goodwill.

We have begun a series of actions that will reduce our implementation risk and improve the future earnings in HR Management. Actions taken include not signing any new HR Management outsourcing business with significant implementation risk, as well as streamlining existing operations, continuing to use additional automation, standardization and leveraging of off-shore assets. Through the combination of the client go-lives, lower implementation expense and aggressive cost cutting, our expectation is that we will see significant improvement from this business in 2009.

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Item 7. Management s Discussion and Analysis

of Financial Condition and Results of Operations (continued)

(Amounts in Millions Except Per Share Amounts)

Results of Operations

Consolidated Results

	2008	2007	% Change 08 vs. 07	2006	% Change 07 vs. 06
Revenues	**$ 2,785.8**	$ 2,844.3	(2)	$ 2,789.8	2
Costs and Expenses:					
Cost of providing services and products sold (1)	**1,892.9**	1,837.9	3	1,754.8	5
Selling, general and administrative expenses	**593.8**	554.9	7	542.0	2
Research and development costs	**54.9**	73.4	(25)	84.9	(14)
Depreciation	**119.0**	115.4	3	130.1	(11)
Amortization	**13.5**	9.0	50	12.6	(29)
Restructuring charges	**34.4**	3.4		12.5	(73)
Asset impairments	**268.6**	5.5			
Total costs and expenses	**2,977.1**	2,599.5	15	2,536.9	2
Operating (Loss) Income	**(191.3)**	244.8		252.9	(3)
Equity in earnings of Cellular Partnerships	**35.7**	14.3		11.8	21
Other income, net	**14.3**	4.0		2.7	48
Interest expense	**(22.6)**	(17.5)	29	(22.8)	(23)
(Loss) Income Before Income Taxes	**(163.9)**	245.6		244.6	
Income tax (benefit) expense	**(71.0)**	76.1		78.4	(3)
Net (Loss) Income	**$ (92.9)**	$ 169.5		$ 166.2	2
Diluted Earnings Per Common Share	**$ (0.75)**	$ 1.23		$ 1.17	5
Operating Margin	**(6.9)%**	8.6%		9.1%	

(1) Exclusive of depreciation and amortization, with the exception of amortization of deferred charges as disclosed in Note 7 of Notes to Consolidated Financial Statements.

2008 vs. 2007

Consolidated revenues for 2008 were $2,785.8, down 2% from 2007. Growth in revenues from Customer Management and HR Management partially offset an anticipated decline in Information Management. Customer Management revenues for 2008 include revenue of $63.3 from the Intervoice acquisition that closed on September 3, 2008. The operating loss of $191.3 in 2008 was driven by the $334.0 of asset impairment and implementation charges recorded at HR Management as well as a 48% operating income decline at Customer Management and a 26% operating income decline at Information Management. The $334.0 of charges, as more fully described under the heading Human Resource Management, reflect challenges with complex implementations, which have caused an increase in overall implementation and delivery costs and an assessment of capitalized implementation expenses and goodwill. The 48% Customer Management operating income decline was due to the negative foreign exchange impact as well as higher costs related to investments in consulting and relationship technology resources and infrastructure partially offset by contribution from the Intervoice acquisition. The 26% Information Management operating income decline was driven by revenue declines resulting from North American client migrations as well as project completions. Operating income included restructuring charges of $34.4 and $3.4 during 2008 and 2007, respectively. The 2008 net loss and diluted loss per share was $92.9 and $0.75, respectively, compared to net income and diluted earnings per share of $169.5 and $1.23, respectively, in the prior year. Strong contribution from the Cellular Partnerships and a favorable impact from the tax rates in 2008 helped partially offset lower operating income.

As a percentage of revenues, cost of providing services and products sold were 67.9% compared to 64.6% in the prior year. The increase was primarily due to increases in cost of providing services and products sold at HR Management, reflecting expensing of the $65.4 of implementation costs as more fully described below under the heading Human Resource Management. Selling, general and administrative expenses of $593.8 increased 7% compared to the prior year. As a percentage of revenues, selling, general and administrative expenses were 21.3% compared to 19.5% in the prior year. The

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increase was due to higher selling, general and administrative expenses at Customer Management, reflecting additional investments in consulting and relationship technology resources and infrastructure costs. This increase was partially offset by lower selling, general and administrative expenses both at Information Management and HR Management, largely reflecting the benefits from cost saving initiatives. The 25% decrease in research and development costs largely reflects reduced spending at Information Management. We are being selective in our approach to research and development spending, focusing our efforts on only what we consider the highest impact areas. We are also adding development efforts in Asia and acquiring technology through product partnerships and small acquisitions.

As discussed more fully under the heading, Restructuring Charges, we recorded net restructuring charges of $34.4 in 2008 versus $3.4 in 2007. In 2008, we recorded equity income in the Cellular Partnerships of $35.7 compared to $14.3 recorded in 2007. Interest expense of $22.6 increased from $17.5 in the prior year reflecting a higher level of debt resulting from the Intervoice acquisition. The $10.3 increase in other income, net, was primarily due to an increase in our foreign exchange transaction gains. Other income, net also includes a $6.0 gain from termination of treasury lock instruments that was offset by lower interest income in 2008. See Note 13 of the Notes to Consolidated Financial Statements for discussion related to the treasury lock derivative instruments. Our effective tax benefit rate was 43.3% for 2008 compared to an effective tax expense rate of 31.0% in the prior year. This relatively high effective tax benefit rate was driven by the asset impairment and implementation charges at HR Management discussed above, a favorable impact from the resolution of uncertain tax positions (including resolution of tax audits and expiration of statutes of limitations during 2008), and the impact from the higher mix of non-U.S. income that is taxed at lower effective rates. See Note 15 of the Notes to Consolidated Financial Statements for further discussion related to effective tax rates.

As a result of the above, net loss and diluted loss per share for 2008 were $92.9 and $0.75, respectively, compared with net income and diluted earnings per share of $169.5 and $1.23, respectively, in 2007.

Effective January 1, 2008, we adopted SFAS No. 157, Fair Value Measurements, and EITF 06-04, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements. Refer to Note 2 of the Notes to Consolidated Financial Statements for details related to the adoption of these Standards. The adoption of these Standards had no impact on our Consolidated Statements of Operations.

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 2006, primarily due to anticipated client migrations. Operating income was $244.8 compared to $252.9 in 2006. The decline in operating income in 2007 was primarily due to $25.7 decline in Customer Management 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 share price performance and Convergys pay-for-performance policy, as well as a $6.4 increase in operating income at Information Management. Operating income included restructuring charges of $3.4 and $12.5 during 2007 and 2006, respectively.

As a percentage of revenues, cost of providing services and products sold were 64.6% compared to 62.9% in 2006. The 170 basis point increase in cost of providing services and products sold 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 cost of providing services and products sold as a

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Item 7. Management s Discussion and Analysis

of Financial Condition and Results of Operations (continued)

(Amounts in Millions Except Per Share Amounts)

percentage of revenues incurred at Information Management. Selling, general and administrative expense of $554.9 increased 2% compared to 2006. As a percentage of revenues, selling, general and administrative expenses were 19.5% compared to 19.4% in 2006. 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. Asset impairment charges of $5.5 reflect 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 largely reflecting the impact of our 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 2006, primarily reflecting a lower level of debt. The $1.3 increase in other income, net in 2007 was mainly due to a decrease in our foreign exchange transaction losses. Our effective tax rate was 31.0% for 2007 compared to 32.0% in 2006. The lower effective tax rate in 2007 was largely due to an increase in income in countries in which we currently have income tax holidays. See Note 15 of the 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, respectively, compared with $166.2 and $1.17, respectively, in 2006. Beginning January 1, 2007, we adopted FIN 48, Accounting for Uncertainty in Income Taxes. The adoption of this Standard resulted in a reduction of $7.8 to our retained earnings at January 1, 2007.

Customer Management

	2008	2007	% Change 08 vs. 07	2006	% Change 07 vs. 06
Revenues:					
Communications	**$ 1,140.2**	$ 1,075.0	6	$ 953.2	13
Technology	**159.5**	155.2	3	157.1	(1)
Financial services	**250.8**	259.0	(3)	262.2	(1)
Other	**404.3**	376.9	7	430.6	(12)
Total revenues	**1,954.8**	1,866.1	5	1,803.1	3
Costs and Expenses:					
	1,319.4	1,244.1	6	1,180.4	5

Cost of providing services and products sold					
Selling, general and administrative expenses	**454.7**	380.7	19	335.8	13
Research and development costs	**8.4**	4.6	83	8.6	(47)
Depreciation	**61.4**	55.9	10	65.4	(15)
Amortization	**4.3**	2.7	59	4.0	(33)
Restructuring charges	**14.0**			6.5	(100)
Asset impairments		1.4	(100)		
Total costs and expenses	**1,862.2**	1,689.4	10	1,600.7	6
Operating Income	**$ 92.6**	$ 176.7	(48)	$ 202.4	(13)
Operating Margin	**4.7%**	9.5%		11.2%	

2008 vs. 2007

Revenues

Customer Management revenues for 2008 were $1,954.8, up 5% from 2007. This includes $63.3 in revenue from the Intervoice acquisition that closed on September 3, 2008.

