CONVERGYS CORP
Form 10-K
March 06, 2006
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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, 2005

Commission file number 1-14379

CONVERGYS CORPORATION

An Ohio Corporation	I.R.S. Employer No. 31-1598292

201 East Fourth Street, Cincinnati, Ohio 45202

Telephone Number (513) 723-7000

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

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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 _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 or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer _X_ Accelerated filer ___ Non-accelerated filer ___

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

The aggregate market value of the voting shares owned by non-affiliates of the registrant was $1,990,436,793, computed by reference to the closing sale price of the stock on the New York Stock Exchange on June 30, 2005, the last trading day of the registrant s most recently completed second fiscal quarter.

At January 31, 2006, there were 139,834,307 common shares outstanding, excluding amounts held in treasury of 36,951,857.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the 2006 Annual Meeting of Shareholders are incorporated by reference into Part III of this report to the extent described herein.

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Safe Harbor Statement and Part I, Item 1. Business

Private Securities

Litigation Reform Act Of 1995

Safe Harbor Cautionary Statement

This report and the documents incorporated by reference contain forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995, that are based on current expectations, estimates and projections. Statements that are not historical facts, including statements about the beliefs and expectations of Convergys Corporation, are forward-looking statements. Sometimes these statements will contain words such as believes, expects, intends, could, should, will, plans, anticipates similar words. These statements discuss potential risks and uncertainties; and, therefore, actual results may differ materially. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they were made. The Company expressly states that it has no current intention to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Important factors that may affect these projections or expectations include, but are not limited to: the consequence of potential terrorist activities and the responses of the United States and other nations to such activities; the loss of a significant client or significant business from a client; difficulties in completing a contract or implementing its provisions, or completing or integrating an acquisition; changes in the overall economy; changes in competition in markets in which the Company operates; changes in the legal or regulatory environment in which the Company and its clients operate; changes in the demand for the Company s services; changes in technology that impact both the markets served and the types of services offered; consolidation within the industries in which the Company s clients operate; changes in accounting principles generally accepted in the United States of America; and difficulties in conducting business internationally.

Part I

Item 1. Business

Overview

Convergys Corporation (the Company or Convergys) is a global leader in providing customer care, human resource and billing services. For over twenty years, enterprises with a large number of customers and employees have turned to Convergys and its predecessors for support. By providing value-added billing and customer care and employee care solutions for our clients, we have developed a base of recurring revenues, generally under multiple year contracts.

Whether it is for their customer care, human resource or billing needs, our clients depend on our solutions and expertise, allowing them to focus more of their internal resources on their core competencies. We bring together world-class resources, software and expertise to help create valuable relationships between our clients, their customers and their employees. With our billing and customer care solutions, our clients can gain a deeper understanding of each of their customers, how to serve them better and more knowledgeably, how to process payments faster, and how to make each transaction more profitable. With our human resource experience and know how, we help our clients attract, motivate and retain their employees.

We were spun off from our former parent company, Cincinnati Bell Inc., in 1998. Our principal executive offices are located at 201 East Fourth Street, Cincinnati, Ohio 45202, and the telephone number at that address is (513) 723-7000. We file annual, quarterly, current reports and proxy statements with the SEC. These filings are available to the public over the Internet on the SEC s Web site at http://www.sec.gov and at our Web site at http://www.convergys.com. You may also read and copy any document we file with the SEC at its public reference facilities in Washington, D.C. You can also obtain copies of the documents at prescribed rates by writing to the

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Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. You can also inspect reports, proxy statements and other information about Convergys at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

Business Segments

In connection with recent changes in our management structure, we modified our segment reporting structure. We now report three segments: (i) Customer Care, which provides outsourced customer care services; (ii) Employee Care, which provides outsourced employee care services; and (iii) the Information Management Group, which provides outsourced billing and information services and software. Prior to this filing, we reported two segments: the Customer Management Group (which included the operations of Customer Care and Employee Care) and the Information Management Group. 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 14 of Notes to Consolidated Financial Statements, are incorporated by reference in partial response to this Item 1.

Customer Care

Our Customer Care segment manages customer interactions on behalf of our clients through our multi-channel customer care contact centers. Phone and Web-based agent-assisted service channels provide customers with live interaction with agents who possess the required level of expertise, to react to individual customer needs. We deliver these services using a variety of tools including computer telephony integration, interactive voice response, advanced speech recognition, knowledge-based management and the Internet through agent-assisted and self-service channels. These services include:

Customer Service Our agents handle customer contacts that range from initial product information requests to customer retention initiatives. The various customer contacts can involve a variety of activities including gathering and analyzing customer information; describing product features, capabilities and options; activating customer accounts or renewing service; processing a product or service sale; and resolving complaints and billing inquiries.

Technical Support Our agents answer the technical support inquiries of individual consumers and business customers. The technical support provided by our agents ranges from simple product installation or operating assistance for a variety of software and hardware products to highly complex issues such as systems networking configuration or software consultation.

Accounts Receivable Management We manage active and primary accounts through first and third party collection efforts. We service clients by identifying and reminding early past-due customers during routine customer service interactions, and minimizing bad debts through active account delinquency management.

Sales Account Management We are capable of managing entire customer relationships of our clients including obtaining current orders, increasing purchase levels, introducing new products, implementing product initiatives and handling all inquiries related to products, shipments and billing.

Business Process Outsourcing We assist clients with the transformation of their customer care processes through the integration of automation, re-engineering and day-to-day operations. We help clients optimize customer interaction from revenue generation through reduced cost per contact while maintaining or exceeding current quality levels.

Business Intelligence Solutions Our agents collect and analyze detailed customer contact data and help clients translate this data into valuable business intelligence. Once clients understand the factors behind customer contacts, they are better able to identify the

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reasons for contact, increase customer satisfaction and loyalty and possibly decrease contact volume.

Over 90% of Customer Care s revenues are derived from agent-related services. We typically recognize these revenues as services are performed based on staffing hours or the number of contacts handled by service agents using contractual rates. In a limited number of engagements where the client pays a fixed fee, we recognize revenues, based on the specific facts and circumstances of the engagement, using the proportional performance method or upon final completion of the engagement. We sometimes earn supplemental revenues depending on our satisfaction of certain service levels or achievement of certain performance measurement targets. We recognize such supplemental revenues only after we achieve the required measurement target. Customer Care s remaining revenues are derived from collection services and professional and consulting services. Revenues for collection related services are recognized in the month collection payments are received based on a percentage of cash collected or other agreed upon contractual parameters. Revenues for professional and consulting services are recognized as the services are performed.

Employee Care

Our Employee Care segment helps our clients meet the needs of today s changing business landscape by providing (i) benefits administration, (ii) human resource administration, (iii) learning, (iv) payroll administration and (v) recruiting and staffing. We take advantage of our economies of scale in order to standardize HR processes across departments, business lines, language differences and national borders. With a global network of data and operations centers worldwide, we provide our clients employees with a single point of contact in nearly 60 countries and in 30 different languages through multi-channel communication vehicles. These multi-channel lines include advanced speech recognition technology, Web chats, telecommunications and fax.

Launched in 1984, our employee care offerings focused on managing employee service centers and critical workforce transactions that drove increased employee satisfaction while reducing administrative costs. With more than 20 years of experience providing HR outsourcing solutions, we have expanded our capabilities to include a large suite of HR Business Process Outsourcing (BPO) services including:

Benefits Administration We manage and track benefits data, which enables us to predict benefit expenses and provide clients the business intelligence they need to improve benefit-related processes, services and costs. Our benefits administration services include health and welfare administration services, retirement services and pension administration, absence management, flexible spending account administration, carrier administration and tuition reimbursement.

Human Resource Administration We perform compensation administration, performance management, policy administration and employee record management services.

Learning We provide our clients with training solutions, which can include Web-based training or instructor-led classroom training, as well as distance learning and live simulations. We customize all training to address a company s unique culture and specific objectives.

Payroll Administration 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 and include pay data management, payroll production, time and attendance, payroll tax administration, multi-jurisdictional administration and compliance and integrated global payroll reporting services.

Recruiting and Staffing We take responsibility for tactical recruitment functions, such as candidate sourcing, screening, tracking and interview scheduling. Human resource teams enable hiring managers to focus

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Item 1. Business (continued)

on finding the best matches for their job openings and improving the quality of every hire.

