

CONVERGYS CORP  
Form 10-K  
February 21, 2013

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

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FORM 10-K

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

For the fiscal year ended December 31, 2012

Commissions file number 1-14379

CONVERGYS CORPORATION

An Ohio  
Corporation  
201 East Fourth Street, Cincinnati, Ohio 45202  
Telephone Number (513) 723-7000

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

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

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

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

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes ☒ No

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

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

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

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

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

Large accelerated filer ☒ Accelerated filer Non-accelerated filer Smaller reporting company

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

Yes No ☒

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The aggregate market value of the voting shares held by non-affiliates of the registrant was \$1,660,693,899, computed by reference to the closing sale price of the stock on the New York Stock Exchange on June 30, 2012, the last business day of the registrant's most recently completed second fiscal quarter.

At January 31, 2013, there were 106,256,886 common shares outstanding, excluding amounts held in treasury of 81,589,814.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2013 Annual Meeting of Shareholders to be held on April 26, 2013

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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 (the Company or Convergys), are forward-looking statements and will contain words such as “believes,” “expects,” “intends,” “could,” “should,” “will,” “plans,” “anticipates” and other similar words. These statements discuss projections and expectations; 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 forward-looking statements include, but are not limited to: the behavior of financial markets including fluctuations in interest or exchange rates; continued volatility and 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 (we, the Company or Convergys) is a global leader in customer management, focused on bringing value to its clients through every customer interaction. Over half of the Fortune 50 companies trust Convergys to care for their most important asset: their customers. The Company's business model allows us to deliver consistent, quality service, at the scale and in the geographies that meet our clients' business needs. The Company leverages its breadth and depth of capabilities to help leading companies create quality customer experiences across multiple channels, while increasing revenue and reducing their cost to serve. Convergys is uniquely positioned as a well capitalized leader in our market and is able to invest in the services, technology, and analytics that matter to our clients and their customers.

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

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contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The website of the SEC is [www.sec.gov](http://www.sec.gov).

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

## Business Segments

Historically, we had three reportable segments, Customer Management, Information Management and Human Resources Management (HR Management). In March 2012, we signed a definitive agreement to sell the Information Management line of business to NEC Corporation. The sale closed on May 16, 2012. In March 2010, we signed a definitive agreement to sell the HR Management line of business to NorthgateArinso. The sale substantially closed on June 1, 2010 and was completed by the end of 2010. Due to the sales of the Information Management and HR Management line of businesses, the operating results and assets and liabilities related to Information Management and HR Management have been reflected as discontinued operations for all periods presented.

As a result of the change in classification of the Information Management business to discontinued operations, the change in our Chief Executive Officer in the fourth quarter, and in order to reflect the internal financial reporting structure and operating focus of our new management team and chief operating decision maker, we report operating results and assets and liabilities as a single segment on a consolidated basis. Segment information for previous periods has been reclassified to conform to the current reporting structure.

The geographic information included in Item 8, Note 16 of the Notes to Consolidated Financial Statements, is incorporated by reference in partial response to this Item 1.

## Our Business

Convergys handles more than 4 billion customer contacts per year. We have approximately 77,000 employees in over 70 locations across the globe and in our work-at-home environment. We provide multilingual, multichannel customer care with a global service delivery infrastructure that operates 24 hours a day, 365 days a year. Our clients benefit from our worldwide workforce located in the U.S., Canada, the Philippines, India, Latin America and Europe.

Our breadth and depth of capabilities span services, technology, and analytics. Our more than 76,000 customer and relationship management employees provide solutions across the customer lifecycle, including:

- Customer Service
- Customer Retention
- Technical Support
- Business-to-Consumer Sales
- Complex Device Support
- Business-to-Business Sales and Account Management
- Back Office
- Collections
- Quality Assurance
- Direct Response
- Home Agent

Our innovative contact center technologies provide solutions including:



Intelligent Self Service, Call Routing, Notification  
Campaign Management  
Social Interactions  
Personalized Care  
Cross-Sell / Up-Sell  
Retention  
Credits

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Our more than 225 analytic consultants use data to drive expertise through research and consulting solutions including:

- Point of sale evaluation
- Relational Loyalty
- Segmentation and profiling
- Interaction Assessment
- Repeat Call Analytics
- Chat Optimization
- Interactive Voice Response (IVR) Optimization

### Strategy

Convergys' strategy is to build on its leading position in a large global market by investing in what matters most to its clients and leveraging its strong financial position to drive sustainable growth and value creation.

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

Convergys is a leader in the large, global customer management business process outsourcing (BPO) market. The company's primary focus is on growth with U.S. multinational corporations in the communications, financial services, technology and other vertical markets. The U.S. market is the largest customer management market and continues to project growth. As the leader in the U.S. market, Convergys will continue to capture share by strengthening loyal relationships, expanding with existing clients and further penetrating under-served verticals through pursuit of select new logos.

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

Several trends play to Convergys' strengths, including increasing call complexity, full life-cycle services, vendor consolidation and off-shore delivery. To capitalize on these trends, the company invests in a combination of global quality delivery, comprehensive solutions and close client engagement.

#### Increasing Call Complexity

The nature of customer calls is becoming increasingly complex. For example, as the technology, such as mobile devices, that customers use becomes more complicated, calls to troubleshoot this technology also become increasingly complicated. Convergys invests in its global operating model to ensure the right talent is trained and supported by the right tools to handle these complex calls with quality, at scale, regardless of location.