The acquisition does not meet the thresholds for a significant acquisition and, therefore, no pro forma financial information is presented.

Revenues from the communications vertical increased 6% from the prior year. Growth with two large wireless clients and from the Intervoice acquisition was partially offset by a shift in our revenue mix for a few of our clients from North America to the Philippines. Revenues from the financial services vertical decreased 3%, reflecting completion of programs with clients that were partially offset by growth from the Intervoice acquisition. Revenues from the Other vertical, which is comprised of clients outside of Customer Management s three largest industries, increased 7% from the prior year, reflecting growth from the new programs as well as the Intervoice acquisition.

Costs and Expenses

Customer Management total costs and expenses were $1,862.2, a 10% increase from the prior year. Customer Management cost of providing services and products sold increased 6% to $1,319.4 from the prior year. As a percentage of revenues, cost of providing services and products sold were 67.5% for 2008, up 80 basis points from 66.7% in the prior year. The impact of revenue growth and operating efficiencies were more than offset by the negative foreign currency impact of approximately 165 basis points. Customer Management serves a number of its U.S.-based clients using contact center capacity in Canada, India and the Philippines. Although the contracts with these clients are typically priced in U.S. dollars, a substantial portion of the costs incurred to operate these non-U.S. contact centers is denominated in Canadian dollars, Indian rupees or Philippine pesos, which represents a foreign exchange exposure. The expense of operating these contact centers, translated into U.S. dollars, has increased. As discussed in further detail in the section titled Market Risk, we hedge this exposure by entering into foreign currency forward contracts and options to limit potential foreign currency exposure. We enter into these derivative instruments on a periodic basis over time and, therefore, the 2008 earnings impact is determined based on the difference in our hedged rates between 2008 and 2007.

Selling, general and administrative expenses of $454.7 increased 19% compared to the prior year. This reflects higher investments in our consulting and relationship technology resources and infrastructure costs. As a percentage of revenues, selling, general and administrative expenses were 23.3% for 2008 compared to 20.4% in the prior year. The $3.8, or 83%, increase in research and development costs reflects investments in our relationship technology solutions. The 10% increase in depreciation expense and the 59% increase in amortization expense largely reflect depreciation and amortization of the assets acquired through the Intervoice acquisition. Refer to Note 5 of the Notes to Consolidated Financial Statements for details related to assets acquired from the Intervoice acquisition. As discussed more fully under the heading, Restructuring Charges, Customer Management recorded a restructuring charge of $14.0 during 2008 to streamline operations and reduce headcount.

Operating Income

As a result of the foregoing, Customer Management operating income and operating margin were $92.6 and 4.7%, respectively, compared with $176.7 and 9.5%, respectively, in the prior year.

2007 vs. 2006

Revenues

Customer Management revenues for 2007 were $1,866.1, up 3% from 2006. Revenue growth resulted from several existing clients in the communication vertical.

Revenues from the communication vertical increased 13% from 2006, reflecting growth with several large wireless and cable clients, partially offset by a reduction in spending from a large communication client reflecting lower call volume due to a reduction in their programs. Revenues from the technology vertical and financial services vertical decreased 1%, reflecting completion of programs with clients. Other revenues, which are comprised of clients outside of Customer Management s three largest industries, decreased 12% from 2006. This was primarily due to declines in transportation and government programs.

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Item 7. Management s Discussion and Analysis

of Financial Condition and Results of Operations (continued)

(Amounts in Millions Except Per Share Amounts)

Costs and Expenses

Customer Management total costs and expenses were $1,689.4, a 6% increase from 2006. Customer Management cost of providing services and products sold increased 5% to $1,244.1 from 2006. As a percentage of revenues, cost of providing services and products sold were 66.7% for 2007 compared to 65.5% in 2006. The impact of revenue growth and cost-saving initiatives were offset by higher expenses of approximately $18 resulting from the impact of a weakened U.S. dollar, net of gains realized from the settlement of hedged instruments, as well as higher labor costs. As discussed in further detail in the section titled Market Risk, we hedge this exposure by entering into foreign currency forward contracts and options.

Selling, general and administrative expenses of $380.7 increased 13% compared to 2006. This reflects higher costs from capacity expansions during 2007 and also costs from adding sales and consulting resources. As a percentage of revenues, selling, general and administrative expenses were 20.4% for 2007 compared to 18.6% in 2006. Compared to 2006, research and development costs decreased $4.0, reflecting reduced spending on a Customer Management application. The 15% decrease in depreciation expense mostly reflects data center assets, which are now being managed in a shared service environment. As discussed more fully under the heading, Restructuring Charges, Customer Management recorded a $6.5 restructuring charge in 2006. The $1.4 in asset impairment expense reflects impairment of an acquired intangible asset in the fourth quarter of 2007.

Operating Income

As a result of the foregoing, Customer Management operating income and operating margin were $176.7 and 9.5%, respectively, compared with $202.4 and 11.2%, respectively, in 2006.

Information Management

	2008	2007	% Change 08 vs. 07	2006	% Change 07 vs. 06
Revenues:					
Data processing	$ 135.4	$ 239.6	(43)	$ 301.1	(20)
Professional and consulting	**216.1**	262.8	(18)	287.2	(8)
License and other	**220.0**	220.6		187.0	18
Total revenues	**571.5**	723.0	(21)	775.3	(7)
Costs and Expenses:					

Cost of providing services and products sold	**304.4**	382.7	(20)	420.1	(9)
Selling, general and administrative expenses	**79.3**	101.4	(22)	114.4	(11)
Research and development costs	**46.5**	67.2	(31)	75.0	(10)
Depreciation	**28.2**	32.4	(13)	33.6	(4)
Amortization	**7.0**	3.7	89	6.9	(46)
Restructuring charges	**9.7**	3.4		0.8	
Asset impairments		1.3	(100)		
Total costs and expenses	**475.1**	592.1	(20)	650.8	(9)
Operating Income	**$ 96.4**	$ 130.9	(26)	$ 124.5	5
Operating Margin	**16.9%**	18.1%		16.1%	

2008 vs. 2007

Revenues

Information Management revenues of $571.5 in 2008 were down 21% compared to the prior year, due to North American client migrations as well as project completions.

Data processing revenues of $135.4 decreased 43% from the prior year reflecting North American client migrations. Professional and consulting revenues of $216.1 decreased 18% from the prior year reflecting project completions and reduction in services resulting from client migrations. License and other revenues remained relatively flat at $220.0 compared to the prior year. Termination revenue resulting from the completion of the Sprint Nextel and another North American client migration was offset by several items including reduction in client budgets due to slowdown in the industry, delayed project acceptance and completion of some international programs.

Revenues from Sprint Nextel were down approximately $53, or 46%, in 2008 compared to 2007. We expect revenue from Sprint Nextel to be down by approximately $50 in 2009, compared to 2008.

Costs and Expenses

Information Management total costs and expenses were $475.1, down 20% from the prior year. Information Management cost of providing services and products sold decreased 20% to $304.4 from the prior year. As a percentage of revenues, cost of providing services and products sold were 53.3% for 2008, and were relatively flat compared to prior year. Selling, general and administrative expenses of $79.3 decreased 22% from the prior year, reflecting benefits from continued focus on reducing costs. As a percentage of revenues, selling, general and administrative expenses were 13.9% compared to 14.0% in 2007. The 31% decrease in research and development costs reflects our selective approach to research and development spending by focusing our efforts on only what we consider the highest impact areas. We are also adding development efforts in Asia and acquiring technology through product partnerships and small acquisitions. Based on specific opportunities, we may increase our research and development investment in future quarters.

As discussed more fully under the heading Restructuring Charges, we recorded restructuring charges of $9.7 during 2008 to better align cost structure to future business needs as well as to shift the geographic mix of some of our resources. We recorded a restructuring charge of $3.4 in 2007 related to a facility closure in the United Kingdom.

Operating Income

As a result of the foregoing, Information Management operating income and operating margin were $96.4 and 16.9%, respectively, compared with $130.9 and 18.1%, respectively, in the prior year.

2007 vs. 2006

Revenues

Information Management revenues of $723.0 in 2007 were down 7% compared to 2006, primarily due to the negative impact of the AT&T and Sprint Nextel client migrations.

Data processing revenues of $239.6 decreased 20% from 2006. This decrease reflects the changing dynamics of Information Management s billing relationship with AT&T, as AT&T migrated AT&T subscribers to an in-house managed service environment. The AT&T migration was completed earlier in 2007. Professional and consulting revenues of $262.8 decreased 8% from 2006. This decrease was also largely attributable to AT&T, due to a reduction in migration services. License and other revenues increased 18% to $220.6 from 2006, reflecting strong license revenue increases with several international clients.

Costs and Expenses

Information Management total costs and expenses were $592.1, down 9% from 2006. Information Management cost of providing services and products sold decreased 9% to $382.7 from 2006. As a percentage of revenues, cost of providing services and products sold were 52.9% for 2007 compared to 54.2% in 2006. This decrease primarily reflects cost reductions and growth in license and other revenues. Selling, general and administrative expenses decreased 11% from 2006, reflecting benefits from continued focus on reducing costs. As a percentage of revenues, selling, general and administrative expenses decreased to 14.0% from 14.8% in 2006. The 10% decrease in research and development costs reflects increased efficiency and focused spending on Infinys software. The 46% decrease in amortization expense mostly reflects accelerated amortization of acquired software in the second quarter of 2006. Additionally, as discussed in further detail under the heading, Restructuring Charges, Information Management recorded a restructuring charge of $3.4 in 2007. This compares to a net restructuring charge of $0.8 in 2006. The $1.3 in asset impairment expense reflects impairment of an acquired intangible asset in the fourth quarter of 2007.