We are becoming a leading provider in HR BPO, which is the fastest growing HR services segment and a multibillion-dollar industry estimated to exceed $14 billion by 2009, according to the Yankee Group, by providing:

A Global Network of Workforce Support   We help businesses standardize HR processes and services for highly dispersed workforce populations using HR shared service center solutions. These service centers eliminate redundancies, reduce costs and improve services to employees.

A Client-Centric Approach   We transform existing internal processes using innovative and interactive techniques such as consultative workshops. We also collaborate with client teams to determine the right automation requirements, technical application and service delivery methods for each HR task.

Technology Flexibility and Integration   With flexible technology architecture, we can integrate a large range of client technologies with our platforms. Our proprietary global integration technology facilitates the consolidated administration of HR programs, processes and data across locations, countries and even third-party vendors.

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

We typically recognize revenues produced by Employee Care as services are performed based on the number of employees or participants served by Employee Care. We sometimes earn supplemental revenues depending on the satisfaction of certain service levels or achievement of certain performance measurement targets. We recognize such supplemental revenues only after we achieve the required measurement target. Prior to commencing our Employee Care services for a client, we normally perform certain set-up activities including the installation and customization of software, migration of participant data and writing of scripts. These set-up activities or implementations can take anywhere from three months to two years. To the extent a client pays directly for the set-up activities, we defer the proceeds. Once we begin to render services, we recognize these fees ratably over the term of the arrangement.

Information Management Group (IMG)

Our Information Management Group serves clients principally by providing and managing complex billing and information software that addresses all segments of the communications industry, including wireless, wireline, cable, cable telephony, broadband, direct broadcast satellite and the Internet. IMG s component-based framework supports the creation of billing and customer care solutions ranging from a single application to the combination of applications to a complete, end-to-end billing system. IMG s global billing product portfolio gives our clients a flexible migration path to expand their billing systems without loss of their initial investment. IMG s family of products includes:

Infinys®

Infinys software is our modular and convergent business support system (BSS) software. It enables operators to implement a comprehensive business support system, or to choose single applications, such as Infinys Rating and Billing, configured to the operator s specific business and operational requirements. Infinys uses a modular, pre-integrated approach to reduce both capital and operating expenditures, while speeding the launch of convergent services and services bundles. This flexibility of Infinys is a function of its three-layer design, incorporating platform, applications and extensions.

Infinys Platform:

Includes the common standards and platforms on which all applications and extensions are built, ensuring a

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common look and feel to all applications, while reducing operational complexity and costs.

Infinys Applications:

These convergent software components address a client s unique business needs. The key applications include:

Infinys Rating and Billing (RB)

A highly scalable, convergent rating and billing software application supporting voice, data and video services across wireless, wireline and cable/broadband verticals. With RB, operators can configure, test and launch convergent bundles, IP-based services and pre-/post-pay services to both retail and business customers.

Infinys Customer Service Management (CSM)

A next-generation customer care application that improves agent productivity by providing faster access to customer, service, order and billing information. With Infinys CSM, operators can improve agent productivity, reduce training costs and ultimately reduce customer care costs.

Infinys Order Management (OM)

A comprehensive order management software application with communication-specific logic and workflows. Infinys OM supports faster rollout of convergent bundles and complex services and reduces order fallout.

Infinys Partner Management (PM)

A software application for managing partners in the emerging content and commerce market, Infinys PM enables operators to set up and manage partnerships for third-party content and commerce services, while ensuring accurate settlement of revenues across a multi-level value-chain.

Infinys Inventory Management (IM)

A highly-configurable software application that supports the inventory needs of services across wireline, wireless and cable/broadband networks. Infinys IM enables operators to store and manage information on logical and physical inventory items, and, through pre-integration with Infinys CSM and OM, provides automated reservation and assignment of inventory items.

Infinys Activation Management (AM)

Provides automated flow-through activation (e.g., setting up new customer accounts) for convergent voice, data, video and content services. Infinys AM enables operators to provide convergent bundles, pre-pay and post-pay services and video services from a single platform.

Infinys Mediation Management (MM)

Supports real-time collection and processing of all network events across wireline, wireless and cable/broadband. The advanced error detection and correction features in Infinys MM help minimize revenue leakage (e.g., failure to invoice client for all billable services) and increase operator revenues.

Infinys Extensions:

These pre-packaged software and data configurations support vertical market-specific needs, such as region-specific taxation support, payment processing interfaces and bill printing interfaces.

PowerSeller ®

Powerseller is a sales effectiveness tool designed to significantly improve the sales interactions between an operator s sales team and its customers. As sales teams develop customer solutions, PowerSeller helps to ensure correct pricing, accurate promotion application, availability-based configuration and accurate product and service bundling.

Atlys®

Atlys is a comprehensive, end-to-end billing and customer care solution that supports the needs of wireless network operators competing in a global

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Item 1. Business (continued)

wireless voice and data market. Atlys delivers value by enabling rapid new service development by providing proven scalability to handle rapidly expanding subscriber bases.

ICOMS

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

WIZARD

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

IMG provides its software products in one of three delivery modes: outsourced, licensed or build-operate-transfer (BOT). In the outsourced delivery mode, IMG provides the billing services by running our software in one of our data centers. In the licensed delivery mode, the software is licensed to clients who perform billing internally. Finally, the BOT delivery mode entails IMG implementing and initially running our software in the client s data center with the option of transferring the operation of the software to the client at a future date.

We normally bill our clients each month for data processing services based upon the number of client subscribers, events or bills processed by IMG. Most of our data processing agreements, which typically have multi-year terms, are priced on a per subscriber, per event or per invoice basis. As the number of subscribers processed by IMG s system increases, the average per unit price for the Company s services typically decreases. Additionally, some of IMG s wireless data processing agreements contain per subscriber rate reductions triggered by the passage of time, typically a contract anniversary date. Professional and consulting revenues consist of fees charged for installation, implementation, customization, enhancement and managed services. We invoice our clients for these services based on time and material costs at contractually agreed upon rates, or in some instances, for a fixed fee. License and support and maintenance revenues consist of fees related to IMG s perpetual and term license arrangements. We invoice our clients for licenses either up-front or monthly based on the number of subscribers, events or units processed using the software. Fees for support and maintenance are charged in advance either on an annual, quarterly or monthly basis.

Strategy

Our strategy for growth and creating shareholder value is built around three strategic imperatives:

Lead in attractive markets by leveraging assets and capabilities. We intend to continuously grow our market share by offering differentiated products and services that leverage our technology, operational scale, and project management and process expertise. For example, we believe there is a real opportunity to build on the recent success our IMG business has had with selling our Infinys software. We believe that continued gains in the market acceptance of Infinys, as evidenced by recently executed client contracts, will help influence other communication and entertainment providers to purchase Infinys. In addition, our global human resource capabilities are enabling us to grow our Employee Care business as evidenced by recently signed employee care outsourcing deals with several global companies. We are also striving to leverage our leadership in the customer care market by cross-selling other services such as collections and building a professional services practice.

Outthinking and Outdoing to deliver differentiated value. We intend to create more value for shareholders by delivering more value to clients. We will provide thought leadership to our clients by identifying trends before they occur to enable clients to rapidly adapt to

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such trends with flexible solutions (Outthinking). Additionally, we will provide operationally superior solutions by cost-effectively deploying the best technology and processes to deliver performance improvements for our clients (Outdoing). For example, in anticipation of a move into the wireless market by cable providers, we enhanced our Infinys software to provide cable providers with the ability to bill for video, voice, data and wireless.

Align organization to best execute strategy. We took actions over the past year to organize our business for future growth. These actions include management changes and streamlining of operations. Furthermore, we believe it is important to properly align incentives to performance. Accordingly, for many of our executives, a significant percentage of their long-term incentives is tied to stock price performance relative to our peer group. Finally, we are in process of enhancing our use of a metrics-based management approach throughout the organization to provide greater insight and accountability.

Clients

Both our Customer Care and IMG segments derive significant revenues from Cingular Wireless (Cingular). Revenues from Cingular were 15.9%, 20.1% and 21.2% of our consolidated revenues for 2005, 2004 and 2003, respectively.

Customer Care

Our Customer Care 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 care services. In terms of Convergys revenues, our largest Customer Care clients during 2005 were Cingular, Comcast Corporation (Comcast), The DirecTV Group, Inc. (DirecTV), Sprint Nextel Corp. (Sprint Nextel) and the United States Postal Service. Since February 2004, we have provided customer care services to Sprint Nextel, for the Sprint PCS division, under a contract between Sprint Nextel and IBM, whereby we serve as a subcontractor to IBM.