#### Full Life-Cycle Services

Client strategies for customer service change rapidly. Increasingly clients want to work with partners that offer a breadth and depth of capabilities and the flexibility to make rapid adjustments to the services they provide to their customers. To meet these changing client needs, Convergys invests in comprehensive solutions consisting of services, technology and analytics that support the full lifecycle of contact types including customer acquisition, service, sales, retention and collections.

#### Vendor Consolidation

Increasingly, clients seek to drive efficiencies and a consistent customer experience by concentrating outsourced operations with a smaller number of strategic partners. Convergys invests in account management to ensure close client engagement in order to better understand unique client needs, consistently deliver the right mix of solutions and quickly ramp programs when consolidating volume from other vendors.

#### Off-shore Delivery

Clients demand contact center services from multiple geographies. Convergys invests in global capacity to provide the right work types in the right geographies to drive the quality delivery and value our clients demand.

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

Convergys is a well-capitalized market leader that generates strong operating cash flow which allows it to both invest in strategic growth and return capital to investors. The company follows a disciplined capital deployment strategy through selective pursuit of acquisitions, focusing on diversity of clients, capabilities and countries and the return of capital to investors through opportunistic share repurchases and a quarterly dividend.

#### Clients

We derive significant revenues from AT&T Inc. (AT&T), our largest client. Revenues from AT&T were 23.1%, 23.4% and 23.0% of our consolidated revenues for 2012, 2011 and 2010, respectively. We also derive significant revenues from Comcast Corporation (Comcast) and the DIRECTV Group, Inc. (DIRECTV). Revenues from Comcast were 12.4%, 12.0% and 10.5% of our consolidated revenues for 2012, 2011 and 2010, respectively, while revenues from DIRECTV were 12.3%, 11.8% and 8.6% for the same periods.

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

#### Operations

We operate 70 contact centers averaging approximately 71,000 square feet per center. We have approximately 45,000 production workstations and provide service 24 hours a day, 365 days a year. Under our global operating model, our contact centers are located in various parts of the world including the United States, Canada, the Philippines, India, Costa Rica, Colombia and the U.K. New contact centers are established to accommodate anticipated growth in business or in response to a specific customer need. We continue to add contact center capacity in the Philippines and Latin America 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, 365 days a year availability (with redundant power and communication feeds and emergency power back-up) and are designed to withstand most natural disasters.

The capacity of our data center and contact center operations, coupled with the scalability of our customer management solutions, enable us to meet 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 customer support products and services.

Technology, Research and Development

We will continue to emphasize the design, development and deployment of scalable customer management solutions.

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Our success depends, in part, on our advanced technology used in the delivery of services to clients. As a result, we continue to invest in the enhancement and development of our contact center 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 151 patents which 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 services to our clients. The first of these patents was issued in September 1995, while the most recent patent was granted in December 2012. These patents generally have a life of 17 years. Additional applications for U.S. 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

As of December 31, 2012, we employed approximately 77,000 employees in over 70 locations across the globe and in our work-at-home environment. Our clients benefit from our worldwide workforce located in the U.S., Canada, Latin America, Europe, India, and the Philippines.

#### Competition

The industries in which we operate are competitive. Our competitors include other customer management companies, such as SITEL Corp., Stream Global Services, Inc., Sykes Enterprises Inc., Teleperformance, TeleTech Holdings Inc., and West Corporation. In addition, niche providers or new entrants can enter the market by developing new systems or services that could impact our business.

#### Item 1A. Risk Factors

General economic and market conditions may adversely affect our business, results of operations and financial condition.

Our results of operations are affected directly by the level of business activity of our clients, which in turn is affected by the level of economic activity in the industries and markets that they serve. Future economic slowdowns in some markets, particularly in the United States, may cause reductions in spending by our clients, which may result in reductions in the growth of new business as well as reductions in existing business. There can be no assurance that the effects of such slowdowns will not adversely impact our results of operations and financial condition.

If our clients are not successful, or the trend towards outsourcing does not continue, the amount of business that our clients outsource and the prices that they are willing to pay for such services may diminish and could adversely affect our business.

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. Although many of our contracts 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. A reduction in the amount of business we receive from our clients could result in

stranded capacity and additional costs. In addition, we may face pricing pressure from clients, which could negatively affect our operating results.

Growth of our revenues depends, in large part, on the trend toward outsourcing. Outsourcing involves companies contracting with a third party, such as Convergys, to provide customer 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 material adverse effect on our financial condition and results of operations.

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A large portion of our revenue is generated from a limited number of clients, and the loss of significant work from one or more of our clients could adversely affect our business.

Our three largest clients, as discussed under the section above titled “Clients,” collectively represented 47.8% of our revenues for 2012. While we typically have multiple work orders and/or contracts with our largest customers which would not all terminate at the same time, the loss of one or more of the larger work orders or contracts with one of our largest clients could adversely affect our business, results of operations and financial condition if the lost revenues were not replaced with profitable revenues from that client or other clients.

Our business is substantially dependent on the condition of the global communications industry.

Approximately 60% of our revenue in 2012 was received from customers operating in the global communications industry. The global communications industry in the past has experienced significant fluctuations in growth rates and capital investment, and it is impossible to predict its future performance. Our revenues and earnings could be adversely affected by general weakness or a slowdown in the communications industry.

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. While we take measures to protect the security and privacy of this information and to prevent unauthorized access, it is possible that our security controls over personal data and other practices we follow may not prevent the improper access to or disclosure of personally identifiable information. If any person, including any of our employees, negligently disregards or intentionally breaches our established controls with respect to such data or otherwise mismanages or misappropriates that data, we could be subject to monetary damages, fines and/or criminal prosecution. Unauthorized disclosure of sensitive or confidential client or customer data, whether through system failure, employee negligence, fraud or misappropriation, could damage our reputation and cause us to lose clients. Similarly, unauthorized access to or through our information systems or those we develop for clients, whether by our employees or third parties, could result in negative publicity, legal liability and damage to our reputation, business, results of operations and financial condition.