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Operating Income

As a result of the foregoing, Information Management operating income and operating margin were $130.9 and 18.1%, respectively, compared with $124.5 and 16.1%, respectively, in 2006.

Human Resource Management

	2008	2007	% Change 08 vs. 07	2006	% Change 07 vs. 06
Revenues:	**$ 259.5**	$ 255.2	2	$ 211.4	21
Costs and Expenses:					
Cost of providing services and products sold	**269.1**	211.1	27	154.0	37
Selling, general and administrative expenses	**58.6**	66.7	(12)	77.9	(14)
Research and development costs		1.6	(100)	1.3	23
Depreciation	**9.3**	8.7	7	12.8	(32)
Amortization	**2.2**	2.6	(15)	1.7	53
Restructuring charges	**10.5**			2.1	(100)
Asset impairments	**268.6**	2.8			
Total costs and expenses	**618.3**	293.5		249.8	17
Operating Loss	**$ (358.8)**	$ (38.3)		$ (38.4)	

2008 vs. 2007

Revenues

HR Management revenues for 2008 were $259.5, up 2% from 2007. Revenue growth from a contract termination payment received during the first quarter of 2008 and from the North American go-live of a large contract was partially offset by the elimination of pass-through revenue with a large HR outsourcing client during 2008, as well as declines from the completion of certain legacy programs. Pass-through revenues for 2008 and 2007 were $12.8 and $25.3, respectively.

Costs and Expenses

In 2008, we recorded $334.0 of asset impairment and implementation charges at HR Management, of which $268.6 related to impairment of deferred charges and goodwill and $65.4 related to expensing of implementation costs. The charges reflect challenges with complex implementations which have caused an increase in overall implementation and delivery costs and an assessment of capitalized implementation expenses and goodwill. As discussed more fully in the Deferred Charges section of Note 2 of the Notes to Consolidated Financial Statements, typically implementation costs are deferred and amortized ratably over the life of the contract. Deferred amounts are periodically evaluated for impairment or when circumstances indicate a possible inability to recover their carrying amounts. In the event these costs are not deemed recoverable, we follow the guidance in SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, to determine if impairment exists. Based upon the contract profitability analysis completed in the third quarter of 2008, two global HR Management contracts were projected to be unprofitable over their contract terms, due to an increase in their overall implementation and delivery costs. As a result, the capitalized costs of $207.5 related to these contracts were impaired and, therefore, were written down as impairment charges and are recorded within the asset impairments caption in the accompanying Consolidated Statement of Operations. After the write-off, one of the contracts is expected to be profitable over its remaining contract term and the other contract is expected to continue to generate losses. The losses from this executory contract will be recorded as incurred, over the contract term through 2016 in our Consolidated Statements of Operations and are not expected to be material to the Consolidated Financial Statements.

Further, during the third quarter of 2008, the costs of implementing another large HR Management outsourcing client contract exceeded the amount recoverable at September 30, 2008 under the contract. When implementation costs are deemed not recoverable, such excess costs are expensed even if the contract is profitable over its term, in accordance with our accounting policy. This resulted in expensing of $65.4 of implementation costs in the third quarter of 2008, even though the contract is expected to be profitable over its

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term. This charge is recorded within the cost of providing services and products sold caption in the Consolidated Statements of Operations.

The charges discussed above, recorded during the third quarter of 2008 triggered an impairment review of the goodwill related to the HR Management segment. As discussed more fully in Note 6 of the Notes to Consolidated Financial Statements, we are required to test goodwill for impairment annually and at other times if events have occurred or circumstances exist that indicate the carrying value of goodwill may no longer be recoverable. The impairment test for goodwill involves a two-step process. The first step compares the fair value of a reporting unit with its carrying amount, including the goodwill allocated to each reporting unit. If the carrying amount is in excess of the fair value, the second step requires the comparison of the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill. Any excess of the carrying value of the reporting unit goodwill over the implied fair value of the reporting unit goodwill will be recorded as an impairment loss. We determined that the fair value of the HR Management segment was less than its carrying value as of September 30, 2008 and, therefore, the second step of the test was required. This second step review of the HR Management segment was completed during the fourth quarter of 2008 and resulted in a non-cash goodwill impairment charge of $61.1 recorded within the asset impairments caption in the accompanying Consolidated Statements of Operations. In determining the amount of the HR Management related goodwill impairment, we engaged a third-party appraisal firm to assist in valuing the significant intangible assets of the reporting unit. Key assumptions used by the Company in determining the fair value of the HR Management segment include revenue increases from existing contracts as services go-live and an estimate of future cash implementation costs and revenue.

HR Management cost of providing services and products sold for 2008 were $269.1, up 27% from 2007. As a percentage of revenues, costs of providing services and products sold were 103.7% for 2008 compared to 82.7% in 2007. The increase was related to expensing $65.4 of implementation costs related to a large HR Management outsourcing contract in the third quarter of 2008 as discussed above. Selling, general and administrative expenses of $58.6 decreased 12% from 2007, largely reflecting an increase in employees working on client-related projects in 2008 and savings realized from cost reduction initiatives. As a percentage of revenues, selling, general and administration expenses were 22.6% in 2008 compared to 26.1% in 2007. The decrease in research and development expense in 2008 reflects employees working on client related implementation projects. Additionally, as discussed in further detail under the heading, Restructuring Charges, HR Management recorded a restructuring charge of $10.5 in 2008 to better align cost structure to future business needs.

Operating Income

As a result of the foregoing, HR Management 2008 operating loss was at $358.8 compared to $38.3 in the prior year.

2007 vs. 2006

Revenues

HR Management revenues for 2007 were $255.2, up 21% from 2006. Revenue growth was largely from clients in early stage, live operation.

Costs and Expenses

HR Management total costs and expenses were $293.5, up 17% from 2006. HR Management cost of providing services and products sold for 2007 were $211.1, up 37% from 2006. As a percentage of revenues, cost of providing services and products sold were 82.7% for 2007 compared to 72.8% in 2006. This increase largely related to client program implementations. In the early stages of client programs, margins tend to be lower. However, as we become more efficient with the delivery of the services, our margins tend to improve. Further, there were some implementation costs that were expensed during the current year. As discussed more fully in the Deferred Charges section of Note 2 of the Notes to Consolidated Financial Statements, we typically defer implementation

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costs associated with a contract and amortize them ratably over the life of the contract. When implementation costs are deemed not recoverable in accordance with our accounting policy, we expense such excess costs even if the contract is profitable over its term. Additionally, $25.3 of revenue recognized in this period was pass-through in nature. Selling, general and administrative expenses of $66.7 decreased 14% from 2006, reflecting improved employee productivity. As a percentage of revenues, selling, general and administration expenses were 26.1% in 2007 compared to 36.8% in 2006, primarily reflecting revenue growth. The $2.8 in asset impairment expense reflects impairment of an acquired intangible asset in the fourth quarter of 2007. Additionally, as discussed in further detail under the heading,   Restructuring Charges,   HR Management recorded a restructuring charge of $2.1 in 2006.

Operating Income

As a result of the foregoing, HR Management 2007 operating loss remained essentially flat at $38.3 compared to 2006.

Restructuring Charges

As discussed more fully in Note 9 of the Notes to Consolidated Financial Statements, we recorded the following restructuring charges:

2008

During the first quarter of 2008, we initiated a restructuring plan to align resources to future business needs and to shift the geographic mix of some of our resources. Restructuring actions were taken in each business segment, of which $5.4 related to Customer Management, $6.9 related to Information Management and $1.8 related to HR Management. The severance charge of $14.1 was largely paid in cash pursuant to the Company s severance policy and employment agreements. These actions, which affected approximately 750 professional and administrative employees worldwide, were mostly completed by the end of 2008.

During the fourth quarter of 2008, we initiated another restructuring plan to reduce approximately 750 of our worldwide salaried employees and approximately 1,000 of non-salaried employees. Restructuring actions were taken in each business segment, of which $8.6 related to Customer Management, $2.8 related to Information Management, $8.7 related to HR Management and $0.2 related to Corporate. The $20.3 restructuring charges include cash-related payments of $16.2 and a non-cash charge of $2.3 related to acceleration of equity-based awards which are being paid pursuant to the Company s severance policy, as well as facility closure related accruals of $1.8. The severance actions are expected to be completed during 2009. We expect the payback on these charges to be less than one year.