Employee Care

Our Employee Care segment primarily focuses on implementing human resource and learning services and solutions with large companies and governmental agencies. In terms of Convergys revenues, our largest Employee Care clients during 2005 were AT&T Inc. (AT&T), Fifth Third Bancorp, General Electric Co., Lucent Technologies Inc. and the State of Florida.

IMG

Our billing software platforms process billing information for a large portion of U.S. wireless subscribers. We also provide cable and direct broadcast satellite billing services both domestically and internationally. Our cable billing systems also support bundled telephone and entertainment services provided by cable television system operators in the U.S. and Europe. In terms of Convergys revenues, our largest billing clients during 2005 were AT&T, ALLTEL Corporation, Inc. (ALLTEL), Cingular, Dobson Communications Corp. and Sprint Nextel.

Operations

We operate approximately 65 contact centers with 24 hours per day, 7 days per week availability, with close to 35,000 production workstations and averaging approximately 70,000 square feet per center. New contact centers are established to accommodate anticipated growth in business or in response to a specific customer need. We believe that our existing capacity is sufficient to meet near-term demand.

Our contact centers employ advanced technology that integrates 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

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Item 1. Business (continued)

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 billing data centers, one in Orlando, Florida, and the other in Cincinnati, Ohio, comprising, in total, approximately 170,000 square feet of space. Our technologically advanced data centers provide 24 hours per day, 7 days per week availability (with redundant power and communication feeds and emergency power back-up) and are designed to withstand most natural disasters. The facility infrastructure provides back-up capacity in the unlikely event that either data center becomes inoperative.

The capacity of our data center and contact center operations, coupled with the scalability of our billing and customer care and employee care systems, enables us to meet initial and ongoing needs of large-scale and rapidly growing companies and government entities. By employing the scale and efficiencies of common application platforms, we are able to provide client-specific enhancements and modifications without incurring many of the costs of a full custom application. This allows us to be in a position to be a value-added provider of billing, customer and employee support products and services.

Technology, Research and Development

We intend to continue to emphasize the design, development and deployment of scalable billing, customer care and employee care systems to increase our market share, both domestically and internationally. During 2005, 2004 and 2003, we spent $76.9 million, $77.5 million and $94.3 million, respectively, for research and development to advance the functionality, flexibility and scalability of our products and services. The majority of this spending was incurred at IMG and reflects our commitment to further develop our Infinys solution. The success of both our Customer Care and Employee Care segments depends in part on our advanced technology, used in the delivery of services to clients. As a result, we continue to invest in the enhancement and development of our contact center and human resource technology.

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

We own 32 patents, 25 of which are related to Customer Care/Employee Care and seven of which are related to IMG. Patents protect our technology and business methods used both to manage internal systems and processes effectively and gives us competitive advantages in developing innovative technologies to provide customer care, employee care and billing services to our clients. The first of these patents was issued in May 1998, while the most recent patent was granted in December 2005. These patents have a life of 17 years. Additional applications for U.S. and foreign patents currently are pending.

Our name and logo and the names of our primary software products are protected by trademarks and service marks that are registered or pending in the U.S. Patent and Trademark Office and under the laws of more than 50 foreign countries.

Employees

We employ approximately 65,700 people, approximately 58,900 of whom work for Customer Care, approximately 2,100 of whom work for Employee Care, approximately 3,900 of whom work for IMG, with the remainder working in various corporate functions.

Competition

The industries in which we operate are extremely competitive. Our competitors include: (i) existing clients and potential clients with substantial resources and the ability to provide billing and customer care and employee care capabilities internally; (ii) other customer care companies, such as Accenture Ltd. (Accenture), APAC Customer Services Inc., International Business Machines Corp. (IBM), SITEL Corp., Sykes Enterprises Inc., TeleTech Holdings Inc., West TeleServices Corp. and Wipro Spectramind Services; (iii) other employee care companies, such as Accenture, Automatic Data Processing Inc., Affiliated Computer Services Inc., Electronic Data Systems Corp., Fidelity, Hewitt Associates Inc. and IBM; and (iii) other billing software and/or services companies such as Amdocs Ltd., Comverse Technology Inc., CSG Systems International Inc., DST Systems Inc. and Portal Software, Inc. In addition, niche providers or new entrants could capture a segment of the market by developing new systems or services that could impact our market potential.

Interest in Cellular Partnerships

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

Cincinnati SMSA Limited Partnership conducts its operations as a part of Cingular, a joint venture between AT&T Inc. and BellSouth Corporation and the largest wireless provider in the United States. Cingular is the general partner and a limited partner of Cincinnati SMSA Limited Partnership with a partnership interest of approximately 66%. AT&T Inc. is the general partner and a limited partner of Cincinnati SMSA Tower Holdings LLC, with a partnership interest of approximately 53%.

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

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Item 1A. through 4.

Item 1A. Risk Factors

The information required by Item 1A is included in Item 7 on pages 37-41 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, and an office complex in Jacksonville, Florida, which is used predominantly by Customer Care and Employee Care.

We lease space for offices, data centers and contact centers on commercially reasonable terms. Domestic facilities are located in Arizona, California, Colorado, Florida, Georgia, Idaho, Illinois, Kansas, Louisiana, Michigan, Minnesota, Missouri, Nebraska, Nevada, New Jersey, North Carolina, Ohio, Oklahoma, Pennsylvania, Tennessee, Texas, Utah, Virginia and Wisconsin. International facilities are located in Australia, Brazil, Canada, China, England, France, Germany, Hong Kong, Hungary, India, Indonesia, Israel, Japan, Malaysia, Mexico, the Philippines, Scotland, Singapore, Spain, Sri Lanka, Switzerland, Thailand and the United Arab Emirates. Customer Care uses the majority of these facilities. Upon the expiration or termination of any such leases, 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. Both Customer Care and IMG use this property.

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 that do not lend themselves to description by character and location of principal units. We depreciate these assets using the straight-line method over estimated useful lives of the assets. Leasehold improvements are depreciated over the shorter of their estimated useful life or the term of the associated lease.

We believe that our facilities and equipment are adequate and have sufficient productive capacity to meet our current needs.

Item 3. Legal Proceedings

None.

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

There were no matters submitted to a vote of security holders in the fourth quarter of 2005.

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Executive Officers of the Registrant

The following information is included in accordance with the provisions for Part III, Item 10.

As of February 28, 2006, our Executive Committee members were:

Name	Age	Title
James F. Orr (a)	60	Chairman of the Board and Chief Executive Officer
Thomas A. Cruz, Jr.	58	Senior Vice President, Human Resources and Administration
David F. Dougherty	49	President and Chief Operating Officer
William H. Hawkins II	57	Senior Vice President, General Counsel and Secretary
Earl C. Shanks	49	Chief Financial Officer

(a) Member of the Board of Directors and Executive Committee.

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

JAMES F. ORR, Chairman of the Board since April 25, 2000; Chief Executive Officer of the Company since 1998.

THOMAS A. CRUZ, JR., Senior Vice President, Human Resources and Administration since January 21, 2003; Vice President, Human Resources and Administration, 1997-2002.

DAVID F. DOUGHERTY, President and Chief Operating Officer since September 7, 2005; Executive Vice President, Global Information Management, 2003-2005; Chief Development Officer of the Company, 2000-2003.

WILLIAM H. HAWKINS II, Senior Vice President, General Counsel and Secretary of the Company since January 21, 2003; General Counsel and Secretary, 2001-2002; Associate General Counsel and Secretary of the Company, 2000-2001.

EARL C. SHANKS, Chief Financial Officer since November 13, 2003; Senior Vice President and Chief Financial Officer of NCR Corporation, 2001-2003; Vice President of Corporate Finance of NCR Corporation, 1998-2001.

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PART II

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

Convergys Corporation (symbol: CVG) common shares are listed on the New York Stock Exchange. As of January 31, 2006, there were 13,212 holders of record of the 139,834,307 common shares of Convergys, excluding amounts held in treasury (176,786,164 outstanding common shares of Convergys, of which 36,951,857 were held in Treasury).

The high, low and closing prices of our common shares for each quarter in 2005 and 2004 are listed below:

Quarter	1st	2nd	3rd	4th
2005				
High	**$ 15.76**	**$ 15.09**	**$ 15.30**	**$ 17.90**
Low	**$ 13.68**	**$ 12.57**	**$ 13.68**	**$ 13.58**
Close	**$ 14.93**	**$ 14.22**	**$ 14.37**	**$ 15.85**
2004				
High	$ 19.96	$ 17.32	$ 15.38	$ 15.31
Low	$ 14.73	$ 14.01	$ 12.30	$ 12.42
Close	$ 15.20	$ 15.40	$ 13.43	$ 14.99

We did not declare any dividends during 2005 or 2004 and do not anticipate doing so in the near future.