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

In the event that we experience a temporary or permanent interruption at one or more of our data or contact centers, through natural disaster, casualty, operating malfunction, cyber attack, sabotage or other causes, we may be unable to provide the data 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.

Natural events, war, terrorist attacks, other civil disturbances and epidemics could disrupt our operations or lead to economic weakness in the countries in which we operate, resulting in a decrease of our revenues, earnings and cash flow.

Natural events (such as floods and earthquakes), war, terrorist attacks and epidemics of contagious illness could disrupt our operations in the U.S. and abroad and could lead to economic weakness in the countries in which they occur. We have substantial operations in countries such as the Philippines that have been subject to severe natural events, such as earthquakes and floods, in the past. Such disruptions could cause service interruptions or reduce the quality level of the services that we provide, resulting in a reduction of our revenues, earnings and cash flow and the payment of contractual penalties to our customers. These events may also cause our clients to reconsider their use of our services.

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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. Our clients are highly dependent upon the high availability and uncompromised security of our systems. These systems are subject to the risk of an extended interruption or outage due to many factors, such as system failures, acts of nature and intentional, unauthorized attacks from third parties. Accordingly, maintenance of and investment in these foundational components are critical to our success. If the reliability of our technology or network operations falls below required service levels, or a systemic fault affects the organization broadly, we may be obligated to pay performance penalties to our customers, and our business from existing and potential clients may be jeopardized and cause our revenue and cash flow to decrease.

Our earnings are affected by changes in foreign currency.

Our business serves an increasing number of its U.S.-based clients using contact center capacity in the Philippines, India, Latin America and Canada. More than half of our approximately 76,000 customer and relationship management employees are located outside the United States. Although the contracts with these clients are typically priced in U.S. dollars, a substantial portion of the costs incurred by Convergys to render services under these contracts is denominated in Philippine pesos, Indian rupees, or Colombian 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. It is intended that 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 contracts, changes in foreign currency impact the results of our international business units that are located outside of North America.

The cash we hold may be subject to counterparty credit risk and we may not be able to repatriate to the U.S. cash held in foreign accounts without paying taxes.

While we continuously monitor the creditworthiness of the institutions holding our cash, the recent global economic and credit crisis has weakened the creditworthiness of many financial institutions. If one or more of the institutions holding our cash were to experience cash flow problems or were to become subject to insolvency proceedings, we may not be able to recover some or all of our deposited cash. As of December 31, 2012, approximately 30% of our cash and short term investments balance of \$638.5 million was held in accounts outside of the United States, most of which would be subject to additional taxes if repatriated to the United States.

In addition, the counterparties to our hedge transactions are financial institutions or affiliates of financial institutions, and we are subject to risks that these counterparties become insolvent and fail to perform their financial obligations under these hedge transactions. Our hedging exposure to counterparty credit risk is not secured by any collateral.

We may not be able to predict our future tax liabilities. If we become subject to increased levels of taxation or if tax contingencies are resolved adversely, our results of operations and financial condition could be adversely affected.

Due to the international nature of our operations, we are subject to the complex and varying tax laws and rules of several foreign jurisdictions. We may not be able to predict the amount of future tax liabilities to which we may

become subject due to some of these complexities if our positions are challenged by local tax authorities. Any increase in the amount of taxation incurred as a result of challenges to our tax filing positions or due to legislative or regulatory changes could result in a material adverse effect on our business, results of operations and financial condition. We are subject to tax audits, including issues related to transfer pricing, in the United States and other jurisdictions. We have material tax-related contingent liabilities that are difficult to predict or quantify. While we believe that our current tax provisions are reasonable and appropriate, we cannot be assured that these items will be settled for the amounts accrued or that additional exposures will not be identified in the future or that additional tax reserves will not be provided for any such

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exposures.

Our 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, tax and patent infringement claims. Unfavorable outcomes in pending litigation, or in future litigation, could negatively affect us.

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

If we were required to make payments as a result of any of these matters and they exceed the amounts accrued, this could adversely affect our business, results of operations and financial condition.

We are susceptible to business and political risks from 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 and the Asia-Pacific region. In addition, as North American companies require additional off-shore customer management outsourcing capacity, we expect to continue international expansion through start-up operations and acquisitions. Expansion of our existing international operations and entry into additional countries will require management attention and financial resources. 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 laws in these jurisdictions, changes in legal or regulatory requirements, difficulties in staffing and managing foreign operations, inflation, political instability, compliance with anti-bribery and anti-corruption legislation 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.

Our business is subject to many regulatory requirements, and current or future regulation could significantly increase our cost of doing business.

Our business is subject to many laws and regulatory requirements in the United States and the foreign countries in which we operate, covering such matters as labor relations, health care requirements, trade restrictions, tariffs, taxation, sanctions, data privacy, consumer protection, internal and disclosure control obligations, governmental affairs and immigration. In the U.S., as well as several of the other countries in which we operate, some of our services must comply with various laws and regulations regarding the method and timing of placing outbound telephone calls and the recording or monitoring of telephone calls. Many of these regulations, including those related to data privacy, are frequently changing and sometimes conflict among the various jurisdictions and countries in which we provide services. Violations of these laws and regulations, some of which can be conflicting, could result in liability for damages, fines, criminal prosecution, unfavorable publicity and restrictions on our ability to operate. Our failure to adhere to or successfully implement processes in response to changing regulatory requirements in this area could result in legal liability or impairment to our reputation in the marketplace, which could have a material adverse effect on our business, results of operations and financial condition.