Below is a summary of the 2008 net restructuring charge of $34.4 ($22.4 after tax) by segment:

	Customer Management	Information Management	HR Management	Corporate	Total
Severance costs	$ 12.2	$ 9.7	$ 10.5	$ 0.2	$ 32.6
Facility-related costs	1.8				1.8
Net restructuring	$ 14.0	$ 9.7	$ 10.5	$ 0.2	$ 34.4

Restructuring liability activity for the 2008 plan consisted of the following:

	2008
Balance at January 1	**$**
Restructuring charge	**34.4**
Severance payments	**(12.3)**
Balance at December 31	**$ 22.1**

2007

During the third quarter of 2007, we recorded a restructuring charge of $3.4 at Information Management related to a facility closure in the United Kingdom. This action was a result of the facility consolidation in the United Kingdom that started during the fourth quarter of 2006 as discussed in more detail below. The $3.4 accrual is equal to the future costs associated with the abandoned facility, net of the proceeds from any probable future

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sublease agreements. We used estimates, based on consultation with its real estate advisors, to arrive at the proceeds from any future sublease agreements. We will continue to evaluate such estimates in recording the facilities abandonment charge. Consequently, there may be additional reversals or charges relating to this facility closure in the future. At December 31, 2008, this restructuring reserve had an outstanding balance of $1.0, which will be paid over several years until the lease expires.

2006

We initiated a restructuring plan in the fourth quarter of 2006. The plan was initiated to rationalize facility costs, further streamline our operations in order to align resources to support growth, and to shift the geographic mix of some of our resources. The plan resulted in a net restructuring charge of $12.5 and included $24.1 of severance costs, $0.5 of facility closure costs and reversal of $12.1 in facility abandonment costs. Restructuring actions were taken in each business segment, of which $6.5 related to Customer Management, $0.8 related to Information Management, $2.1 related to HR Management and $3.1 related to Corporate.

The $24.1 severance charge was paid pursuant to the Company s severance policy and employment agreements and included cash-related payments of $21.3 and a non-cash charge of $2.8 related to the acceleration of equity-based awards. These actions, which affected approximately 700 professional employees, were completed in 2007. The $0.5 of facility closure costs relate to an additional accrual, resulting from changes in the sublease estimates, for a property that was abandoned in 2005. In the fourth quarter of 2006, the Company made a decision to consolidate its operations in the U.K. and move into one of the facilities that was originally abandoned in 2002. This resulted in the reversal of $12.1 of the Company s 2002 facility related restructuring reserves at December 31, 2006. Completion of the facility consolidation at this location resulted in the recording of additional reserves in the third quarter of 2007, as discussed above.

Below is the summary of the 2006 net restructuring charge of $12.5 ($8.5 after tax) by segment:

	Customer Management	Information Management	HR Management	Corporate	Total
Severance costs	$ 6.5	$ 12.9	$ 1.6	$ 3.1	$ 24.1
Facility-related costs/ (reversal)		(12.1)	0.5		(11.6)
Net restructuring	$ 6.5	$ 0.8	$ 2.1	$ 3.1	$ 12.5

Restructuring liability activity for the fourth quarter 2006 plan consisted of the following:

	2008	2007	2006
Balance at January 1	**$ 3.1**	$ 20.5	$
Restructuring charge			24.6
Lease termination payments		(0.5)	
Severance payments	**(3.1)**	(16.9)	(4.1)

Balance at December 31	**$**	$ 3.1	$ 20.5

Client Concentration

Our three largest clients accounted for 33.0% of our revenues in 2008, up slightly from 32.9% in 2007. We serve AT&T, our largest client with 18.2% of 2008 revenues under Customer Management and Information Management contracts. We serve Sprint Nextel, our second largest client, under Customer Management and Information Management contracts. We provide Customer Management services to Sprint Nextel under a contract between Sprint Nextel and IBM, as a subcontractor to IBM. We serve DirecTV, our third largest client in 2008, under Customer Management contracts. Volumes under certain of our long-term contracts are subject to variation based on, among other things, the spending by clients on outsourced customer support and subscriber levels.

Business Outlook

We and our clients are facing a challenging economic environment within which forecasting is difficult. Going into 2009, some of our existing clients are projecting lower volumes and for planning purposes we have assumed that these adverse conditions will generally continue

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throughout 2009. Actual economic conditions could positively or negatively impact performance for the year.

Given these planning assumptions, expectations for 2009 performance are as follows:

- We expect overall revenue to grow slightly in 2009. Growth is expected to come from a modest increase in Customer Management (including the Intervoice acquisition) and HR Management, partially offset by a decline in Information Management.
- We also expect a slight overall improvement in operating income. This will include a modest increase in Customer Management operating income, improvement in HR Management operating loss, and some decline in Information Management.
- The overall operating income improvement will be more than offset by expected higher interest expense, as our 2009 business plan includes assumptions regarding higher debt levels primarily from the Intervoice acquisition and cost of potentially refinancing the $250 bond that is due in December 2009.
- An expected tax rate in the range of about 30% for the full year, with higher rates in the beginning of the year.
- Given the uncertain environment, we expect earnings per share in the range of $0.90 and $1.10. This reflects the difficulty of predicting the impact of the current environment on client business.
- Free cash flow is expected to be approximately $200 in 2009, driven by continued contributions to net income from Information Management and Customer Management, reductions in cash usage in HR Management, minimal cash tax outflows, and depreciation and amortization expense greater than capital expenditures. The expected 2009 free cash flow of $200, combined with the $240 cash on the balance sheet at December 31, 2008, would provide us with sufficient liquidity to retire the $250 debt maturing in December 2009, and also provide us with an ability to invest in our business in 2009 and beyond.

Financial Condition, Liquidity and Capital Resources

Liquidity and Cash Flows

We believe that Convergys has adequate liquidity from cash and expected future cash flows to fund ongoing operations, invest in the business and make required debt payments. For 2009, we expect free cash flow to be approximately $200, significantly higher than the 2008 free cash flow of $100.2. Major factors causing the expected increase in 2009 free cash flow include:

- A reduction in implementation costs for two global HR Management contracts as we have completed the key portions of the implementations and achieved key go-live milestones.
- An increase in implementation revenue from one of the global HR Management clients based on existing contractual payment terms and achieving certain milestones.
- An improvement in the HR Management operating results as a result of additional revenue realized from ongoing services being performed post go-live dates and cost reductions.

The combination of the above factors is expected to result in improvement in the 2009 cash flow. Our 2009 expected free cash flow will be negatively impacted to the extent there are project delays, contractual settlements or cost overruns related to the remaining implementation phases of the two large HR Management contract implementations. Receipts of implementation revenue are based on scheduled contractual amounts and achieving certain milestones. If achieving the milestones date is delayed, our cash flow could be negatively impacted by a material amount.

In addition to the above factors, we expect that cash flow will be positively impacted in 2009 by actions being taken to continue to accelerate collection of accounts receivables, to improve payment terms with vendors and to further reduce capital spending and can be negatively impacted by collateral requirements and client bankruptcies.

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We expect that the combination of 2009 free cash flow and the solid liquidity position as of December 31, 2008, including cash of $240.0, will provide us with the ability to fund ongoing operations, invest in the business and retire the $250 unsecured senior notes due in December 2009 without obtaining additional financing. However, if external financing markets improve during the year, then we may examine opportunities to increase our financial flexibility through the capital markets.

Cash flow from operating activities generally provides us with a significant source of funding for our investing and financing activities.

	2008	2007	2006
Net cash flows from operations	**$ 192.3**	$ 209.9	$ 353.4
Net cash flows used in investing	**(365.1)**	(74.8)	(127.5)
Net cash flows provided by (used in) financing	**292.5**	(250.7)	(186.0)
Computation of Free Cash Flows:			
Net cash flows from operations	**$ 192.3**	$ 209.9	$ 353.4
Capital expenditures, net of proceeds from disposal of assets	**(92.1)**	(101.3)	(96.5)
Free Cash Flows	**$ 100.2**	$ 108.6	$ 256.9

Cash flows from operating activities totaled $192.3 in 2008, compared to $209.9 in 2007 and $353.4 in 2006. Compared to the prior year, the $17.6 decline in cash flow from operations was driven largely by the increase in net deferred charges due to additional HR Management contract implementation costs in the current year. Total implementation related costs, less implementation revenue paid by the clients, and the related amortization of these cost and revenue is described below as net deferred charges. During 2008, net deferred charges increased by $133.3 excluding the impact of the $272.9 of impairment and implementation charges that were incurred in the third quarter in the HR Management segment. We believe that the implementation costs for both of our two large HR Management outsourcing contracts have peaked in 2008. In 2007, the increase in net deferred charges related to client implementations incurred primarily at HR Management was approximately $30. The increase in net deferred charges during 2008 compared to 2007 was nearly offset by a reduction in accounts receivable of approximately $60 and a decline in other working capital requirements of approximately $35.

The decrease in cash flow from operating activities during 2007, compared to 2006, was driven by changes in working capital. The working capital increases were mostly due to lower bonus accruals in 2007, a decrease in advance billing amounts in 2007 and the timing of both accounts payable and restructuring payments. Also in 2007, the increase in net deferred charges related to client implementations incurred primarily at HR Management was approximately $30.

We used $365.1 for investing activities in 2008 compared to $74.8 in 2007 and $127.5 in 2006. During 2008, we paid $312.2 (net of cash acquired) for the acquisition of Intervoice in the Customer Management segment and three small acquisitions in the Information Management segment. The investing activity in 2008 was favorably impacted by a $39.2 return of capital from the Cellular Partnerships. At this point, we are not aware of any material capital calls from the general partner of Cincinnati SMSA Limited Partnership. The 41% decrease in amounts for investing activities during 2007 compared to 2006 was due to sale of our short-term investments during 2007.

