BANCORPSOUTH INC
Form DEF 14A
March 23, 2007

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

SCHEDULE 14A

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934 (Amendment No.)

Filed by the Registrant þ

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

BANCORPSOUTH, INC.
(Name of Registrant as Specified In Its Charter)

N/A
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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One Mississippi Plaza
201 South Spring Street
Tupelo, Mississippi 38804

March 23, 2007

TO THE SHAREHOLDERS OF BANCORPSOUTH, INC.

On Wednesday, April 25, 2007, at 9:30 a.m. (Central Time), the annual meeting of shareholders of BancorpSouth, Inc. will be held at the BancorpSouth Arena, 375 East Main Street, Tupelo, Mississippi 38804. You are cordially invited to attend and participate in the meeting.

Please read our enclosed Annual Report to Shareholders and the attached Proxy Statement. They contain important information about BancorpSouth and the matters to be addressed at the annual meeting.

Whether you plan to attend the meeting or not, I urge you to vote your proxy as soon as possible to assure your representation at the meeting. For your convenience, you can vote your proxy in one of the following ways:

Use the Internet at the web address shown on your proxy card;

Use the touch-tone telephone number shown on your proxy card; or

Complete, sign, date and return the enclosed proxy card in the postage-paid envelope provided.

Instructions regarding each method of voting are contained in the Proxy Statement and on the enclosed proxy card. If you attend the annual meeting and desire to vote your shares personally rather than by proxy, you may withdraw your proxy at any time before it is exercised.

I look forward to seeing you at this year s annual meeting.

Sincerely,

AUBREY B. PATTERSON
Chairman of the Board
and Chief Executive Officer

Enclosures:
1. Proxy Card and Business Reply Envelope
2. Householding Notice, if applicable
3. Annual Report to Shareholders

YOUR VOTE IS VERY IMPORTANT. PLEASE VOTE YOUR PROXY BY INTERNET, TOUCH-TONE TELEPHONE OR BY COMPLETING, SIGNING, DATING AND RETURNING THE ENCLOSED PROXY CARD PROMPTLY.

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One Mississippi Plaza
201 South Spring Street
Tupelo, Mississippi 38804

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held April 25, 2007

TO THE SHAREHOLDERS OF BANCORPSOUTH, INC.

The annual meeting of shareholders of BancorpSouth, Inc. will be held on Wednesday, April 25, 2007, at 9:30 a.m. (Central Time) at the BancorpSouth Arena, 375 East Main Street, Tupelo, Mississippi 38804 for the following purposes:

(1) To elect four directors;

(2) To ratify the Audit Committee s selection of the accounting firm of KPMG LLP as independent auditors of BancorpSouth, Inc. and its subsidiaries for the year ending December 31, 2007;

(3) To approve a proposed amendment to our Restated Articles of Incorporation; and

(4) To transact such other business as may properly come before the annual meeting or any adjournments or postponements thereof.

The Board of Directors has fixed the close of business on March 5, 2007 as the record date for determining shareholders entitled to notice of and to vote at the meeting.

By order of the Board of Directors,

AUBREY B. PATTERSON
Chairman of the Board
and Chief Executive Officer

March 23, 2007

IMPORTANT:

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON, TO ASSURE THE PRESENCE OF A QUORUM, PLEASE VOTE YOUR PROXY BY INTERNET, TOUCH-TONE TELEPHONE OR BY COMPLETING, SIGNING, DATING AND RETURNING THE ENCLOSED PROXY CARD PROMPTLY. IF YOU ATTEND THE MEETING AND WISH TO VOTE YOUR SHARES PERSONALLY, YOU MAY DO SO AT ANY TIME BEFORE THE PROXY IS EXERCISED.

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One Mississippi Plaza
201 South Spring Street
Tupelo, Mississippi 38804

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation of proxies by our Board of Directors, to be voted at our annual meeting of shareholders to be held at the BancorpSouth Arena, 375 East Main Street, Tupelo, Mississippi 38804 on April 25, 2007, at 9:30 a.m. (Central Time), for the purposes set forth in the accompanying notice, and at any adjournments or postponements thereof. This Proxy Statement and the accompanying form of proxy card are first being sent to shareholders on or about March 23, 2007.