Because a substantial portion of our operating costs consist of labor costs, changes in governmental regulations (particularly in the foreign jurisdictions in which we operate) relating to wages, healthcare and healthcare reform and other benefits or employment taxes could have a material adverse effect on our business, results of operations or financial condition.

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 off-shore locations. Federal and state legislation has been proposed that, if enacted, could restrict or discourage U.S. companies from outsourcing services outside of the U.S. Future legislation, if enacted, could have an adverse effect on our business, results of operations and financial condition.

Our failure to successfully acquire and integrate businesses could cause our business to suffer.

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We consider acquisitions, including acquisitions that may further diversify our geographic footprint, to be part of our growth strategy. We may not be able to identify and acquire appropriate acquisition candidates. In addition, there is a risk that we may not be able to successfully integrate acquired businesses and that acquired businesses might significantly under-perform relative to our expectations. If an acquisition is not successful, our revenues and profitability, and reputation, could be adversely affected.

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

The utilization of technology in our industry has and will continue to increase rapidly. Our future success depends, in part, upon our ability to develop and implement technology solutions that anticipate and keep pace with continuing changes in technology, industry standards and client preferences. We may not be successful in anticipating or responding to these developments on a timely and cost-effective basis, and our ideas may not be accepted in the marketplace. Additionally, the effort to gain technological expertise and develop new technologies in our business requires us to incur significant expenses. If we cannot offer new technologies as quickly as our competitors or if our competitors develop more cost-effective technologies, it could have a material adverse effect on our ability to obtain and complete customer engagements. Also, if customer preferences for technology disproportionately outpace other interaction preferences, it could have a material adverse impact on our revenue profile and growth plans.

Defects or errors within our software could adversely affect our business.

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. Because 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, results of operations and financial condition.

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

Our ability to profit from the global trend toward outsourcing depends largely on how effectively we manage our 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. The usage of home agents could help 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.

We also may experience short-term and/or longer-term fluctuations in client demand for services performed in one or more of our contact centers. Short term downward fluctuations may result in less than optimal site utilization for a period of time. Longer-term downward fluctuations may result in site closures. As a result, we may not achieve or maintain targeted site utilization levels, or site utilization levels may decrease over certain periods, and our profitability may suffer as a result.

A large portion of our accounts receivable is payable by a limited number of clients and the inability of any of these clients to pay its accounts receivable could adversely affect our business.

Because a large portion of our revenue is generated from a limited number of clients, we often carry significant accounts receivable balances from those clients. While we closely monitor these balances, if a significant client were financially unable or unwilling, for any reason, to pay our accounts receivable, our income and cash flow would decrease. We also have several important clients that are in industries that have been severely impacted by the current global economic slowdown. In addition, our income could be materially impacted by a number of small clients declaring bankruptcy within a short period of time.

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We may incur material restructuring charges in the future.

In the past, we have recorded restructuring charges related to involuntary employee terminations, various facility abandonments, and various other restructuring activities. We continually evaluate ways to reduce our operating expenses through new restructuring opportunities, including more effective utilization of our assets, workforce, and operating facilities. In addition, changing industry and market conditions may dictate strategic decisions to restructure some business units and discontinue others. As a result, there is a risk, which is increased during economic downturns and with expanded global operations, that we may incur material restructuring charges in the future.

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

As described in Note 6 of the Notes to Consolidated Financial Statements, we test goodwill for impairment annually as of October 1 and at other times if events have occurred or circumstances exist that indicates the carrying value of goodwill may no longer be recoverable. In the second quarter of 2012, the Company recorded a non-cash goodwill impairment charge of \$46.0. There can be no assurances that we will not incur additional charges in the future, particularly in the event of a prolonged economic slowdown.

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

Any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of controls must consider the benefits of controls relative to their costs. Controls cannot assure that no judgments in decision-making will be faulty or that breakdowns will not occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. While controls are designed with the intent of providing reasonable assurance of the effectiveness of the controls, such design is also based in part upon certain assumptions about the likelihood of future events, and such assumptions, while reasonable, may not take into account all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and may not be prevented or detected, and we could lose investor confidence in the accuracy and completeness of our financial reports and other disclosures, which could have an adverse effect on our stock price.

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

Many of our competitors are expanding the services they offer in an attempt to gain additional business. In addition, new competitors, alliances among competitors or competitors' mergers could result in significant market share gain. Some of our competitors may have or may develop a lower cost structure, adopt more aggressive pricing policies or provide services that gain greater market acceptance than the services that we offer or develop. Large and well-capitalized competitors may be able to better respond to the need for technological changes faster, price their services more aggressively, compete for skilled professionals, finance acquisitions, fund internal growth and compete for market share. Our customers routinely negotiate for better pricing, and in order to respond to increased competition and pricing pressure, we may be required to lower our pricing structure, which would have an adverse effect on our revenues and profit margin.

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

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 business, results of operations and financial condition.

Our success is subject to the terms of our client contracts.

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

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levels and performance metrics. Our objective is to sign multi-year contracts with our clients; however, our contracts generally allow our client to terminate the contract for convenience or to reduce the amount of our services. We cannot be assured that our clients will not terminate their contracts before their scheduled expiration date, that the volume of services for these programs will not be reduced or that we will be able to avoid penalties or earn performance bonuses. In addition, we cannot be assured that each client contract will be profitable for us or that we will be able to terminate unprofitable contracts without incurring significant liabilities.

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 77,000 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 the Company, 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.