Financing activities provided $292.5 in 2008 compared to using cash of $250.7 in 2007 and $186.0 in 2006. During the third quarter of 2008, we borrowed the entire amount available under our $400 Five-Year Competitive Advance and Revolving Credit Facility, primarily to fund the acquisition of Intervoice. Also in 2008, we repurchased 7.7 million of the Company s shares of common stock for $116.6. At the current time, we do not anticipate executing additional share repurchases in 2009. The cash flow used during 2007 and 2006 was largely due to debt repayments and repurchase of the Company s common stock.

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During 2008, both Moody s and Standard and Poor s downgraded our credit ratings, and our debt is no longer considered investment grade by both agencies. As of December 31, 2008, our credit ratings and outlook are as follows:

	Long-Term Debt	Outlook
Moody s	Ba1	Under review, possible downgrade
Standard and Poor s	BB+	Negative

The current as well as any further downgrades could have a negative impact on both our access to capital markets and financing costs.

The Company s free cash flow, defined as cash flow from operating activities less capital expenditures (net of proceeds related to disposals), was $100.2, $108.6 and $256.9 for 2008, 2007 and 2006, respectively. The Company uses free cash flow to assess the financial performance of the Company. The Company 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 utilizing 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.

Capital Resources, Off-Balance Sheet Arrangements and Contractual Commitments

We believe that our financial structure and condition are solid. At December 31, 2008, total capitalization was $1,816.0, consisting of $665.9 of short-term and long-term debt and $1,150.1 of equity. At December 31, 2007, total capitalization was $1,781.6, consisting of $259.9 of short-term and long-term debt and $1,521.7 of equity. The total debt-to-capital ratio at December 31, 2008, was 36.7%, which compares to 14.6% at December 31, 2007. The increase in this ratio is due to higher level of borrowings in 2008 compared to 2007, primarily as a result of the acquisition of Intervoice.

During the third quarter of 2008, we borrowed the entire amount available under our $400 Five-Year Competitive Advance and Revolving Credit Facility. This borrowing was mainly to fund our acquisition of Intervoice as described in Note 5 of the Notes to Consolidated Financial Statements. The commitment fee on this facility at December 31, 2008 was 0.1%. The maturity date of the Revolving Credit Facility Agreement is October 20, 2011. The participating agents in the credit facility include JPMorgan Chase

Bank, Citicorp USA, PNC Bank and Deutsche Bank AG. The Company s credit facility includes certain restrictive covenants including maintenance of interest coverage and debt-to-EBITDA ratios. Our interest coverage ratio, defined as the ratio of consolidated earnings before interest, tax, depreciation and amortization (EBITDA) to consolidated interest expense, cannot be less than 4.00 to 1.00 for four consecutive quarters. Our debt-to-EBITDA ratio cannot be greater than 3.25 to 1.0 at any time. We were in compliance with all covenants throughout 2008.

In December 2004, we issued $250.0 in 4.875% unsecured senior notes due December 15, 2009. The notes were offered and sold pursuant to our universal shelf registration statement, previously declared effective in June 2003. At December 31, 2008 and 2007, the senior notes had an outstanding balance of $249.8 and $249.4, respectively. In May 2008, we filed a shelf registration statement for the issuance of a senior debt in a form not yet determined.

As discussed in Note 12 of Notes to Consolidated Financial Statements, we lease certain facilities and equipment used

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in our operations under operating leases. This includes our office complex in Orlando, Florida, which is leased from Wachovia Development Corporation (Lessor), a wholly owned subsidiary of Wachovia Corporation, under an agreement that expires in June 2010. Upon termination or expiration of the lease, we must either purchase the property from the Lessor for $65.0 or arrange to have the office complex sold to a third party. If the office complex is sold to a third party for an amount less than the $65.0, the amount paid by the Lessor for the purchase of the complex from an unrelated third party, we have agreed under a residual value guarantee to pay the Lessor up to $55.0. If the office complex is sold to a third party for an amount in excess of $65.0, Convergys is entitled to collect the excess. At the inception of the lease, we recognized a liability of approximately $5 for the related residual value guarantee. The value of the guarantee was determined by computing the estimated present value of probability-weighted cash flows that might be expended under the guarantee. We have recorded a liability for the fair value of the obligation with a corresponding asset recorded as prepaid rent, which is being amortized to rental expense over the lease term. The liability will remain on the balance sheet until the end of the lease term. Under the terms of the lease, we also provide certain indemnities to the Lessor, including environmental indemnities. Due to the nature of such potential obligations, it is not possible to estimate the maximum amount of such exposure or the fair value. However, we do not expect such amounts, if any, to be material. We have concluded that we are not required to consolidate the Lessor pursuant to Financial Accounting Standards Board Financial Interpretation No. 46R, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51.

Historically, we believed that our ability to borrow was greater than our established credit facilities in place. Due to current financial and credit market conditions, we believe that there is only limited ability to borrow additional funds. At December 31, 2008, we had cash of $240.0 and committed and undrawn credit facilities totaling $50.0.

We repurchased 7.7 million shares of our common stock for $116.6 during 2008 pursuant to our authorizations. At the current time, we do not anticipate executing additional share repurchases in 2009. The timing and terms of any future transactions depend on a number of considerations including market conditions and our liquidity. At December 31, 2008, we have the authority to purchase an additional 7.1 million common shares.

The following summarizes our contractual obligations at December 31, 2008, and the effect such obligations are expected to have on liquidity and cash flows in future periods:

Contractual Obligations	Total	Less Than 1 Year	1-3 Years	After 3 Years
Debt (1)	$ 665.9	$ 259.5	$ 400.0	$ 6.4
Debt interest(2)	65.6	31.4	34.0	0.2
Operating leases (3)	170.3	47.4	62.9	60.0
Pension contributions (4)	7.9	7.9		
Unrecognized tax benefits (5)				
Purchase commitments (6)	54.2	30.0	24.2	
Total	$ 963.9	$ 376.2	$ 521.1	$ 66.6

(1) See Note 8 of the Notes to Consolidated Financial Statements for further information.
(2) This includes interest expense on both variable and fixed rate debt. Variable interest rates have been assumed to remain constant at current levels through the end of the term.
(3) See Note 12 of the Notes to Consolidated Financial Statements for further information.
(4)

In order to meet ERISA funding requirements, the Company expects to contribute $7.9 to fund its cash balance pension plans in 2009. There is no estimate available for 2010 and beyond.

(5) Unrecognized tax benefits of $62.0 are excluded from this table as the uncertainty related to the amount and period of any cash settlement prevent the Company from making a reasonably reliable estimate.

(6) Consists of contractual obligations to purchase services that are enforceable and legally binding. Excludes issuance of purchase orders made in the ordinary course of business that are short-term or cancelable, as well as renewable support and maintenance arrangements.

At December 31, 2008, we had outstanding letters of credit of $43.0 related to performance and payment guarantees, of which $26.7 is set to expire by the end of 2009, $7.1 is set to expire within 1 to 3 years and $9.2 is set to expire after 3 years. We do not believe that any obligation that may arise will be material.

Market Risk

We are exposed to a variety of market risks, including the effects of changes in foreign currency exchange rates and interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices. Our risk

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management strategy includes the use of derivative instruments to reduce the effects on our operating results and cash flows from fluctuations caused by volatility in currency exchange and interest rates. In using derivative financial instruments to hedge exposures to changes in exchange rates and interest rates, we expose ourselves to counterparty credit risk. We manage exposure to counterparty credit risk by entering into derivative financial instruments with highly-rated institutions that can be expected to perform fully under the terms of the agreements and by diversifying the number of financial institutions with which we enter into such agreements.

Interest Rate Risk

At December 31, 2008, we had $410.1 in outstanding variable rate borrowings. The carrying amount of our borrowings reflects fair value due to their short-term and variable interest rate features. Our variable interest rate debt had an effective interest rate of 4.7% during the year ended December 31, 2008. Based upon our exposure to variable rate borrowings, a one percentage point change in the weighted average interest rate would change our annual interest expense by approximately $4.

We sometimes use interest rate swaps to hedge our interest rate exposure. These instruments are hedges of the variability of cash flows to be received or paid related to a recognized asset or liability. These contracts are entered into to protect against the risk that the eventual cash flows resulting from such transactions will be adversely affected by changes in interest rates. There were no outstanding interest rate swaps covering interest rate exposure at December 31, 2008.

During the first quarter of 2008, we entered into treasury lock derivative instruments with a total notional amount of $200.0 in anticipation of a probable debt issuance later in 2008. As we did not expect issuance of the debt in the near future given the market conditions during the third quarter of 2008, the $6.0 gain on termination of the treasury lock was recognized within the other income, net in the accompanying Consolidated Statements of Operations for the year ended December 31, 2008.