If your proxy is properly given and not revoked, it will be voted in accordance with the instructions, if any, given by you, and if no instructions are given, it will be voted (i) **FOR** the election as directors of the nominees listed in this Proxy Statement, (ii) **FOR** ratification of the Audit Committee s selection of the accounting firm of KPMG LLP as independent auditors for us and our subsidiaries for the year ending December 31, 2007, (iii) **FOR** the proposed amendment to our Restated Articles of Incorporation, and (iv) in accordance with the recommendations of our Board of Directors on any other proposal that may properly come before the annual meeting.

Shareholders are encouraged to vote their proxies by Internet, touch-tone telephone or completing, signing, dating and returning the enclosed proxy card, but not by more than one method. If you vote by more than one method, only the last vote that is submitted will be counted and each previous vote will be disregarded. Shareholders who vote by proxy using any method before the annual meeting have the right to revoke the proxy at any time before it is exercised by submitting a written request to us or by voting another proxy at a later date. The grant of a proxy will not affect the right of any shareholder to attend the meeting and vote in person. For a general description of how votes will be counted, please refer to the section below entitled GENERAL INFORMATION Counting of Votes.

Pursuant to the Mississippi Business Corporation Act and our governing documents, a proxy to vote submitted by Internet or touch-tone telephone has the same validity as one submitted by mail. To submit your proxy to vote by Internet, you need to access the website *www.investorvote.com*, enter the 6-digit control number found on the enclosed proxy card and follow the instructions on the website. To submit your proxy to vote by touch-tone telephone, call 1-800-652-8683, enter the 6-digit control number on the enclosed proxy card and follow the instructions. You may submit your proxy to vote by Internet or telephone at anytime until 10:59 p.m. (Central Time) on April 24, 2007 and either method should not require more than a few minutes to complete. To submit your proxy to vote by mail, please complete, sign, date and return the enclosed proxy card in the enclosed business reply envelope.

If your shares are held in street name through a broker, bank or other holder of record, you will receive instructions from the registered holder that you must follow in order for your shares to be voted for you by that record holder. Each method of voting listed above is offered to shareholders who own their shares through a broker, bank or other holder of record. If you provide specific voting instructions, your shares will be voted as you have instructed and as the proxy holders may determine within their discretion with respect to any other matters that may properly come before the annual meeting.

The close of business on March 5, 2007 has been fixed as the record date for the determination of shareholders entitled to notice of and to vote at this year s annual meeting. As of such date, we had 500,000,000 authorized shares of common stock, $2.50 par value, of which 82,238,612 shares were outstanding. Each share of our common stock is entitled to one vote. The common stock is our only outstanding voting stock. Holders of a majority of the outstanding shares of our common stock must be present, in person or by proxy, to constitute a quorum for the transaction of business.

PROPOSAL 1: ELECTION OF DIRECTORS

Introduction

Our Restated Articles of Incorporation provide that the Board of Directors shall be divided into three classes of as nearly equal size as possible. Directors are elected by a plurality of the votes cast by the holders of shares of common stock represented at a meeting at which a quorum is present. The holders of our common stock do not have cumulative voting rights with respect to the election of directors. Consequently, each shareholder may cast one vote per share for each nominee.

Unless a proxy specifies otherwise, the persons named in the proxy shall vote the shares covered by the proxy for the nominees listed below. Should any nominee become unavailable for election, shares covered by a proxy will be voted for a substitute nominee selected by the current Board of Directors.

Nominees

The Board of Directors has nominated the four individuals named below under the caption Class III Nominees for election as directors to serve until the annual meeting of shareholders in 2010 or until their earlier retirement in accordance with our retirement policy for directors. Our retirement policy for directors provides that a director may not stand for re-election to the Board after reaching his 70th birthday, unless the Board determines that BancorpSouth would significantly benefit from such director serving another term because of his advice, expertise and influence.