The volatility of our stock price may result in loss of investment.

The trading price of our common shares has been and may continue to be subject to substantial fluctuations over short and long periods of time. We believe that market prices of outsourced customer contact management services stocks in general have experienced volatility, which could affect the market price of our common stock regardless of our financial results or performance. We further believe that various factors such as general economic conditions, changes or volatility in the financial markets, changing market conditions in the outsourced customer contact management services industry, quarterly variations in our financial results, the announcement of acquisitions or divestitures, strategic partnerships or new product offerings, and changes in financial estimates and recommendations by securities analysts could cause the market price of our common shares to fluctuate substantially in the future.

#### Item 1B. Unresolved Staff Comments

None.

#### Item 2. Properties

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

We lease space for offices, data centers and contact centers. Domestic facilities are located in Arizona, Colorado, Florida, Georgia, Idaho, Kansas, Kentucky, Louisiana, Missouri, Nebraska, New Mexico, North Carolina, Ohio, Oklahoma, Tennessee, Texas, Utah, Virginia and Wisconsin. International facilities are located in Brazil, Canada, China, Colombia, Costa Rica, England, Germany, India, Indonesia, Netherlands, the Philippines, Singapore, South Africa, and the United Arab Emirates. Upon the expiration or termination of any such leases, we believe we could obtain comparable office space.

We also lease some of the computer hardware, computer software and office equipment necessary to conduct our business. In addition, we own computer, 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 11 of the Notes to Consolidated Financial Statements of this Form 10-K.

Item 4. Mine Safety Disclosures

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Not applicable.

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Item 4A. Executive Officers of the Registrant

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

As of February 21, 2013, our Executive Officers were:

| Name                                 | Age | Title                                      |
|--------------------------------------|-----|--|
| Jeffrey H. Fox <sup>(a)</sup>        | 50  | Executive Chairman                         |
| Andrea J. Ayers <sup>(a)</sup>       | 49  | President and Chief Executive Officer      |
| Andre S. Valentine                   | 49  | Chief Financial Officer                    |
| Claudia L. Cline                     | 59  | Senior Vice President and General Counsel  |
| Christine Timmins Barry              | 48  | Senior Vice President of Global Operations |
| (a) Member of the Board of Directors |     |  |

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

JEFFREY H. FOX, Executive Chairman since November 2012; President and Chief Executive Officer 2010-2012; Principal and former Chief Executive Officer, The Circumference Group LLC, an investing and advisory company focused on technology and the telecommunications business, 2009-2010; Chief Operating Officer, Alltel Corporation, a U.S. telecommunications carrier, 2007-2008.

ANDREA J. AYERS, President and Chief Executive Officer since November 2012; President and Chief Operating Officer, Customer Management since November 2010; President, Customer Management since April 2008; President, Relationship Technology Management, 2007-2008; President, Government and New Markets, 2005-2007.

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

CLAUDIA L. CLINE, Senior Vice President and General Counsel since September 2012; Customer Management General Counsel, 2011 - 2012; Senior Vice President Workforce Management and Development, 2008 - 2011.

CHRISTINE TIMMINS BARRY, Senior Vice President of Global Operations since December 2012; Senior Vice President Customer Management Global Operations, 2011 - 2012; Senior Vice President, Customer Management Operations of the Americas, 2009 - 2011; Senior Vice President Global Operations, Human Resource Management, 2008 - 2009.

PART II

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

Convergys Corporation's common shares, no par value, are listed on the New York Stock Exchange under the symbol "CVG." As of January 31, 2013, there were 8,839 holders of record of the 106,256,886 common shares of Convergys, excluding amounts held in Treasury (187,846,700 outstanding common shares of Convergys, of which 81,589,814 were held in Treasury).

The high, low and closing prices of our common shares for each quarter in 2012 and 2011 are listed below:



| Quarter | 1 <sup>st</sup> | 2 <sup>nd</sup> | 3 <sup>rd</sup> | 4 <sup>th</sup> |
|---------|-----------------|-----------------|-----------------|-----------------|
| 2012    |                 |                 |                 |                 |
| High    | \$ 14.23        | \$ 14.82        | \$ 16.55        | \$ 17.42        |
| Low     | 12.13           | 12.40           | 14.33           | 14.68           |
| Close   | 13.35           | 14.77           | 15.67           | 16.41           |
| 2011    |                 |                 |                 |                 |
| High    | \$ 15.00        | \$ 14.63        | \$ 14.09        | \$ 13.02        |
| Low     | 13.17           | 12.27           | 9.01            | 8.49            |
| Close   | 14.36           | 13.64           | 9.38            | 12.77           |

On May 8, 2012, the Company announced that its Board of Directors declared an initial quarterly cash dividend of \$0.05 per share. The initial quarterly cash dividend was paid on July 6, 2012 to all shareholders of record as of June 22, 2012. On July 26, 2012, the Company announced that its Board of Directors declared a quarterly cash dividend of \$0.05 per share, which was paid on October 5, 2012 to all shareholders of record as of September 21, 2012. On October 23, 2012, the Company announced that its Board of Directors declared a quarterly cash dividend of \$0.05 per share, which was paid on January 4, 2013 to all shareholders of record as of December 21, 2012. On February 7, 2013, the Company announced that the Board of Directors raised the quarterly dividend 20 percent to \$0.06 per share. The dividend payment of \$0.06 is scheduled to be made on April 5, 2013 to shareholders of record at the close of business on March 22, 2013. The Board expects that future cash dividends will be paid on a quarterly basis. However, any decision to pay future cash dividends will be subject to Board approval, and will depend on the Company's future earnings, cash flow, financial condition, financial covenants and other relevant factors.