Foreign Currency Exchange Rate Risk

Our Company serves many of our U.S.-based clients using contact center capacity in Canada, India and the Philippines. 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 Canadian dollars (CAD), Philippine pesos (PHP) or Indian rupees (INR), which represents a foreign exchange exposure. We have hedged a portion of our exposure related to the anticipated cash flow requirements denominated in these foreign currencies by entering into forward contracts with several financial institutions to acquire a total of CAD 119.0 at a fixed price of $105.7 through December 2009, PHP 14,462.1 at a fixed price of $326.0 through September 2012 and INR 16,114.7 at a fixed price of $375.0 through June 2012. Additionally, we had entered into option contracts to purchase approximately PHP 2,406.6 for a fixed price of $60.0 through June 2010. The fair value of these derivative instruments as of December 31, 2008 is presented in Note 13 of the Notes to Consolidated Financial Statements. The potential loss in fair value at December 31, 2008 for such contracts resulting from a hypothetical 10% adverse change in all foreign currency exchange rates is approximately $90. This loss would be mitigated by corresponding gains on the underlying exposures.

Other foreign currency exposures arise from transactions denominated in a currency other than the functional currency and foreign-denominated revenue and profit translated into U.S. dollars. We periodically enter into forward exchange contracts that are not designated as hedges. The purpose of these derivative instruments is to protect the Company against foreign currency exposure pertaining to receivables and payables that are denominated in currencies different from the functional currencies of the Company or the respective subsidiaries. As of December 31, 2008, the fair value of these derivatives was a payable of $2.7.

Critical Accounting Policies and Estimates

We prepare our Financial Statements in conformity with accounting principles generally accepted in the United

States. Our significant accounting policies are disclosed in Note 2 of Notes to Consolidated Financial Statements. The preparation of Financial Statements in accordance with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect reported amounts and related disclosures. On an ongoing basis, we evaluate our estimates and judgments in these areas based on historical experience and other relevant factors. Our estimates as of the date of the Financial Statements reflect our best judgment giving consideration to all currently available facts and circumstances. As such, these estimates may require adjustment in the future, as additional facts become known or as circumstances change.

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

Contingencies

The Company is from time to time subject to claims and administrative proceedings that are filed in the ordinary course of business. We believe that the results of any such claims or administrative proceedings, either individually or in the aggregate, will not have a materially adverse effect on the results of operations or our 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 material adverse impact on our results of operations or our financial condition in the future.

Deferred Charges

In connection with our outsourcing arrangements, we often perform a significant amount of set-up activities or implementations, which include the installation and customization of our proprietary software in our centers. Under these arrangements, clients do not take possession of the software nor have the right to take possession of the software without incurring a significant penalty. In accordance with Emerging Issues Task Force (EITF) Issue 00-03, Application of AICPA Statement of Position 97-2 to Arrangements That Include the Right to Use Software Stored on Another Entity s Hardware, the implementations are not treated as separate elements for revenue recognition purposes. Any proceeds collected for the implementations are deferred and recognized over the service period. Additionally, with respect to certain multiple-element arrangements, we defer all revenue related to the contracts until the final element is delivered. We capitalize all direct and incremental implementation and multiple-element costs, to the extent recovery is probable, and amortize them ratably over the life of the arrangements as costs of providing service.

Deferred amounts are periodically evaluated for impairment or when circumstances indicate a possible inability to recover their carrying amounts. In the event these costs are not deemed recoverable, we follow the guidance in SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, to determine if an impairment exists. We evaluate the probability of recovery by considering profits to be earned during the term of the contract, the creditworthiness of the client and, if applicable, contract termination penalties payable by the client in the event that the client terminates the contract early. Our estimate of profitability is dependent in large part on our estimate of costs. Although we make every reasonable effort to accurately estimate costs, revisions may be made based on actual costs incurred that could result in the recording of an impairment loss. Additionally, if the financial condition of a client were to deteriorate, resulting in a reduced ability to make payments, we may be unable to recover the costs, which would result in an impairment loss. Finally, our entitlement to termination fees may be subject to challenge if a client were to allege that we were in breach of contract. During the third quarter of 2008, we recorded $272.9 of impairment and implementation charges, of which $207.5 was due to impairment of deferred charges and $65.4 was due to expensing of implementation costs that exceeded the termination for convenience fees in the contract at

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September 30, 2008. Refer to Note 7 of the Notes to Consolidated Financial Statements for details related to these charges. Based on our evaluation of all the related contracts, we believe that the $243.8 of deferred charges at December 31, 2008 is recoverable.

Goodwill

At December 31, 2008, we had goodwill with a net carrying value of $1,034.9. As disclosed in Note 6 of Notes to Consolidated Financial Statements, we are required to test goodwill for impairment annually as of October 1 and at other times if events have occurred or circumstances exist that indicate the carrying value of goodwill may no longer be recoverable. The impairment test for goodwill involves a two-step process. The first step compares the fair value of a reporting unit with its carrying amount, including the goodwill allocated to each reporting unit. If the carrying amount is in excess of the fair value, the second step requires the comparison of the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill. Any excess of the carrying value of the reporting unit goodwill over the implied fair value of the reporting unit goodwill will be recorded as an impairment loss. Fair value of the reporting unit is determined using a combination of the market approach and the income approach. Under the market approach, fair value is based on actual stock price or transaction prices of comparable companies. The market approach requires significant judgment regarding the selection of comparable companies. Under the income approach, value is dependent on the present value of net cash flows to be derived from the ownership. The income approach requires significant judgment including estimates about future cash flows and discount rates.

During the third quarter of 2008, we recorded an asset impairment charge of $207.5 within the HR Management segment. As more fully described in Note 6 and Note 7 of Notes to Consolidated Financial Statements, recording this asset impairment charge triggered a review of goodwill related to the HR Management segment resulting in an impairment loss of $61.1. The goodwill impairment loss is recorded within the asset impairments caption in the accompanying Consolidated Statements of Operations.

During the fourth quarter of 2008, we completed our annual impairment tests for the remaining four of our five reporting units: Information Management International, Information Management North America, Customer Management and Relationship Technology Management. Based on the results of the first step, we had no goodwill impairment related to our remaining four reporting units. In addition, due to the decline in our stock price during the fourth quarter of 2008, we updated our impairment tests as of December 31, 2008 and had no goodwill impairment related to any of our reporting units. We believe we make every reasonable effort to ensure that we accurately estimate the fair value of the reporting units. However, future changes in the assumptions used to make these estimates could result in an impairment loss.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting For Income Taxes, which recognizes deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The deferred tax assets and liabilities are determined based on the enacted tax rates expected to apply in the periods in which the deferred tax assets or liabilities are expected to be settled or realized.

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

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expected timing of the reversals of existing temporary differences is based on current tax law and the Company s tax methods of accounting.

The Company also reviews its tax activities and records a liability for its uncertain tax positions in accordance with FIN 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB No. 109. The interpretation contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount, which is more than 50% likely of being realized upon ultimate settlement. The Company s policy is to recognize interest and penalties accrued on unrecognized tax benefits as part of income tax expense. Significant judgment is required in determining our liability for uncertain tax positions. The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations and court rulings. Therefore, the actual liability for U.S. or foreign taxes may be significantly different from our estimates, which could result in the need to record additional tax liabilities or potentially reverse previously recorded tax liabilities. We believe that we make a reasonable effort to ensure accuracy in our judgment and estimates.

Restructuring Charges

During the last five years, we have recorded significant restructuring charges related to reductions in headcount and facility closures. As of December 31, 2008, we had a restructuring accrual of $23.1, $2.8 of which relates to facility closure costs, which will be paid over several years until the leases expire. The accrual is equal to the future costs associated with those abandoned facilities, net of the proceeds from any probable future sublease agreements. We have used estimates, based on consultation with real estate advisors, to arrive at the proceeds from any future sublease agreements. We will continue to evaluate our estimates in recording the facilities abandonment charge. As a result, there may be additional charges or reversals in the future.

Revenue Recognition

Our revenue recognition policies are discussed in detail in Note 2 of the Notes to Consolidated Financial Statements. A portion of our revenues is derived from transactions that require a significant level of judgment. This includes:

Percentage of Completion We recognize some software license and related professional and consulting revenues using the percentage-of-completion method of accounting by relating contract costs incurred to date to total estimated contract costs at completion. This method of accounting relies on estimates of total expected contract revenues and costs. This method is used because reasonably dependable estimates of the revenues and costs applicable to various stages of a contract can be made. Because the financial reporting of these contracts depends on estimates, which are assessed continually during the term of the contracts, recognized revenues are subject to revisions as the contracts progress to completion. Revisions in estimates are reflected in the period in which the facts that give rise to a revision become known. Accordingly, favorable changes in estimates result in additional revenue recognition, and unfavorable changes in estimates result in the reversal of previously recognized revenues. When estimates indicate a loss under a contract, a provision for such loss is recorded as a component of cost of providing services and products sold. As work progresses under a loss contract, revenues continue to be recognized, and a portion of the contract loss incurred in each period is charged to the contract loss reserve.

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License Arrangements Approximately 8% of our 2008 consolidated revenues were derived from license and support and maintenance arrangements. The accounting for these arrangements can be complex and requires a significant amount of judgment. Some of the factors that we must assess include: the separate elements of the arrangement; vendor-specific objective evidence of fair value for the various undelivered elements of the arrangement; whether the software fees are fixed or determinable; whether the fees are considered collectible and whether services included in the arrangement represent significant production, customization or modification of the software.