On February 25, 2003, our Board of Directors authorized the repurchase of up to 10 million of our common shares. On April 2, 2003, the Board authorized the additional repurchase of up to 10 million of our common shares. On June 28, 2005, the Board authorized the additional repurchase of up to 10 million of our common shares. Through February 2006, we have repurchased 19.4 million shares for $274.9 million pursuant to these authorizations. We may repurchase 10.6 million additional shares pursuant to these authorizations.

Our fourth quarter 2005 repurchases of common shares were as follows:

Period	Total Number Of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans Or Programs	Maximum Number of Shares That May Yet Be Purchased Under The Plans or Programs at 12/31/05

December	391,300	$ 16.06	391,300	10,815,600

Equity Plans

The following table shows certain information as of December 31, 2005, with respect to compensation plans under which our common shares are authorized for issuance:

	No. of Common Shares to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of common shares remaining available for future issuance
Equity compensation plans approved by shareholders [1]	16,797,709	$ 26.01	8,228,123
Equity compensation plans not approved by shareholders [2]	86,050	$ 4.64	
Total	16,883,759	$ 25.91	8,228,123

[1] Represents stock options or shares issued under our Long-Term Incentive Plan. See Note 11 to Notes to Consolidated Financial Statements for further discussion.
[2] In connection with our 2001 acquisition of Geneva Technology Ltd. (Geneva), we converted outstanding options to acquire Geneva shares into options to acquire our common shares.

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Item 6. Selected Financial and Operating Data

(Amounts in Millions Except Per Share Amounts)	**2005**	2004	2003	2002	2001
Results of Operations					
Revenues	**$ 2,582.1**	$ 2,487.7	$ 2,288.8	$ 2,286.2	$ 2,320.6
Costs and expenses [1]	**2,358.5**	2,302.2	1,996.4	2,032.9	2,044.0
Operating income	**223.6**	185.5	292.4	253.3	276.6
Equity in earnings (loss) of Cellular Partnerships [2]	**12.4**	2.0	(12.6)	6.4	6.4
Other income (expense), net [3]	**(1.4)**	(3.8)	(1.3)	(4.3)	(8.1)
Interest expense	**(21.2)**	(10.3)	(6.9)	(11.0)	(20.0)
Income before income taxes	**213.4**	173.4	271.6	244.4	254.9
Income taxes [4]	**90.8**	61.9	100.0	98.5	116.1
Net income	**$ 122.6**	$ 111.5	$ 171.6	$ 145.9	$ 138.8
Earnings per share:					
Basic	**$ 0.88**	$ 0.79	$ 1.18	$ 0.90	$ 0.82
Diluted	**$ 0.86**	$ 0.77	$ 1.15	$ 0.88	$ 0.80
Weighted average common shares outstanding:					
Basic	**140.0**	141.4	145.7	162.9	169.4
Diluted	**142.9**	145.4	148.8	166.1	174.4
Financial Position					
Total assets	**$ 2,411.4**	$ 2,198.8	$ 1,810.2	$ 1,619.5	$ 1,742.9
Total debt	**432.2**	351.7	134.8	55.3	133.5
Shareholders equity	**1,355.1**	1,285.3	1,151.7	1,134.5	1,234.8
Other Data					
Cash provided (used) by:					
Operating activities	**$ 232.7**	$ 195.4	$ 373.5	$ 443.3	$ 344.0
Investing activities	**(138.3)**	(364.9)	(237.2)	(119.2)	(150.4)
Financing activities	**43.2**	190.7	(111.3)	(353.0)	(201.8)
Free cash flows [5]	**206.8**	114.2	174.7	222.5	325.5

[1] This includes restructuring and impairment charges of $21.2, $30.4, $107.7 and $89.8 recorded during 2005, 2004, 2002 and 2001, respectively.
[2] Equity in earnings (loss) of Cellular Partnerships includes a $9.9 ($6.4 after tax) loss from the settlement of a lawsuit during 2003.

[3] Other income (expense), net in 2001 includes a write-down of equity investments of $6.5 ($6.5 after tax).
[4] In 2005, we incurred $11.4 in incremental tax expenses related to the repatriation of approximately $187 in funds from foreign subsidiaries.
[5] Free cash flows are not defined under accounting principles generally accepted in the United States and are calculated as cash flows from operations excluding the impact of the accounts receivable securitization less capital expenditures (net of proceeds from disposals). Free cash flows are presented as an alternative measure of the Company s ability to generate cash flows. For more detail and a reconciliation of cash flows from operations to free cash flows, see the Financial Condition, Liquidity and Capital Resources section of this report.

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Item 7. Management s Discussion and Analysis

of Financial Condition and Results of Operations

(Amounts in Millions Except Per Share Amounts)

Overview

Customer Care

Our Customer Care segment, which accounted for approximately 64% of our consolidated revenues in 2005, provides outsourced customer care services for our clients utilizing our advanced information systems capabilities and industry expertise. In our multi-channel contact centers, our service agents provide a full range of customer care services including initial product information requests, customer retention initiatives, technical support inquiries for consumers and business customers and collections.

As more fully described below under the heading Customer Care, Customer Care s revenues in 2005 increased 3% to $1,641.5 from prior year. Including restructuring charges of $13.8 in 2005 and a restructuring credit of $3.5, Customer Care s operating income decreased 16% to $154.3. These results reflect a variety of challenges that Customer Care continues to face, including pricing pressure and the impact of the weakened U.S. dollar versus the Canadian dollar. In addition, we have been negatively impacted by a reduction in spending by Cingular, Customer Care s second largest client.

Despite these challenges, we believe that we are well positioned to capitalize on the trend of large companies and governmental entities using outsourcing providers to provide cost-effective, high quality customer support and solutions. During 2005, we handled increased volumes for several Customer Care clients including our two largest video, broadband and satellite clients. In addition, we entered into new arrangements with a number of clients in the financial, manufacturing, retail and government sectors. We have also implemented various restructuring initiatives to be more customer-centric, cost effective and competitive. We have realigned our client-facing units by vertical markets and worked to establish a more streamlined global operation.

Employee Care

Our Employee Care segment provides a full range of outsourced employee care services to large companies and governmental entities including benefits administration, human resource administration, learning, payroll administration and recruiting and staffing. With a global network of data and operations centers worldwide, we provide our clients employees with a single point of contact in nearly 60 countries and in 30 different languages through multi-channel communication vehicles.

Employee Care accounted for 6% of our consolidated revenues in 2005, up from 4% in 2003. As more fully described below under the heading Employee Care, Employee Care s revenues in 2005 increased 12% to $162.5 from the prior year, while it incurred an operating loss of $50.4 versus $53.1 in the prior year. During the past few years, we have been focused on transforming the segment into a leading player in the growing human resource outsourcing market. In connection with our efforts to grow the business and build a global infrastructure of human resource expertise and know-how, we have incurred significant start-up costs. Furthermore, despite the fact that we have had recent success winning long-term outsourcing arrangements with several clients, the sales cycles for these arrangements have ranged from twelve to twenty-four months, which is longer than expected. For these reasons, coupled with the fact that we are in the early stages with many of our outsourcing arrangements, where margins tend to be lower, we have generated significant operating losses over the past few years.

We believe that Employee Care is becoming a leading provider of global human resource services. We recently signed long-term human resource outsourcing arrangements with a number of large global companies and expect this momentum to continue. These contracts have terms for multiple years ranging from seven to thirteen

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years. Based on the contracts signed to date and promising opportunities in our sales pipeline, we believe that Employee Care revenues in 2007 will approximately double those generated by the segment in 2005. As we implement new clients and continue to realize efficiencies with existing client programs, we believe that our investment in Employee Care will generate value for our shareholders.

Information Management Group (IMG)

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

In 2005, IMG accounted for 30% of our consolidated revenues. Data processing accounted for 44% of this revenue. Revenue from professional and consulting services accounted for 34% of IMG s revenues in 2005. The remaining IMG revenues consisted of license and related support and maintenance fees earned under perpetual and term license arrangements. As more fully described below under the heading Information Management Group, IMG s revenues in 2005 increased 4% from prior year to $778.1. Operating income was $145.1 in 2005 compared with $73.0 in 2004, which included a restructuring charge of $25.8. These results mainly reflect a changing mix of revenues as well as savings realized through restructuring initiatives.