At the end of a director s term, the Board may, in its discretion, re-nominate that director for another term. If the Board does not re-nominate a former director for another term after his 70th birthday or such person is not re-elected by our shareholders, the person would then serve as a Director Emeritus for a one-year term, and be eligible for re-election as a Director Emeritus by the Board annually. A Director Emeritus does not have the authority of a director and does not meet with the Board, but is given this title in honor of past service.

Each nominee has consented to be a candidate and to serve as a director if elected.

The following table shows the names, ages, principal occupations and other directorships of the nominees designated by the Board of Directors to become directors and the year in which each nominee was first elected to the Board of Directors:

Class III Nominees Term Expiring in 2010

Name	Age	Principal Occupation/Other Directorships	Director Since
Larry G. Kirk	60	Retired, Tupelo, Mississippi; Chairman of the Board and Chief Executive Officer, Hancock Fabrics, Inc., Tupelo, Mississippi (fabric retailer and wholesaler) (1996-2005)	2002
Guy W. Mitchell, III	63	Vice President and Attorney at Law, Mitchell, McNutt and Sams, P.A., Tupelo, Mississippi	2003
R. Madison Murphy	49		2000

		Director, Murphy Oil Corporation, El Dorado, Arkansas (integrated oil company); Director, Deltic Timber Corporation, El Dorado, Arkansas (timber production), Managing Member, Murphy Family Management, LLC (investments)	
Aubrey B. Patterson	64	Chairman of the Board and Chief Executive Officer of BancorpSouth, Inc. and BancorpSouth Bank; Director, Furniture Brands International, Inc., St. Louis, Missouri and Tupelo, Mississippi (furniture manufacturer)	1983

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Continuing Directors

Each person named below will continue to serve as a director until the annual meeting of shareholders in the year indicated for the expiration of his term. Shareholders are not voting on the election of the Class II and Class I directors listed below. The following tables show the names, ages, principal occupations and other directorships of each continuing director, and the year in which each was first elected to the Board of Directors:

Class II Directors Term Expiring in 2008

Name	Age	Principal Occupation/Other Directorships	Director Since
W. G. Holliman, Jr.	69	Chairman of the Board and Chief Executive Officer, Furniture Brands International, Inc., St. Louis, Missouri and Tupelo, Mississippi (furniture manufacturer)	1994
James V. Kelley	57	Chief Operating Officer and President of BancorpSouth, Inc. and BancorpSouth Bank; Director, Murphy Oil Corporation, El Dorado, Arkansas (integrated oil company)	2000
Turner O. Lashlee	70	Chairman of the Board, Lashlee-Rich, Inc., Humboldt, Tennessee (general construction)	1992
Alan W. Perry	59	Attorney at Law, Forman, Perry, Watkins, Krutz & Tardy LLP, Jackson, Mississippi	1994

Class I Directors Term Expiring in 2009

Name	Age	Principal Occupation/Other Directorships	Director Since
Hassell H. Franklin	71	Chief Executive Officer, Franklin Corp., Houston, Mississippi (furniture manufacturer)	1974
Robert C. Nolan	65	Chairman of the Board, Deltic Timber Corporation, El Dorado, Arkansas (timber production); Managing Partner, Munoco Company, El Dorado, Arkansas (oil and gas exploration and production)	2000
W. Cal Partee, Jr.	62	Partner, Partee Flooring Mill, Oil and Timber Investments, Magnolia, Arkansas (oil and lumber production)	2000
Travis E. Staub*	74	Retired, Fulton, Mississippi; Construction/engineering consultant, Fulton, Mississippi (2003-2004); Vice Chairman, JESCO, Inc., Fulton, Mississippi (construction and engineering) (1994-2003)	1975

* Mr. Staub will retire on the date of the annual meeting of shareholders in 2008.

Each of the nominees and continuing directors has had the principal occupation indicated for more than five years unless otherwise indicated. Messrs. Murphy and Nolan are first cousins.

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Required Vote

Assuming the presence of a quorum, directors will be elected by a plurality of the votes cast by the holders of shares of common stock represented at the annual meeting and entitled to vote. However, pursuant to our Amended and Restated Bylaws, amended as of January 24, 2007, any nominee who receives a greater number of withheld votes than for votes shall promptly tender his resignation. The Nominating Committee will make a recommendation to the Board of Directors with respect to such offer(s) of resignation and the Board will act on such recommendation within 90 days after the shareholder vote. Any director who tenders his resignation shall not participate in the Nominating Committee recommendation or Board action regarding the resignation.