We repurchased 12.3 million of our common shares for \$184.4 million during 2012, as summarized in the following table:

|                | Shares repurchased | Average price per share |
|----------------|--------------------|-------------------------|
| January 2012   | 10,699             | \$ 13.27                |
| February 2012  | 51,427             | 12.88                   |
| March 2012     | 5,222              | 12.95                   |
| April 2012     | 1,181              | 13.19                   |
| May 2012       | 2,120,057          | 13.44                   |
| June 2012      | 2,742,635          | 14.29                   |
| July 2012      | 368,178            | 14.48                   |
| August 2012    | 2,012,168          | 15.50                   |
| September 2012 | 1,289,613          | 15.97                   |
| October 2012   | 1,912,391          | 15.92                   |
| November 2012  | 3,003              | 16.58                   |
| December 2012  | 1,744,440          | 16.18                   |
| Total          | 12,261,014         | \$ 15.04                |

At December 31, 2012, the Company had the authority to repurchase up to an incremental \$139.4 million of outstanding common shares. In February 2013, our Board of Directors approved an increase in the remaining authorized share repurchases to \$250.0 million in the aggregate. The timing and terms of any future transactions depend on a number of considerations including market conditions and our liquidity and limits that may be applicable under the covenants in our credit agreement.

#### Performance Graph

The following Performance Graph compares, for the period from December 31, 2007 through December 31, 2012, the percentage change of the cumulative total shareholder return on the Company's common shares with the cumulative total return of the S&P 500 Stock Index, an Old Peer Group and a New Peer Group, based on an initial investment of

\$100 on December 31, 2007, with dividends reinvested. The Old Peer Group and New Peer Group consist of our peer group companies below.

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|                       | Dec-07    | Dec-08 | Dec-09 | Dec-10 | Dec-11 | Dec-12 |
|-----------------------|-----------|--------|--------|--------|--------|--------|
| Convergys Corporation | \$ 100.00 | 38.94  | 65.31  | 80.01  | 77.58  | 100.66 |
| S&P 500               | \$ 100.00 | 63.00  | 79.67  | 91.67  | 93.61  | 108.59 |
| Old Peer Group        | \$ 100.00 | 55.29  | 82.22  | 77.35  | 69.74  | 84.46  |
| New Peer Group        | \$ 100.00 | 66.51  | 97.51  | 95.72  | 69.66  | 91.68  |

The Old Peer Group consists of Amdocs Limited, Comverse Technology Inc., CSG Systems International Inc., Sykes Enterprises Inc., Teleperformance and Teletch Holdings Inc.

The New Peer Group consists of Sykes Enterprises Inc., Teleperformance and Teletch Holdings Inc. Changes in the peer group from the prior year reflect the sale of Convergys' Information Management line of business.



## Item 6. Selected Financial Data

| (Amounts in Millions Except Per Share Amounts)            | 2012      | 2011      | 2010      | 2009      | 2008      |
|---|-----------|-----------|-----------|-----------|-----------|
| Results of Operations                                     |           |           |           |           |           |
| Revenues  | \$2,005.0 | \$1,933.2 | \$1,863.3 | \$1,986.7 | \$1,954.8 |
| Costs and expenses <sup>(1) (2)</sup>                     | 1,966.4   | 1,823.1   | 2,017.2   | 1,942.6   | 1,957.9   |
| Operating income (loss)                                   | 38.6      | 110.1     | (153.9)   | )44.1     | (3.1)     |
| Earnings and gain from Cellular Partnerships, net         | —         | 285.2     | 47.2      | 41.0      | 35.7      |
| Other income (expense), net                               | 4.3       | 9.8       | 8.9       | (17.2)    | )16.2     |
| Interest expense  | (13.6)    | )(16.1    | )(19.5    | )(28.9    | )(22.5)   |
| Income (loss) before income taxes                         | 29.3      | 389.0     | (117.3)   | )39.0     | 26.3      |
| Income tax expense (benefit)                              | 1.1       | 106.5     | (7.5)     | )(1.9     | )(13.3)   |
| Income (loss) from continuing operations                  | 28.2      | 282.5     | (109.8)   | )40.9     | 39.6      |
| Income (loss) from discontinued operations <sup>(5)</sup> | 72.4      | 52.3      | 56.6      | (118.2)   | )(132.5)  |
| Net income (loss)   | \$100.6   | \$334.8   | \$(53.2)  | \$(77.3)  | \$(92.9)  |
| Basic Earnings (Loss) per share:                          |           |           |           |           |           |
| Continuing Operations                                     | \$0.25    | \$2.35    | \$(0.89)  | )\$0.33   | \$0.32    |
| Discontinued Operations                                   | 0.65      | 0.44      | 0.46      | (0.96)    | )(1.07)   |
| Net basic earnings (loss) per share                       | \$0.90    | \$2.79    | \$(0.43)  | \$(0.63)  | \$(0.75)  |
| Diluted Earnings (Loss) per share:                        |           |           |           |           |           |
| Continuing Operations                                     | \$0.24    | \$2.30    | \$(0.89)  | )\$0.33   | \$0.31    |
| Discontinued Operations                                   | 0.62      | 0.42      | 0.46      | (0.95)    | )(1.05)   |
| Net diluted earnings (loss) per share                     | \$0.86    | \$2.72    | \$(0.43)  | \$(0.62)  | \$(0.74)  |
| Weighted average common shares outstanding:               |           |           |           |           |           |
| Basic   | 112.2     | 120.2     | 123.1     | 122.8     | 123.5     |
| Diluted   | 117.1     | 122.9     | 123.1     | 124.9     | 125.8     |
| Financial Position  |           |           |           |           |           |
| Total assets  | \$2,037.9 | \$2,330.8 | \$2,125.3 | \$2,605.8 | \$2,894.3 |
| Total debt and capital lease obligations                  | 60.6      | 127.1     | 210.2     | 465.9     | 660.7     |
| Shareholders' equity                                      | 1,371.9   | 1,411.5   | 1,184.1   | 1,206.4   | 1,150.1   |
| Other Data  |           |           |           |           |           |
| Net cash flows from operating activities                  |           |           |           |           |           |
| Operating activities of continuing operations             | \$103.9   | \$161.4   | \$179.2   | \$268.4   | \$54.3    |
| Operating activities of discontinued operations           | 9.1       | 35.2      | 15.0      | 36.3      | 177.2     |
|   | \$113.0   | \$196.6   | \$194.2   | \$304.7   | \$231.5   |
| Net cash flows provided by (used in) investing activities |           |           |           |           |           |
| Investing activities of continuing operations             | \$(162.7) | )(235.6   | \$(63.0)  | \$(63.1)  | )(362.7)  |
| Investing activities of discontinued operations           | 425.3     | (13.5)    | )63.7     | (14.9)    | )(41.6)   |
|   | \$262.6   | \$222.1   | \$0.7     | \$(78.0)  | \$(404.3) |
| Net cash flows (used in) provided by financing activities |           |           |           |           |           |