IMG continues to face competition as well as consolidation within the communications industry. In October 2004, Cingular completed its acquisition of AT&T Wireless. Prior to the acquisition, AT&T Wireless was IMG s largest client. Over the past year, we have been assisting Cingular with its strategy to migrate subscribers off of the AT&T Wireless billing systems (that we support) onto Cingular s two in-house systems (one of which we support through a managed services agreement) by December 31, 2006. In September 2005, Sprint PCS, a large data processing outsourcing client, completed its acquisition of Nextel Communications. The client recently informed us that it intends to consolidate its billing systems onto a competitor s platform. At this point, Sprint Nextel s plan is to migrate subscribers from our billing system during 2006 and 2007. Regardless, we remain confident in IMG s prospects for growth. During the past year, we entered into new Infinys license arrangements with several North American and international clients. We believe that this is evidence of the market s acceptance of Infinys and see an opportunity to build on this recent success. We have also entered into new data processing outsourcing arrangements with clients in the entertainment sector.

Results of Operations

Consolidated Results

	2005	2004	% Change 05 vs. 04	2003	% Change 04 vs. 03
Revenues	**$ 2,582.1**	$ 2,487.7	4	$ 2,288.8	9
Costs and Expenses:					
Costs of products and services [1]	**1,583.0**	1,542.0	3	1,320.9	17
Selling, general and administrative expenses	**530.1**	511.1	4	458.2	12

Research and development costs	**76.9**	77.5	(1)	94.3	(18)
Depreciation	**126.1**	119.1	6	108.9	9
Amortization	**21.2**	22.1	(4)	15.1	46
Restructuring charges	**21.2**	30.4	(30)	(1.0)	
Total costs and expenses	**2,358.5**	2,302.2	2	1,996.4	15
Operating Income	**223.6**	185.5	21	292.4	(37)
Equity in earnings (loss) of Cellular Partnerships	**12.5**	2.0		(12.6)	
Other expense	**(1.5)**	(3.8)	(61)	(1.3)	
Interest expense	**(21.2)**	(10.3)		(6.9)	49
Income Before Income Taxes	**213.4**	173.4	23	271.6	(36)
Income taxes	**90.8**	61.9	47	100.0	(38)
Net Income	**$ 122.6**	$ 111.5	10	$ 171.6	(35)
Diluted Earnings Per Common Share	**$ 0.86**	$ 0.77	12	$ 1.15	(33)

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

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Item 7. Management s Discussion and Analysis

of Financial Condition and Results of Operations (continued)

2005 vs. 2004

Consolidated revenues increased 4% to $2,582.1 compared to $2,487.7 in 2004, reflecting growth from all three segments. Operating income increased 21% to $223.6, while operating margin grew to 8.7% versus 7.5% in 2004. This improvement was largely due to the favorable impact of higher revenues, savings realized through restructuring initiatives and lower restructuring charges.

These positive operating income factors were partially offset by approximately $25 in higher expenses incurred at Customer Care due to the continued weakening of the U.S. dollar versus the Canadian dollar. Customer Care 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. During 2005 and 2004, these currencies strengthened against the U.S. dollar. Accordingly, the expenses of operating these contact centers, once translated into U.S. dollars, have 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. The Company realized approximately $31 in gains from these hedges in both 2005 and 2004. In addition, the Company s operating income in 2005 was negatively impacted by approximately $8 in increased stock compensation expense, recorded at corporate, resulting from restricted stock units awarded pursuant to the Company s long-term incentive plan.

As a percentage of revenues, costs of products and services were 61.3% compared to 62.0% in the prior year. This reflects improvement from both IMG and Employee Care, offset by the impact of the higher level of expenses incurred at Customer Care as a result of the continued weakening of the U.S. dollar versus Canadian dollar. The 4% increase in selling, general and administrative expenses reflects higher expenses associated with the expansion of Employee Care s operations.

Depreciation expense increased 6% due to investments made by Employee Care as well as tangible assets acquired in connection with 2004 business acquisitions. The 4% decrease in amortization expense reflects the impact of acquired software that became fully amortized during the second quarter of 2005, partially offset by the amortization of intangible assets acquired in connection with 2005 and 2004 business acquisitions. As discussed more fully under the heading, Restructuring Charges, we incurred net restructuring charges of $21.2 in 2005 versus $30.4 in 2004.

In 2005, we recorded equity income in the Cellular Partnerships of $12.4 compared with $2.0 in 2004, reflecting revenue growth from Cincinnati SMSA Limited Partnership. Interest expense more than doubled during 2005 from the prior year, reflecting higher levels of debt and higher interest rates. We incurred income tax expenses of $90.8 (42.6% effective tax rate) in 2005 versus $61.9 (35.7% effective tax rate) in the prior year. The increase in the effective rate is largely related to $11.4 in additional tax expense, which resulted from the repatriation of approximately $187 in funds from foreign subsidiaries. See Note 6 of Notes to Consolidated Financial Statements for further explanation of the cash repatriation.

As a result of the foregoing, 2005 net income was $122.6, a 10% increase from $111.5 in 2004. Earnings per diluted share increased by 12% to $0.86 from $0.77 in 2004. This includes the $11.4 million ($0.08 per diluted share) of additional taxes incurred in 2005. In addition, this reflects the $21.2 ($13.2 after tax or $0.09 per diluted share) of restructuring expenses incurred in 2005 compared to $30.4 ($21.0 after tax or $0.14 per diluted share) of restructuring expenses incurred in 2004.

2004 vs. 2003

Our revenues in 2004 increased 9% to $2,487.7, compared to $2,288.8 in 2003. The revenue increase is attributable to double digit increases in Customer Care and Employee Care revenues, partially offset by a 5% decrease at IMG. Operating income and operating margin in 2004 were $185.5 and 7.5% versus $292.4 and 12.8% in the prior year, respectively. These decreases reflect the impact of pricing pressure affecting Customer Care and IMG, higher expenses incurred with the expansion of our Employee Care operations and increased costs associated with large outsourcing clients that we launched in 2004 and 2003. In addition, operating margin in 2004 was negatively impacted by a net restructuring charge of $30.4 recorded in the fourth quarter of 2004, as well as $7 in stock compensation expense, recorded at corporate, resulting from restricted stock units that the Company began to award in 2004 pursuant to the Company s long-term incentive plan. Partially offsetting these items was the impact of realized economies of scale driven by Customer Care s growth, as well as lower research and development and selling, general and administrative expenses incurred at IMG.

As a percentage of revenues, costs of products and services increased to 62.0% from 57.7% in the prior year. This reflects the impact of pricing changes affecting Customer Care and IMG, as well as the increased costs associated with the launch of large Employee Care clients. This was partially offset by the impact of revenues generated by Customer Care s offshore contact centers, reflecting client demand, as well as savings realized through cost reduction initiatives. The 12% increase in selling, general and administrative expenses was principally due to further expansion in Customer Care and Employee Care s operations, partially offset by lower spending at IMG.

Amortization expense increased 46%, reflecting intangible assets acquired in connection with recent acquisitions. Depreciation expense increased 9%, reflecting assets acquired in connection with recent business combinations, Customer Care s investment in its worldwide contact center capacity and depreciation of our headquarters facility, which was acquired in 2003. Research and development expenses decreased 18% as a result of lower spending at IMG.

As discussed more fully under the heading, Restructuring Charges, we incurred a net restructuring charge of $30.4 in the fourth quarter of 2004. This compares to a $1.0 credit recorded during 2003, which reflects a change in an accounting estimate of a restructuring charge originally taken in 2002.

In 2004, we recorded equity in earnings in the Cellular Partnerships of $2.0 compared to an equity loss of $12.6 in 2003. In 2003, the general partner of Cincinnati SMSA Limited Partnership, settled a lawsuit against the partnership for $22.0. Our share of this loss was $9.9, which we recorded as a loss from our equity investment in the partnership.

Interest expense increased 49% in 2004 from the prior year, reflecting higher levels of debt and higher interest rates. Our effective tax rate in 2004 was 35.7% versus 36.8% in 2003.