The Board of Directors recommends that shareholders vote FOR each of the Class III nominees.

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PROPOSAL 2: RATIFICATION OF SELECTION OF AUDITORS

The Audit Committee of the Board of Directors selected the accounting firm of KPMG LLP as independent auditors of BancorpSouth and its subsidiaries for the year ending December 31, 2007 and seeks ratification of the selection by our shareholders. This firm has served as our independent auditors since 1973.

In addition to rendering audit services for the year ended December 31, 2006, KPMG LLP performed various other services for us and our subsidiaries. The aggregate fees billed for the services rendered to us by KPMG LLP for the years ended December 31, 2006 and December 31, 2005 were as follows:

	2006	2005
Audit Fees(1)	$ 781,000	$ 913,211
Audit-Related Fees(2)	68,000	45,000
Tax Fees(3)		127,450
All Other Fees		
Total	$ 849,000	$ 1,085,661

(1) The Audit Fees for the years ended December 31, 2006 and 2005 consisted principally of fees for professional services in connection with the audits of our consolidated financial statements and the audit of internal control over financial reporting as well as various statutory and compliance audits. The amount shown for 2005 includes $144,711 related to the final bill for audit services rendered in 2004.

(2) The Audit-Related Fees for the years ended December 31, 2006 and 2005 consisted principally of fees for audits of financial statements of the BancorpSouth, Inc. Amended and Restated Salary Deferral Profit Sharing Employee Stock Ownership Plan.

(3) Tax Fees for the years ended December 31, 2005 consisted of fees for tax consultation and tax compliance services.

All audit and non-audit services performed by KPMG LLP must be pre-approved by the Audit Committee. The Audit Committee specifically reviews and pre-approves each audit and non-audit service provided by KPMG LLP prior to its engagement to perform such services. The Audit Committee has not adopted any other pre-approval policies or procedures.

Shareholder ratification of the Audit Committee s selection of KPMG LLP as our independent auditors for the year ending December 31, 2007 is not required by our Amended and Restated Bylaws or otherwise. Nonetheless, the Board of Directors has elected to submit the selection of KPMG LLP to our shareholders for ratification. If a quorum is present, approval of this proposal requires the affirmative vote of a majority of the shares of our common stock represented at the meeting and entitled to vote at the annual meeting. If the selection of KPMG LLP as our independent auditors for the year ending December 31, 2007 is not ratified, the matter will be referred to the Audit Committee for further review.

Representatives of KPMG LLP will be at the annual meeting, will have an opportunity to make a statement if they desire and will be available to respond to appropriate questions.

The Board of Directors recommends that shareholders vote FOR ratification of the selection of KPMG LLP as our independent auditors for 2007.

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PROPOSAL 3: AMENDMENT TO RESTATED ARTICLES OF INCORPORATION

Introduction

On January 24, 2007, the Board of Directors unanimously adopted a bylaw provision that requires any of our directors who receives a greater number of withheld votes than for votes in an uncontested election to resign. As a result, a vacancy could arise on the Board if any director fails to receive more for votes than withheld votes in an election at an annual meeting. Currently, Article 6(a) of our Restated Articles of Incorporation provides that a vacancy shall be filled by vote of the shareholders and the term of any such director shall be for the balance of the term of the retiring director s class. Therefore, any vacancy resulting from a director failing to receive enough for votes could not be filled unless a special meeting of shareholders was called to fill the vacancy or until the election at the next annual meeting. To avoid the expense of calling a special meeting of shareholders or waiting until the next annual meeting, the Board of Directors unanimously adopted, subject to shareholder approval, the proposed amendment to our Restated Articles of Incorporation to permit the directors to fill a vacancy on the Board.