Multiple Element Outsourcing Arrangements HR Management, which accounted for 9% of our consolidated revenues in 2008, delivers multiple services under our client arrangements (e.g., benefits administration, recruiting, payroll and learning). In connection with these arrangements, we must assess these multiple-element arrangements to determine whether they can be separated into more than one unit of accounting. Emerging Issues Task Force (EITF) Issue No. 00-21, Revenue Arrangements with Multiple Deliverables, establishes the following criteria, all of which must be met, in order for a deliverable to qualify as a separate unit of accounting:

- The delivered items have value to the client on a stand-alone basis.
- There is objective and reliable evidence of the fair value of the undelivered items.
- If the arrangement includes a general right of return relative to the delivered items, delivery or performance of the undelivered items is considered probable and substantially in the control of the Company.

If these criteria are met, each of the contractual services included in the contract is treated as a separate unit of accounting and revenue is recognized as we deliver each of the contractual services. If these criteria are not met, all of the services included are accounted for as a single unit of accounting. Revenue is then recognized either using a proportional performance method such as recognizing revenue based on transactional services delivered or on a straight-line basis once HR Management begins to deliver the final service.

The assessments of these areas require us to make a significant amount of judgments. The judgments made in these areas could have a significant effect on revenues recognized in any period by changing the amount and/or the timing of the revenue recognized. We believe that we make a reasonable effort to ensure accuracy in our judgment and estimates.

Other

We have made certain other estimates that, while not involving the same degree of judgment, are important to understanding our financial statements. These estimates are in the areas of measuring our obligations related to our defined benefit plans, self-insurance accruals and assessing recoverability of intangible assets.

New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 was effective for the Company beginning January 1, 2008 for all financial assets and liabilities and for nonfinancial assets and liabilities recognized or disclosed at fair value in the Consolidated Financial Statements on a recurring basis (at least annually). For all other nonfinancial assets and liabilities, SFAS No. 157 is effective beginning January 1, 2009. Adoption of this Standard on January 1, 2008 did not have an impact on the Company s Financial Statements. See Note 14 of the Notes to Consolidated Financial Statements for disclosures related to the adoption of this Standard. The Company does not believe that the adoption of SFAS No. 157 for non-financial assets and liabilities not valued on a recurring basis as of January 1, 2009, will materially impact its financial position and results of operations.

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In April 2007, the FASB issued EITF 06-04, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements. This Standard requires an employer to recognize a liability for future benefits in accordance with SFAS No. 106, Employers Accounting for Postretire- ment Benefits Other Than Pensions, if, in substance, a postretirement benefit plan exists. The Company adopted EITF 06-04 effective January 1, 2008. Adoption of this Standard had no impact on the Company s Consolidated Statements of Operations and resulted in a $2.2 reduction to the retained earnings balance as of January 1, 2008.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations, (SFAS No. 141R) which replaces SFAS No. 141. SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its Financial Statements the identifiable assets acquired, the liabilities assumed, any resulting goodwill and any noncontrolling interest in the acquiree. The Statement also provides for disclosures to enable users of the Financial Statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R is effective for Financial Statements issued for fiscal years beginning after December 15, 2008 and must be applied prospectively to business combinations completed on or after that date. Adoption of SFAS No. 141R will have an impact on the Company s Consolidated Financial Statements when effective, but the nature and magnitude of the specific effects will depend upon the terms and size of the acquisitions consummated after the effective date.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment to ARB No. 51. SFAS No. 160 applies to all entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The adoption of SFAS No. 160 as of January 1, 2009, will not have a significant impact on the Company s financial position, results of operations or liquidity.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities. The new Standard is intended to help investors better understand how derivative instruments and hedging activities affect an entity s financial position, financial performance and cash flows through enhanced disclosure requirements. SFAS No. 161 is effective for Financial Statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company will provide the disclosures required by this Standard, beginning the first quarter of 2009.

Risks Relating to Convergys and Its Business

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

We serve clients in industries that have experienced a significant level of consolidation. We cannot assure that additional consolidations will not occur in which our clients acquire additional businesses or are acquired themselves. Such consolidations may result in the termination of an existing client contract, which could have an adverse effect on our operating results.

In January 2008, AT&T, our largest client, informed us that it intends to migrate its subscribers from the legacy wireless billing system that we currently support through a managed services agreement onto AT&T s other wireless billing system over the next two years. While the migration is subject to change, we anticipate that this will result in a loss of revenue of approximately $35 and $60 in 2009 and 2010, respectively, compared to our 2008 Information Management revenues. The impact of this migration on our 2008 revenues was approximately $6 compared to our 2007 Information Management revenues.

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A large portion of our revenue is generated from a limited number of clients in the communications industry, and the loss of one or more of our clients, or weakness in the communications industry, could cause a reduction in our revenues and earnings.

We rely on several clients for a large percentage of our revenues. Our three largest clients, AT&T, Sprint Nextel and DirecTV, collectively represented 33.0% of our 2008 revenues. Our relationship with AT&T is represented by separate contracts/work orders with Information Management and Customer Management. Our relationship with Sprint Nextel is represented by separate Information Management and Customer Management contracts. Since February 2004, we have provided Customer Management services to Sprint Nextel under a contract between Sprint Nextel and IBM, whereby we serve as a subcontractor to IBM. We do not believe that it is likely that our entire relationship with AT&T or Sprint Nextel would terminate at one time; and, therefore, we are not substantially dependent on any particular contract/work order with these clients. However, the loss of all of the contracts/work orders with a particular client at the same time or the loss of one or more of the larger contracts/work orders with a client would adversely affect our total revenues if the revenues from such client were not replaced with revenues from that client or other clients. Our revenues and earnings would also be negatively impacted by general weakness or slowdown in the communications industry.

A large portion of our accounts receivable are payable by a limited number of clients and the inability of any of these clients to pay its accounts receivable could cause a reduction in our revenues and earnings.

Several significant clients account for a large percentage of our accounts receivable. As of December 31, 2008, our three largest clients, AT&T, Sprint Nextel and DirecTV, collectively accounted for 26.2% of our accounts receivable. During the past four years, each of these clients has generally paid its accounts receivable on a timely basis, and write-downs that we have incurred in connection with such accounts receivable were consistent with write-downs that we incurred with other clients. We anticipate that several clients will continue to account for a large percentage of our accounts receivable. Although we currently do not expect payment issues with any of these clients, if any of them were unable or unwilling, for any reason, to pay our accounts receivable, our income would decrease. We have several important clients that are in industries, including automotive, that have been severely impacted by the current global economic slowdown. We also carry significant receivable balances with other clients whose declaration of bankruptcy could decrease our income. In addition, our income could be materially impacted by a number of small clients declaring bankruptcy in a short period of time.

If our clients are not successful, the amount of business that they outsource and the prices that they are willing to pay for such services may diminish and could result in a reduction of our revenues and earnings.

Our revenues depend on the success of our clients. If our clients or their specific programs are not successful, the amount of business that they outsource may be diminished. Thus, although we have signed contracts, many of which contain minimum revenue commitments, to provide services to our clients, there can be no assurance that the level of revenues generated by such contracts will meet expectations. This could result in stranded capacity and additional costs. In addition, we may face pricing pressure from clients, which could negatively affect our operating results. Revenues in most of our larger HR Management contracts are partially based on our clients headcount. Our revenues could be negatively impacted by headcount reductions and restructuring actions taken by our clients.

We process, transmit and store personally identifiable information and unauthorized access to or the unintended release of this information could result in a claim for damage or loss of business and create unfavorable publicity.

We process, transmit and store personally identifiable information, both in our role as a service provider and as an employer. This information may include social security numbers, financial and health information, as well as other personal information. As a result, we are subject to certain contractual terms, as well as federal, state and foreign laws and regulations designed to protect personally identifiable information. We take measures to protect against unauthorized access and to comply with these laws and regulations. We use the internet as a mechanism for delivering our services to clients, which may expose us to potential disruptive intrusions. Unauthorized access, system denials of service, or failure to comply with data privacy laws and regulations may subject us to contractual liability and damages, loss of business, damages from individual claimants, fines, penalties, criminal prosecution and unfavorable publicity, any of which could negatively affect our operating results and financial condition. In addition, third party vendors that we engage to perform services for us may have an unintended release of personally identifiable information.

The global scope, size and complexity of implementations in our HR Management business could cause delays and cost overruns in those projects, which could adversely affect revenues, cash flows and profits.

Our large HR outsourcing contracts with global clients are complex as they involve providing multiple services such as payroll, recruiting, benefits administration, learning, compensation and human resources administration across many countries. Implementations of the contracts can take a number of years to complete. Due to the complexity of the implementations and changes in customer requirements (e.g., an acquisition by a customer during the implementation), implementation cost overruns and delays are possible. Cost overruns can result in additional expense during the implementation period and over the life of the contract, which would likely affect the profitability of the contract and potentially result in charges. Given the size of some of these contracts, the impact from these cost overruns or schedule delays can have a significant impact on our revenues, cash flows and profits. Delays in completing the implementations can cause us to recognize revenue and profit from the contracts later than we anticipated when the initial contract was signed.

Our ability to deliver our services is at risk if the technology and network equipment that we rely upon is not maintained or upgraded in a timely manner.