As a result of the foregoing, 2004 net income was $111.5, a 35% decrease from $171.6 in 2003. Earnings per diluted share decreased by 33% to $0.77 from $1.15 in 2003. This includes the $30.4 ($21.0 after tax or $0.14 per diluted share) of restructuring expenses incurred in 2004, $9.9 ($6.4 after tax or $0.04 per diluted share) equity loss resulting from the partnership settlement in 2003 and the effect of $1.0 ($0.6 after tax or $0.00 per diluted share) in the restructuring accrual reversal recorded in 2003.

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Item 7. Management s Discussion and Analysis

of Financial Condition and Results of Operations (continued)

Customer Care

	2005	2004	% Change 05 vs. 04	2003	% Change 04 vs. 03
Revenues:					
Communications	**$ 877.4**	$ 965.8	(9)	$ 912.8	6
Technology	**138.9**	147.4	(6)	146.0	1
Financial services	**249.9**	187.4	33	130.0	44
Other	**375.3**	293.6	28	217.4	35
Total revenues	**1,641.5**	1,594.2	3	1,406.2	13
Costs and Expenses:					
Costs of products and services	**1,077.2**	1,030.7	5	890.1	16
Selling, general and administrative expenses	**308.2**	298.3	3	254.2	17
Research and development costs	**8.6**	6.0	43	4.6	30
Depreciation	**68.7**	68.7		67.7	1
Amortization	**10.7**	9.5	13	7.8	22
Restructuring charges	**13.8**	(3.5)			
Total costs and expenses	**1,487.2**	1,409.7	5	1,224.4	15
Operating Income	**$ 154.3**	$ 184.5	(16)	$ 181.8	1

2005 vs. 2004

Revenues

Customer Care s 2005 revenues were $1,641.5, a 3% increase from 2004. Approximately 75% of the increase is attributable to businesses acquired by Customer Care during 2004. The remaining increase reflects revenue growth from clients in the financial services and other verticals, partially offset by lower revenues from clients in the communication sector.

The 9% decrease in communications revenues reflects a 30% reduction in spending from Cingular as well as lower revenues from two wireline clients. The lower spending by Cingular reflects a reduction in the average amount of time required by Customer Care agents to handle customer interactions as well as lower call volume due a number of factors including cancellation of certain programs. This was partially offset by higher revenues from Customer Care s two largest clients in the cable and satellite video markets. The 33% increase in revenues from financial services clients was driven by increased volume with several clients, most notably two large credit card issuers. In addition, this reflects revenues from collection clients, who were obtained in connection with Customer Care s acquisition of Encore in 2004. The 6% decrease in technology revenues reflects lower spending from several clients, including Customer Care s largest software client, offset by increased spending by a hardware client. Other revenues increased 28%, reflecting revenues generated from a large global industrial client that became fully implemented during the second half of 2004, as well as increased spending by several other new and existing clients. The revenue fluctuations with the remaining clients mentioned were driven by a combination of factors. This includes growth and decline in the clients customer base, life cycle of specific client programs (e.g., one time programs) and lower pricing.

Costs and Expenses

Customer Care s costs of products and services increased 5% from 2004 to $1,077.2, reflecting, in large part, the higher volume of revenues. As a percentage of revenues, costs of providing services increased to 65.6% compared to 64.7%. Cost of providing services as a percentage of revenues increased 130 basis points due to higher operating expenses that resulted from a weakened U.S. versus Canadian dollar, net of gains realized from the settlement of forward exchange contracts. This was partially offset by savings realized through Customer Care s recent restructuring initiatives.

Selling, general and administrative expenses increased 3% to $308.2 in 2005. As a percentage of revenues, selling, general and administrative expenses totaled 18.8%, compared with 18.7% in the prior year. This slight increase reflects incremental expenses incurred as a result of a weakened U.S. versus Canadian dollar, partially offset by savings realized through restructuring initiatives.

Depreciation expense of $68.7 was flat, reflecting tangible assets acquired in connection with 2004 business acquisitions, offset by the impact of lower capital expenditures made in 2005 compared with prior years. As a result of

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intangible assets acquired in connection with 2004 business acquisitions, amortization expense increased 13% from the corresponding period last year. Research and development expenses for 2005 increased 43% to $8.6, reflecting our increased efforts to drive further efficiencies in our contact centers through the use of more advanced technology. As discussed more fully under the heading, Restructuring Charges, Customer Care incurred $13.8 in net restructuring charges in 2005. This compares to a restructuring credit of $3.5 recorded in 2004.

Operating Income

As a result of the foregoing, Customer Care s 2005 operating income and margin decreased to $154.3 and 9.4%, compared with $184.5 and 11.6% in 2004. This includes the $13.8 restructuring charge in 2005, which decreased the operating margin in 2005 by 80 basis points, and the $3.5 restructuring benefit in 2004, which increased 2004 s operating margin by 20 basis points.

2004 vs. 2003

Revenues

Customer Care revenues were $1,594.2, a 13% increase from 2003. This reflects increased revenues from several clients as described below in more detail. Approximately 24% of the increase is attributable to businesses acquired by Customer Care during 2004. This was partially offset by the impact of pricing changes, as well as lower spending by other clients.

Revenues from communications clients were $965.8 during 2004, a 6% increase compared to the prior year. This reflects revenues from the Sprint Nextel/IBM arrangement, as well as a 10% increase in revenues from Cingular. This was partially offset by a significant reduction in spending by Customer Care s largest wireline client, which reflects lower volume due to a decrease in client s customer base. Technology service revenues increased 1% to $147.4 compared to the prior year, reflecting increased spending by Customer Care s largest software client and two network hardware clients, partially offset by lower revenues from two PC equipment clients. Revenues from financial service clients increased 44% to $187.4, reflecting revenues from collection clients, who were obtained in connection with Customer Care s 2004 acquisition of Encore and increased revenues from several financial institutions. Other revenues were $293.6, an increase of 35% compared to the prior year. This resulted from revenues generated from several clients including the United States Postal Service, a large global industrial client and a pharmaceutical client.

Costs and Expenses

The 16% increase in Customer Care s costs of products and services primarily reflects the higher volume of revenues. Cost of providing services as a percentage of revenues increased 140 basis points due to higher operating expenses that resulted from a weakened U.S. versus Canadian dollar, net of increased gains realized from the settlement of forward exchange contracts. Additionally, this increase reflects the negative impact of pricing pressure. These items were partially offset by the favorable impact of revenues generated from our offshore contact centers and savings realized through our continuous improvement initiatives.

Selling, general and administrative expenses were $298.3 in 2004, a 17% increase compared to the prior year. This reflects expenses incurred by the businesses acquired during 2004 and increased costs associated with the expansion of Customer Care s offshore contact centers. As a percentage of revenues, selling, general and administrative expenses increased slightly to 18.7% from 18.1% in 2003. We made a concerted effort to drive technological efficiencies in our contact centers, which was reflected in the increase in research and development expenses of $6.0 in 2004 compared with $4.6 in 2003. Depreciation expense increased slightly during 2004, reflecting additional depreciation resulting from businesses acquired by Customer Care in 2004. Amortization expense increased 22% to $9.5, reflecting amortization of intangible assets obtained in connection with 2004 business acquisitions. Additionally, as discussed above, Customer Care incurred a restructuring credit of $3.5 in 2004.

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Item 7. Management s Discussion and Analysis

of Financial Condition and Results of Operations (continued)

Operating Income

As a result of the foregoing, Customer Care s operating income increased to $184.5 compared with $181.8 in 2003. However, the margin decreased from 12.9% in 2003 to 11.6% in 2004. This includes the restructuring credit of $3.5, which increased 2004 s operating margin by 20 basis points.

Employee Care

	2005	2004	% Change 05 vs. 04	2003	% Change 04 vs. 03
Revenues	**$ 162.5**	$ 145.0	12	$ 98.7	47
Costs and Expenses:					
Costs of products and services	**105.4**	109.3	(4)	53.4	105
Selling, general and administrative expenses	**90.6**	72.5	25	42.0	73
Research and development costs	**1.7**	4.2	(60)	1.9	121
Depreciation	**11.4**	7.6	50	2.9	162
Amortization	**2.5**	1.9	32	1.0	90
Restructuring charges	**1.3**	2.6	(50)		
Total costs and expenses	**212.9**	198.1	7	101.2	96
Operating Income	**$ (50.4)**	$ (53.1)	(5)	$ (2.5)	

2005 vs. 2004

Revenues

Employee Care s revenues in 2005 were $162.5, a 12% increase from 2004. Approximately 90% of the growth was driven by the businesses acquired in 2005 and 2004. The remaining increase reflects revenues from new clients implemented in 2005.