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|   |          |           |           |           |          |
|---|----------|-----------|-----------|-----------|----------|
| Financing activities of continuing operations   | \$(242.6 | )\$(183.0 | )\$(336.9 | )\$(133.4 | )\$287.6 |
| Financing activities of discontinued operations | (0.1     | )—        | (3.6      | )(1.6     | )4.9     |
|   | \$(242.7 | )\$(183.0 | )\$(340.5 | )\$(135.0 | )\$292.5 |
| Free cash flow <sup>(3)</sup>                   | \$8.4    | \$108.3   | \$127.9   | \$229.8   | \$139.4  |
| EBITDA <sup>(4)</sup>                           | \$131.6  | \$488.8   | \$(2.5    | )\$168.1  | \$141.8  |

(1) Costs and expenses include restructuring charges of \$11.6, \$1.2, \$28.7, \$12.9 and \$14.2 in 2012, 2011, 2010, 2009 and 2008, respectively,

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and asset impairment charges of \$88.6 and \$181.1 in 2012 and 2010, respectively.

Costs and expenses also include \$8.8, \$23.6, \$28.4, \$38.6 and \$51.8 in 2012, 2011, 2010, 2009 and 2008, respectively, of certain costs previously allocated to the Information Management segment, and \$9.1, \$32.1 and \$26.5 in 2010, 2009 and 2008, respectively, of certain costs previously allocated to the HR Management segment, (2) that do not qualify as discontinued operations and are reported as costs from continuing operations. The Company took actions to reduce these costs and earned transition service revenues, resulting from services being provided to the buyers subsequent to completion of the sale of Information Management and HR Management, to offset these costs.

Free cash flow is not defined under accounting principles generally accepted in United States (U.S. GAAP) and is calculated as cash flows from operations 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 repay the Company's debt obligations and to repurchase the Company's common shares. Limitations associated with the use of free cash flow (3) include that it does not represent the residual cash flow available for discretionary expenditures as it does not incorporate certain cash payments including payments made on capital lease obligations or cash payments for business acquisitions. Management compensates for these limitations by using both the non-GAAP measure, free cash flow, and the GAAP measure, cash from operating activities, in its evaluation of performance. There are no material purposes for which we use this non-GAAP measure beyond the purposes described above. For more detail and a reconciliation of cash flows from operations to free cash flows, see the "Financial Condition, Liquidity and Capital Resources" section in Part 2, Item 7 of this report.

EBITDA is not defined under U.S. GAAP and is calculated as income from continuing operations plus tax expense, interest expense, depreciation and amortization. The Company uses EBITDA to monitor and evaluate the performance of the business and believes the presentation of this measure will enhance the investors' ability to analyze trends in the business and evaluate the Company's underlying performance relative to other companies in the industry. The Company also utilizes EBITDA in the calculations for certain employee incentive compensation plans. EBITDA should not be considered in isolation or as a substitute for income from continuing operations, net of tax or other income statement data prepared in accordance with U.S. GAAP and our presentation of EBITDA (4) may not be comparable to similarly-titled measures used by other companies. Management uses the non-GAAP measure, EBITDA, and the U.S. GAAP measure, income from continuing operations, net of tax, in evaluation of its underlying performance. There are no material purposes for which we use the non-GAAP measure beyond the purposes described above. The non-GAAP measure should be considered supplemental in nature and should not be considered in isolation or be construed as being more important than comparable GAAP measures. For more detail and reconciliation of income from continuing operations, net of tax, to EBITDA, see the "Financial Condition, Liquidity and Capital Resources" section in Part 2, Item 7 of this report.

Discontinued operations includes the historical financial results of the Information Management business and the (5) HR Management line of business, excluding certain costs referred to in note 2, above, that did not meet the criteria for such presentation.

Item 7. Management's Discussion and Analysis  
of Financial Condition and Results of Operations  
(Amounts in Millions Except Per Share Amounts)

Overview

Convergys Corporation (we, the Company or Convergys) is a global leader in customer management, focused on bringing value to our clients through every customer interaction. Over half of the Fortune 50 companies trust us to care for their most important asset: their customers. Our business model allows us to deliver consistent, quality service, at the scale and in the geographies that meet our clients' business needs and pro-actively partner to solve client business challenges through our account management model. We leverage our breadth and depth of capabilities to help leading companies create quality customer experiences across multiple channels, while increasing revenue and reducing their cost to serve.