Amendment

The proposed amendment to our Restated Articles of Incorporation states that if a vacancy occurs on the Board of Directors for any reason, the Board may fill the vacancy or the Board may instead elect to not fill the vacancy or have the vacancy filled by a vote of the shareholders at a regular or special meeting. The amendment also corrects an error in a statutory reference in Article 9(a) of the Restated Articles of Incorporation. The complete text of the amendment is attached as Appendix A to this Proxy Statement and this summary is qualified in its entirety by reference to Appendix A, which is incorporated herein by reference in its entirety.

Based on this amendment, if a vacancy arises because a director fails to receive more for votes than withheld votes in an uncontested election, the Board could (i) appoint a director to fill the vacancy, (ii) leave the position vacant until the election of directors at the next annual meeting or (iii) call a special meeting for shareholders to vote on another nominee to fill the vacancy. The amendment creates greater flexibility in filling a vacancy than our Restated Articles of Incorporation currently permit. Pursuant to Section 79-4-8.05(d) of the Mississippi Code Annotated, the term of the director that is elected or appointed to fill the vacancy would expire at the next annual meeting of shareholders at which directors are elected.

Pursuant to Section 79-4-8.10(a)(2) of the Mississippi Code Annotated, unless the articles of incorporation provide otherwise, either the Board of Directors or the shareholders may fill a vacancy arising on the Board. Management believes that the amendment is closer to the default provision under Mississippi law than our current Restated Articles of Incorporation because the amendment authorizes the Board to determine whether either the Board or the shareholders may fill a vacancy whereas under our current Restated Articles of Incorporation, only the shareholders may fill a vacancy. However, unlike the default statutory provision, the amendment would not permit the shareholders to fill a vacancy unless the Board first authorizes and prompts such action.

Potential Anti-Takeover Effect

Although the proposed amendment to the Restated Articles of Incorporation could, under certain circumstances, have an anti-takeover effect, it is not being proposed in response to any effort to obtain control of BancorpSouth. If the amendment is approved and, for example, the shareholders were to cast more withheld votes than for votes for the director nominees as part of a plan to appoint new directors and/or change the control of BancorpSouth, the remaining directors could appoint their own candidates to fill the resultant vacancies, preventing shareholder nominees from

being elected to the Board, whereas under the terms of our current Restated Articles of Incorporation, the shareholders could fill such vacancies with their nominees.

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Other than the proposed amendment, the Board of Directors does not currently contemplate recommending the adoption of any other amendments to our Restated Articles of Incorporation that could be construed to affect the ability of third parties to take over or change the control of BancorpSouth. Our Restated Articles of Incorporation currently contain other provisions that have an anti-takeover effect, such as provisions creating a classified board of directors and requiring a supermajority vote of shareholders for the approval of certain mergers.

Required Vote

Assuming the presence of a quorum, the affirmative vote of the majority of the shares of our common stock represented at the annual meeting and entitled to vote is required to approve the proposed amendment to our Restated Articles of Incorporation.

If the proposed amendment to our Restated Articles of Incorporation is approved, we intend to file the amendment shortly after the annual meeting. The amendment to our Restated Articles of Incorporation will be effective immediately upon acceptance of the filing by the Mississippi Secretary of State.

The Board of Directors recommends that shareholders vote FOR approval of the proposed amendment to our Restated Articles of Incorporation.

CORPORATE GOVERNANCE

Director Attendance at Board, Committee and Annual Meetings

During 2006, our Board of Directors held seven meetings. Each director attended at least 75% of the total of all meetings of the Board of Directors and all committees on which such director served, except Mr. Nolan, who attended 71% of the total of all meetings of the Board of Directors and all committees on which he served (but attended 100% of all meetings of the Board of Directors). BancorpSouth encourages its Board members to attend the annual meeting of shareholders. In 2006, all of our directors attended the annual meeting of shareholders.

Committees of the Board of Directors

The Board of Directors has established four standing committees the Executive Committee, the Audit Committee, the Executive Compensation and Stock Incentive Committee and the Nominating Committee. A copy of the charter of each of these committees, except for the Executive Committee, is available on our website at *www.bancorpsouthonline.com* on our Investor Relations webpage under the caption Corporate Governance.