Costs and Expenses

Costs of products and services decreased 4% from 2004 to $105.4. As a percentage of revenues, cost of providing services decreased to 64.9% from 75.4% in 2004. The improvement reflects efficiencies and operational improvements realized with client programs that were implemented in 2004 and 2003. 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. In addition, in 2004 we incurred a significant amount of direct and incremental costs related to the implementation of new client programs that were expensed as incurred, as they were not eligible for capitalization.

Compared to 2004, selling, general and administrative expenses increased 25% to $90.6. This was driven by expenses incurred in connection with the expansion of our Employee Care staff and operations, including costs related to businesses acquired by Employee Care during 2004. As a percentage of revenues, selling, general and administrative expenses increased to 55.8% versus 50.0% in 2004. This increase was the result of slower than expected sales growth driven by a longer than anticipated sales cycle. Due to the complexity associated with outsourcing human resource functions, the sales cycle for new client arrangements has ranged from twelve to twenty-four months. The sales cycle is long, due to complexities associated with outsourcing human resource functions, including decisions regarding what functions to outsource, location and timing of outsourcing.

Employee Care s research and development expenses decreased to $1.7, compared with $4.2 in 2004. This was largely due to the increased focus of our information technology resources on directly supporting client programs, compared with prior years. Depreciation expense increased 50% during 2004, reflecting expansion of our Employee Care operations, including businesses acquired during 2004. Amortization expense increased 32% to $2.5, reflecting amortization of intangible assets obtained in connection with businesses acquired in 2005 and 2004. Additionally, as discussed in further detail under the heading, Restructuring Charges, Employee Care incurred a restructuring charge of $1.3 in 2005 versus $2.6 in 2004.

Operating Income

As a result of the foregoing, Employee Care s 2005 operating loss decreased to $50.4 versus $53.1 in 2004. Approximately 60% of the operating loss in 2005 was incurred in the first six months of 2005, reflecting sequential improvement in Employee Care s operating results, which we expect to continue in 2006.

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2004 vs. 2003

Revenues

Employee Care s revenues in 2004 were $145.0, a 47% increase from 2003. This reflects revenues from several new clients that we implemented in 2004 and 2003. Approximately 40% of the growth was driven by the businesses acquired by Employee Care in 2004.

Costs and Expenses

Employee Care s costs of products and services in 2004 more than doubled from 2003, which reflects, in part, the higher volume of revenues. As a percentage of revenues, cost of providing services increased to 75.4% compared to 54.1%. The increase also reflects the fact that much of the revenue increase was derived from newly implemented client programs, where margins tend to be lower in the early stages. In addition, the increase was due to direct and incremental costs that we incurred in connection with the implementation of client programs that were expensed as incurred, as they were not eligible for capitalization.

Selling, general and administrative expenses increased 73% to $72.5 in 2004. This was driven by expenses incurred with the expansion of our Employee Care staff and operations, including cost related to businesses acquired by Employee Care during 2004. As a percentage of revenues, selling, general and administrative expenses increased to 50.0% in 2004 versus 42.6% in 2003. This increase was the result of slower than anticipated sales growth driven by a long sales cycle.

Employee Care s research and development expenses were $4.2 compared with $1.9 in 2003, reflecting continued investment in its learning platforms. The significant increase in depreciation expense reflects the expansion of our Employee Care operations, including businesses acquired during 2004. Amortization expense increased 90% to $1.9, reflecting amortization of intangible assets obtained in connection with businesses acquired in 2004. Additionally, as discussed in further detail under the heading, Restructuring Charges, Employee Care incurred a restructuring charge of $2.6 in 2004.

Operating Income

As a result of the foregoing, Employee Care s 2004 operating loss increased to $53.1 compared with operating loss of $2.5 in 2003.

Information Management Group

	2005	2004	% Change 05 vs. 04	2003	% Change 04 vs. 03
Revenues:					
Data processing	**$ 340.5**	$ 389.9	(13)	$ 458.3	(15)
Professional and consulting	**267.6**	191.3	40	193.6	(1)
License and other	**170.0**	167.3	2	132.0	27

External revenues	**778.1**	748.5	4	783.9	(5)
Intercompany revenues				4.8	
Total revenues	**778.1**	748.5	4	788.7	(5)
Costs and Expenses:					
Costs of products and services	**400.2**	403.0	(1)	383.2	5
Selling, general and administrative expenses	**125.9**	135.9	(7)	161.4	(16)
Research and development costs	**66.6**	67.2	(1)	87.8	(23)
Depreciation	**32.3**	32.9	(2)	30.6	8
Amortization	**8.0**	10.7	(25)	6.3	70
Restructuring charges		25.8			
Total costs and expenses	**633.0**	675.5	(6)	669.3	1
Operating Income	**$ 145.1**	$ 73.0	99	$ 119.4	(39)

2005 vs. 2004

Revenues

IMG s revenues increased 4% to $778.1 in 2005 from $748.5 in 2004. Data processing revenues of $340.5 decreased 13% from the prior year. This decrease reflects the changing dynamics of our relationship with Cingular, as they migrate subscribers from their outsourced environments to in-house managed service environments. Professional and consulting revenues of $267.6 increased 40% from the prior year, reflecting increased revenues generated from IMG s two largest wireless clients. License and other revenues increased 2% to $170.0 from the prior

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year. This reflects license revenues from several new and existing European, Latin American and Asian Pacific clients.

Costs and Expenses

Despite the 4% increase in revenues, IMG s costs of products and services decreased 1% to $400.2 in 2005 over 2004. As a percentage of revenues, costs of products and services decreased to 51.4% in 2005 compared with 53.8% in the prior year. This was the result of the savings realized through restructuring and other cost cutting initiatives.

Selling, general and administrative expenses decreased 7% from the prior year. As a percentage of revenues, these expenses decreased to 16.2% in 2005 from 18.2% in 2004, reflecting savings realized through restructuring initiatives. Research and development expenses decreased 1%, reflecting savings resulting from restructuring initiatives. The 25% decrease in amortization expense reflects acquired software, which became fully amortized during the second quarter of 2005. Additionally, as discussed in further detail under the heading, Restructuring Charges, IMG incurred $25.8 in restructuring charges in 2004.

Operating Income

As a result of the foregoing, IMG s operating income and operating margin increased to $145.1 and 18.6% from $73.0 and 9.8% in the prior year. This includes the 2004 restructuring charge of $25.8, which decreased IMG s 2004 margin by 350 basis points.

2004 vs. 2003

Revenues

IMG s external revenues decreased 5% to $748.5 in 2004 from $783.9 in 2003. Revenues from businesses acquired by IMG in 2004 and 2003 accounted for approximately 8% of revenue in 2004. Data processing revenues of $389.9 decreased 15% from the prior year. This decrease reflects lower average wireless subscriber processing rates and the transition of Verizon subscribers from Convergys billing system during the second quarter of 2003. Additionally, the decrease reflects the elimination of bill finishing services provided to a wireless client that had minimal impact on operating margin. This was partially offset by approximately $17 million in additional data processing revenues resulting from the acquisition of certain billing operations from ALLTEL Corporation, Inc. (ALLTEL) in 2003, a full year of revenue from Dobson Communications, which was not fully ramped during 2003, and a 7% increase in wireless subscribers for the clients the Company supports.

Professional and consulting revenues of $191.3 in 2004 decreased 1% from 2003. This reflects lower spending from various wireless clients as well as a European wireless client s suspension of a system implementation in 2003. This was partially offset by approximately $40 in increased revenues generated as a result of businesses acquired in 2004 and 2003. License and other revenues increased 27% to $167.3 from the prior year, reflecting new or expanded license arrangements with several European and North American wireless and cable clients.

Costs and Expenses

IMG s costs of products and services increased 5% in 2004 versus 2003. As a percentage of external revenues, costs of products and services increased to 53.8% in 2004 compared with 48.9% in the prior year. This reflects the negative impact of lower revenues, partially offset by savings realized through cost reduction initiatives. The change in costs of products and services also reflects approximately $20 in lower bill finishing costs, as well as incremental operating costs incurred as a result of acquisitions.

Selling, general and administrative expenses decreased 16% from prior year. As a percentage of external revenues, these expenses decreased to 18.2% in 2004 from 20.6% in 2003, reflecting savings realized through restructuring and other cost reduction initiatives. Research and development expenses decreased 23%, reflecting savings resulting from restructuring initiatives. Amortization expense increased 70%, reflecting amortization of intangible assets obtained in connection with 2004 and 2003 acquisitions. Additionally, as discussed above, IMG incurred $25.8 in restructuring charges in 2004.