Technology is a critical foundation in our service delivery. We utilize and deploy internally developed and third party software solutions across various hardware environments. We operate an extensive internal voice and data network that links our global sites together in a multi-hub model that enables the rerouting of traffic. Also, we rely on multiple public communication channels for connectivity to our clients. Maintenance of and investment in these foundational components are critical to our success. If the reliability of technology or network operations fall below required service levels, or a systemic fault affects the organization broadly, business from our existing and potential clients may be jeopardized and cause our revenue to decrease.

Emergency interruption of data centers and customer management and HR management contact centers could have a materially adverse effect on our financial condition and results of operations.

In the event that we experience a temporary or permanent interruption at one or more of our data or contact centers, through casualty, operating malfunction or other causes, we may be unable to provide the data processing, customer management and HR management services we are contractually obligated to deliver. This could result in us being required to pay contractual damages to some clients or to allow some clients to terminate or renegotiate their contracts. Notwithstanding disaster recovery and business continuity plans and precautions instituted to protect our clients and us from events that could interrupt delivery of services (including property and business interruption insurance that we maintain), there is no guarantee that such interruptions would not result in a prolonged interruption in our ability to provide support services to our clients or that such precautions would adequately compensate us for any losses we may incur as a result of such interruptions.

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Defects or errors within our software could adversely affect our business and results of operations.

Design defects or software errors may delay software introductions or reduce the satisfaction level of clients and may have a materially adverse effect on our business and results of operations. Our software is highly complex and may, from time to time, contain design defects or software errors that may be difficult to detect and/or correct. Since both our clients and we use our software to perform critical business functions, design defects, software errors or other potential problems within or outside of our control may arise from the use of our software. It may also result in financial or other damages to our clients, for which we may be held responsible. Although our license agreements with our clients may often contain provisions designed to limit our exposure to potential claims and liabilities arising from client problems, these provisions may not effectively protect us against such claims in all cases and in all jurisdictions. Claims and liabilities arising from client problems could result in monetary damages to us and could cause damage to our reputation, adversely affecting our business and results of operations.

If the global trend toward outsourcing does not continue, our financial condition and results of operations could be materially affected.

Revenue growth depends, in large part, on the trend toward outsourcing, particularly as it relates to our Customer Management and HR Management outsourcing operations. Outsourcing involves companies contracting with a third party, such as Convergys, to provide customer management and HR management services rather than performing such services in-house. There can be no assurance that this trend will continue, as organizations may elect to perform such services in-house. A significant change in this trend could have a materially adverse effect on our financial condition and results of operations.

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

We operate a global business and have facilities located throughout North and South America, Europe, the Middle East and the Asian Pacific region. As part of our strategy, we plan to capture more of the international BSS/OSS, customer management and HR management markets. Additionally, North American companies require offshore customer management outsourcing capacity. As a result, we expect to continue expansion through start-up operations and acquisitions in foreign countries. Expansion of our existing international operations and entry into additional countries will require management attention and financial resources. In addition, there are certain risks inherent in conducting business internationally including: exposure to currency fluctuations, longer payment cycles, greater difficulties in accounts receivable collection, difficulties in complying with a variety of foreign laws, changes in legal or regulatory requirements, difficulties in staffing and managing foreign operations, political instability and potentially adverse tax consequences. To the extent that we are adversely affected by these risks, our business could be adversely affected and our revenues and/or earnings could be reduced.

In addition, there has been political discussion and debate related to worldwide competitive sourcing, labor-related legislation and information-flow restrictions, particularly from the United States to offshore locations. Federal and state legislation has been proposed that relates to this issue. Future legislation, if enacted, could have an adverse effect on our results of operations and financial condition. In particular, proposed legislation, known as the Employee Free Choice Act, if enacted in its current form or a similar variation thereof, could make it easier for union organizing drives to be successful and could give third party arbitrators the ability to impose terms of collective bargaining upon both the Company and a labor union if the parties are unable to agree to the terms of a collective bargaining agreement within specified timelines.

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Our earnings are affected by changes in foreign currency.

Customer Management serves an increasing number of its U.S.-based clients using contact center capacity in Canada, India and the Philippines. About one-half of our approximately 65,000 contact center employees are located outside the U.S. Although the contracts with these clients are typically priced in U.S. dollars, a substantial portion of the costs incurred by Customer Management to render services under these contracts is denominated in Canadian dollars, Indian rupees or Philippine pesos, which represents a foreign exchange exposure to the Company. We enter into forward exchange contracts and options to limit potential foreign currency exposure. As the U.S. dollar weakens the operating expenses of these contact centers, translated into U.S. dollars, increase. The increase in operating expenses will be partially offset by gains realized through the settlement of the hedged instruments. As the derivative instruments that limit our potential foreign currency exposures are entered into over a period of several years, the overall impact to earnings will be determined by both the timing of the derivative instruments and the movement of the U.S. dollar. In addition to the impact on our operating expenses that support dollar-denominated Customer Management contracts, changes in foreign currency impact the results of our international business units that are located outside of North America. In 2008, 16.1% of our revenues were generated outside of North America.

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

Our ability to profit from the global trend toward outsourcing depends largely on how effectively we manage our Customer Management and HR Management contact center capacity. In order to create the additional capacity necessary to accommodate new or expanded outsourcing projects, we may need to open new contact centers. The opening or expansion of a contact center may result, at least in the short term, in idle capacity until we fully implement the new or expanded program. Expanded use of home agents is helping to mitigate this risk. We periodically assess the expected long-term capacity utilization of our contact centers. As a result, we may, if deemed necessary, consolidate, close or partially close under-performing contact centers to maintain or improve targeted utilization and margins. There can be no guarantee that we will be able to achieve or maintain optimal utilization of our contact center capacity.

As part of our effort to consolidate our facilities, we seek to sublease a portion of our surplus space, if any, and recover certain costs associated with it. To the extent that we fail to sublease such surplus space, our expenses will increase.

If we are unable to hire or retain qualified personnel in certain areas of our business, our ability to execute our business plans in those areas could be impaired and revenues could decrease.

We employ approximately 75,000 employees worldwide. At times, we have experienced difficulties in hiring personnel with the desired levels of training or experience. Additionally, in regard to the labor-intensive business of Customer Management, quality service depends on our ability to retain employees and control personnel turnover. Any increase in the employee turnover rate could increase recruiting and training costs and could decrease operating effectiveness and productivity. We may not be able to continue to hire, train and retain a sufficient number of qualified personnel to adequately staff new client projects. Because a significant portion of our operating costs relates to labor costs, an increase in wages, costs of employee benefits or employment taxes could have a materially adverse effect on our business, results of operations or financial condition.

War and terrorist attacks or other civil disturbances could lead to economic weakness and could disrupt our operations resulting in a decrease of our revenues and earnings.

In the recent past, war and terrorist attacks have caused uncertainty in the global financial markets and economy. Additional attacks and wars could contribute to economic instability in the United States and disrupt our operations in the U.S. and abroad. Such disruptions could cause service interruptions or reduce the quality level of the services that we provide, resulting in a reduction of our

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Item 7. Management s Discussion and Analysis

of Financial Condition and Results of Operations (continued)

(Amounts in Millions Except Per Share Amounts)

revenues. These activities may also cause our clients to delay or defer decisions regarding their use of our services and, thus, delay receipt of additional revenues. In addition, war and terrorist attacks in other regions could disrupt our operations and/or create economic uncertainty with our clients, which could cause a reduction in revenues and earnings.

General economic and market conditions may adversely affect the Company s financial condition, cash flow and results of operations.

Our results of operations are affected directly by the level of business activity of our clients, which in turn are affected by the level of economic activity in the industries and markets that they serve. Economic slowdowns in some markets, particularly in the United States, may cause reductions in technology and discretionary spending by our clients, which may result in reductions in the growth of new business as well as reductions in existing business. If our clients enter bankruptcy or liquidate their operations, our revenues could be adversely affected. There can be no assurance that weakening economic conditions throughout the world will not adversely impact our results of operations, cash flow and/or financial position. Further deterioration in equity markets will reduce the funded status of our pension plan, which will increase future required contributions. Reduced demand for our services could increase price competition.

We need to maintain adequate liquidity in order to have sufficient cash to meet operating cash flow requirements and to repay maturing debt and other obligations. If we fail to comply with the covenants contained in our various borrowing agreements, it may adversely affect our liquidity, results of operations and financial condition.

Our liquidity is a function of our ability to successfully generate cash flows from a combination of operations and access to capital markets. As of December 31, 2008, total cash and cash equivalents was $240.0, and our available borrowing capacity under committed lines was $50.0. We believe our liquidity (including operating and other cash flows that we expect to generate) will be sufficient to meet operating requirements and required debt repayments as they occur; however, our ability to maintain sufficient liquidity going forward depends on our ability to generate cash from operations and access capital markets. As further described in the Capital Resources section of the Management Discussion and Analysis, our $400.0 revolving credit agreement contains certain restrictive covenants. As of December 31, 2008, we were in compliance with all covenants in the agreements.

The Company s results of operations could be adversely affected by litigation and other commitments and contingencies.

The Company faces risks arising from various unasserted and asserted litigation matters, including, but not limited to, commercial, securities law and patent infringement claims. Unfavorable outcomes in pending litigation matters, or in future litigation, could negatively affect the Com