In 2010, we completed the sale of Human Resources Management (HR Management) line of business to NorthgateArinso for \$78.0 in cash as well as a zero coupon note in the principal amount of \$15.0, which has a balance of approximately \$10 at December 31, 2012. As a result of the sale of the HR Management line of business, the operating results related to HR Management have been reflected as discontinued operations. The total gain on the sale of HR Management amounted to \$35.2 pretax and \$5.6 net of taxes at December 31, 2010. Subsequently, in 2011, a \$6.5 reduction to the tax on the gain on this transaction was recorded and has been reflected as discontinued operations.

Prior to May 2012, we had two reportable segments, Customer Management and Information Management. In March 2012, we signed a definitive agreement to sell the Information Management business to NEC Corporation for \$449.0 in cash. The sale closed in May 2012, for which we received \$462.6 in cash, including \$12.9 for working capital adjustments. As a result of the sale of the Information Management business, the operating results and related assets and liabilities of Information Management have been reflected as discontinued operations for all periods presented. The total gain on the sale of the Information Management business amounted to \$99.8 pretax, and \$16.2 net of taxes at December 31, 2012.

As a result of the change in classification of the Information Management business to discontinued operations, the change in our Chief Executive Officer in the fourth quarter, and in order to reflect the internal financial reporting structure and operating focus of our new management team and chief operating decision maker, we report operating results and assets and liabilities as a single segment on a consolidated basis. Segment information for previous periods has been reclassified to conform to the current reporting structure.

Convergys delivers more than 4 billion customer contacts per year. We have approximately 77,000 employees in over 70 locations across the globe and in our work-at-home environment. We provide multilingual, multichannel customer care with a global service delivery infrastructure that operates 24 hours a day, 365 days a year. Our clients benefit from our worldwide workforce located in the U.S., Canada, Latin America, Europe, India, and the Philippines.

Agent-related revenues, which account for approximately 90% of revenues for 2012, are typically recognized as services are performed based on staffing hours or the number of contacts handled by service agents using contractual rates. Remaining revenues are derived from the sale of premise-based and hosted automated self-care and technology solutions and provision of professional services. Revenues from the sale of these solutions and provision of services are typically recognized as services are provided over the duration of the contract using contractual rates.

As more fully described below, revenues increased 4% from the prior year to \$2,005.0. Operating income and operating margin were \$38.6 and 1.9%, respectively, in 2012, compared to \$110.1 and 5.7%, respectively, in 2011.

Results of Operations

Revenues

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|                    | 2012      | 2011      | % Change<br>12 vs. 11 | 2010      | % Change<br>11 vs. 10 |
|--------------------|-----------|-----------|-----------------------|-----------|-----------------------|
| Revenues:          |           |           |                       |           |                       |
| Communications     | \$1,205.4 | \$1,147.6 | 5                     | \$1,053.8 | 9                     |
| Technology         | 172.7     | 170.0     | 2                     | 147.5     | 15                    |
| Financial Services | 203.3     | 208.0     | (2                    | ) 241.5   | (14 )                 |
| Other              | 423.6     | 407.6     | 4                     | 420.5     | (3 )                  |
| Total Revenues     | \$2,005.0 | \$1,933.2 | 4                     | \$1,863.3 | 4                     |

2012 vs. 2011

Consolidated revenues for 2012 were \$2,005.0 compared to \$1,933.2 in 2011. Revenues from communications clients increased 5% from 2011, reflecting volume increases with several large clients. Revenues from technology clients increased 2% from 2011 due to volume increases from existing and new clients partially offset by program completions with one client. Revenues from financial services clients decreased 2% from 2011, primarily reflecting program completions, including client migrations from legacy technology offerings, partially offset by revenue from a new client. Other revenues, which are comprised of clients outside the Company's three largest industries, increased 4% from 2011 due to volume increases and new programs with existing clients, partially offset by program completions. Other revenues for 2012 also include \$13.8 of transition services revenues earned under agreements with NEC Corporation related to the sale of the Information Management business. The transition services agreements vary in duration up to 24 months depending on the type of service provided, and our expectation is that we will substantially eliminate the underlying costs as the transition services are completed. Other revenues for 2011 also include \$14.4 of transition services revenue earned under agreements with NorthgateArinso that expired in 2011 related to the sale of the HR Management business.

2011 vs. 2010

Consolidated revenues for 2011 were \$1,933.2 compared to \$1,863.3 in 2010. Revenues from communications clients increased 9% from 2010 reflecting higher volumes with several clients. Revenues from technology clients increased 15% from 2010 due to new projects with existing and new clients. Revenues from financial services clients decreased 14% from 2010, primarily reflecting volume reductions and program completions, including client migrations from legacy technology offerings. Other revenues, which are comprised of clients outside the Company's three largest industries, decreased 3% from 2010, primarily attributable to the completion of a short-term program for the U.S. Census Bureau in 2010, offset by revenue earned from new projects with existing clients and new clients. Other revenues in 2011 also includes \$14.4 of revenue earned under transition services agreements with NorthgateArinso subsequent to the sale of HR Management compared to \$24.0 in the prior year.

Operating Costs and Expenses

|                     | 2012 | 2011 | % Change<br>12 vs. 11 | 2010 | % Change<br>11 vs. 10 |
|---------------------|------|------|-----------------------|------|-----------------------|
| Costs and Expenses: |      |      |                       |      |                       |