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Operating Income

As a result of the foregoing, IMG s operating income and operating margin decreased to $73.0 and 9.8% from $119.4 and 15.2% in the prior year. This includes the 2004 restructuring charge of $25.8.

Restructuring Charges

As discussed more fully in Note 4 to Notes to Consolidated Financial Statements, we recorded the following restructuring charges:

2005

To position itself for future growth by streamlining operations, we initiated restructuring plans in the second quarter and fourth quarter of 2005. The plan initiated during the second quarter of 2005 resulted in a severance charge of $8.9, $8.3 of which pertained to Customer Care and $0.6 of which pertained to corporate. These actions, which affected approximately 300 professional and administrative employees, were substantially completed during the third quarter of 2005. The severance benefits were paid pursuant to our existing severance plans and employment agreements. $7.7 of the charge was cash related, while the remaining $1.2 consisted of a non-cash charge produced by the acceleration of equity-based awards.

Restructuring liability activity for the second quarter 2005 plan consisted of the following:

Cash portion of charge	$ 7.7
Severance payments	(7.7)
Balance at December 31, 2005	$ 0.0

During the fourth quarter of 2005, we took further actions to streamline our Customer Care and corporate operations. These severance actions consisted of involuntary headcount reductions affecting approximately 100 professional and administrative employees. Furthermore, we consolidated our Employee Care facilities, which involved the closure of one of our leased offices in North America in December 2005.

These actions resulted in a fourth quarter 2005 restructuring charge of $13.8, which consists of $12.7 of severance and $1.1 of facility closure costs. The facility abandonment component of the charge, which is cash related, is equal to the future costs associated with the facility, net of the proceeds from any probable future sublease. Of the $12.7 of severance costs, which is being paid pursuant to our existing severance policy and employment agreements, $10.8 is cash related and $1.3 of the charge consists of a non-cash charge resulting from the acceleration of equity-based awards. The remaining $0.6 consists of a curtailment charge related to our supplemental executive retirement plan. We began making the headcount reductions during the fourth quarter and expect to complete these by the end of second quarter of 2006. Through December 2005, we completed 45 of the planned headcount reductions.

Restructuring liability activity for the fourth quarter 2005 plan consisted of the following:

Cash portion of charge	$ 11.9
Severance payments	(2.1)
Balance at December 31, 2005	$ 9.8

In addition, during 2005, Customer Care reversed $1.5 in accruals pertaining to facility abandonment costs that were provided under prior restructuring plans. The reversal resulted from our success with subleasing two contact centers.

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Together, the actions initiated in the second and fourth quarter are expected to generate annual savings exceeding $45. Including the 2005 restructuring charges, we should realize $60 in incremental savings in 2006 versus 2005. Including the $1.5 reversal, the 2005 net restructuring charge was $21.2 ($13.2 after tax). Below is a summary of the 2005 charges by segment, including the $1.5 reversal:

	Customer Care	Employee Care	Corp.	Total
Severance costs	$ 15.3	$ 0.2	$ 6.1	$ 21.6
Facility closure costs	(1.5)	1.1		(0.4)
Net restructuring	$ 13.8	$ 1.3	$ 6.1	$ 21.2

2004

In order to streamline our operations and cost structure while strengthening our prospects for future growth, we initiated a restructuring plan during the fourth quarter of 2004 that affected approximately 750 professional and administrative employees worldwide. This resulted in a severance charge of $36.7, $32.3 of which was cash related. $3.3 of the charge reflected a non-cash charge resulting from the modification and acceleration of equity-based awards. The remaining $1.1 of the charge consisted of a curtailment charge related to our supplemental executive retirement plan and special termination benefit charges related to our postretirement plan.

The reduction in force took place through a combination of voluntary and involuntary separations. The severance benefits for the involuntary separations were paid pursuant to our existing severance plans or employment agreements. The voluntary separations were substantially completed in 2004. We completed the involuntary separations during the second quarter of 2005. We projected annual savings of over $50 as a result of these actions and should realize the full impact of this in 2006.

Restructuring liability activity for the 2004 plan consisted of the following:

	2005	2004
Balance at January 1	**$ 26.9**	$
Charge		32.3
Severance payments	**(25.6)**	(5.4)
Other	**0.1**	
Balance at December 31	**$ 1.4**	$ 26.9

The $1.4 principally relates to individuals that were terminated in 2005, but were paid their severance over time. These amounts will be fully paid by the second quarter of 2006.

Our Laredo, Texas contact center was reopened to support a new, large, outsourcing agreement with a communications provider that was signed in December 2004. Accordingly, in the fourth quarter of 2004, we reversed $6.3 of an accrual related to facility abandonment costs that was recorded in connection with a prior restructuring accrual.

As a result of the severance costs and facility cost reversal, we recorded a net restructuring charge of $30.4 ($21.0 after tax) in the fourth quarter of 2004. The net charge by segment was as follows:

	IMG	Customer Care	Employee Care	Corp.	Total
Severance costs	$ 25.8	$ 2.8	$ 2.6	$ 5.5	$ 36.7
Facility closure costs		(6.3)			(6.3)
Net restructuring	$ 25.8	$ (3.5)	$ 2.6	$ 5.5	$ 30.4

2002

In connection with a restructuring plan initiated in 2002, we made headcount reductions affecting professional and administrative employees worldwide and closed certain Customer Care and IMG facilities.

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Restructuring liability activity for the 2002 plan consisted of the following:

	2005	2004
Balance at January 1	**$ 32.6**	$ 59.2
Reversal	**(1.0)**	(6.3)
Severance payments		(4.6)
Lease termination payments	**(14.3)**	(15.7)
Other	**(1.3)**	
Balance at December 31	**$ 16.0**	$ 32.6

The remaining accrual reflects facility abandonment 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 used estimates, based on consultation with our 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. Consequently, there may be additional reversals or charges in the future.

Client Concentration

Our three largest clients accounted for 32.8% of our revenues in 2005, down from 36.4% in 2004. We serve Cingular, our largest client with 15.9% of 2005 revenues and Sprint Nextel, our third largest client, under information management and customer management contracts. Since February 2004, we have provided customer care services to Sprint Nextel, for the Sprint PCS division, under a contract between Sprint Nextel and IBM, whereby we serve as a subcontractor to IBM. We serve DirecTV, our second largest client in 2005, under a customer management contract. 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.

Cingular acquired AT&T Wireless in October 2004. Additionally, Sprint PCS acquired Nextel Communications in September 2005. See further discussion of risk associated with client consolidation under the Risks Relating to Convergys and Its Business section of Management Discussion and Analysis.

Business Outlook

For the full year 2006, we expect revenues and earnings to continue to grow for the reasons identified below. In addition, we expect earnings per diluted share to be at least $1.07.

This outlook reflects a combination of improvements throughout our business. First, Customer Care s profitability should improve by approximately $60 in 2006 as a result of the 2005 restructuring and streamlining of its cost structure. Second, Customer Care should experience improved profitability from top-line growth with existing clients, recent clients ramps in the retail and healthcare markets and new client contracts. Finally, we expect significant growth in revenues from Employee Care. This will be driven by revenues from a contract with the State of Texas, which was fully implemented in the fourth quarter of 2005, and several client programs that were signed in 2005 and are expected to be implemented in 2006. We expect that this revenue growth, along with slower growth in operating expense, should enable Employee Care to reduce its operating loss in 2006 by about half from 2005. These items will be partially offset by lower IMG revenues from Cingular, higher expenses of approximately $30 resulting from continued impact of the exchange rate of the Canadian dollar versus U.S. dollar and approximately $10 of incremental stock compensation expense.

With respect to the first quarter of 2006, we expect overall revenue and earnings growth compared to the first quarter of 2005. Customer Care revenues should increase approximately 3% as a result of our expanded relationship with a large global industrial client. Employee Care revenues should increase by more than one-third due to recent client implementations. We expect improved margins for both Customer Care and Employee Care as a result of the revenue growth and savings realized through restructuring initiatives. IMG s revenues should be relatively flat

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compared to the prior year. Higher levels of professional and consulting and license revenue from recently executed contracts should offset lower data processing revenues. We expect IMG s margins to be down from the prior year due to the change in revenue mix from data processing to more professional services. Diluted earnings per share should increase 10-15% to $0.24-$0.2