The following table shows the current membership of each committee of the Board of Directors:

Director	Executive Committee	Audit Committee	Executive Compensation and Stock Incentive Committee	Nominating Committee
Hassell H. Franklin	X		X	Chair
W. G. Holliman, Jr.	X			X
James V. Kelley	X			
Larry G. Kirk		Chair		
Turner O. Lashlee	X		X	X
Guy W. Mitchell, III				
R. Madison Murphy		X		
Robert C. Nolan	X		X	X
W. Cal Partee, Jr.		X		
Aubrey B. Patterson	Chair			
Alan W. Perry				
Travis E. Staub	X		Chair	X

Executive Committee. The Executive Committee acts on behalf of the Board of Directors on all matters concerning the management and conduct of our business and affairs, except those matters enumerated in the Executive Committee Charter and those matters reserved to the Board of Directors under state law. Generally, the Executive Committee meets monthly. The Executive Committee held eight meetings during 2006.

Audit Committee. The Audit Committee is a separately-designated standing audit committee established in accordance with Section 3(a)58(A) of the Securities Exchange Act of 1934 that is responsible for, among other things:

monitoring the integrity of our financial statements, our compliance with legal and regulatory requirements and our financial reporting process and systems of internal controls;

monitoring the work of the Audit/Loan Review Committee of BancorpSouth Bank;

evaluating the independence and qualifications of our independent auditors;

evaluating the performance of our independent auditors and our internal auditing department;

providing an avenue of communication among the independent auditors, management, our internal audit department, our subsidiaries and our Board of Directors; and

selecting, engaging, overseeing, evaluating and determining the compensation of our independent auditors.

This committee s performance is evaluated annually. The Board of Directors has determined that each member of the Audit Committee is independent under the listing standards of the New York Stock Exchange. Our Board of Directors has also determined that each of Messrs. Kirk and Murphy is an audit committee financial expert as defined in regulations adopted by the Securities and Exchange Commission. The Audit Committee held 13 meetings during 2006.

Executive Compensation and Stock Incentive Committee. The Charter of the Executive Compensation and Stock Incentive Committee was amended and restated as of March 21, 2007. Pursuant to this amended and restated charter, the Executive Compensation and Stock Incentive Committee reviews corporate goals and objectives relevant to the compensation of our Named Executive Officers (as identified in the section below entitled EXECUTIVE COMPENSATION Summary Compensation Table), evaluates the performance of our Named Executive Officers and determines the salary, benefits and other compensation of our Named Executive Officers. After consultation with management, this committee makes recommendations to the Board of Directors with respect to the salaries, benefits and other compensation of our executive officers other than the Named Executive Officers. Pursuant to the amended and restated charter, the committee reviews and approves at least annually the compensation paid to non-employee directors and reviews and recommends to the Board for approval in advance all related person transactions between us and any of our related persons. The committee, or a subcommittee thereof, also administers our 1995 Non-Qualified Stock Option Plan for Non-Employee Directors, as amended and restated, Home Office Incentive Plan, 1994 Stock Incentive Plan, as amended and restated, 1998 Stock Option Plan and Executive Performance Incentive Plan.

This committee has the sole authority to retain, at BancorpSouth s expense, any compensation consultant to assist in the evaluation of executive officer compensation and to approve such consultant s fees and other retention terms. In addition, the committee also has authority to obtain advice and assistance from internal or external legal, accounting or other advisors as it deems necessary to carry out its duties, at BancorpSouth s expense, without prior approval of the Board of Directors or management.

The activities of this committee must be conducted in accordance with the policies and principles set forth in our Corporate Governance Principles and this committee s performance is evaluated annually. On occasion, the Chief Executive Officer attends Executive Compensation and Stock Incentive Committee meetings. The Chief Executive Officer provides information to the Executive Compensation and Stock Incentive Committee concerning the executive officers, discusses performance measures relating to executive officer compensation and makes recommendations to the Executive Compensation and Stock Incentive Committee concerning the compensation of the executive officers. The Board of Directors has determined that each committee member is independent under the listing standards of the New York Stock Exchange. This committee held three meetings during 2006.

In 2006, the Executive Compensation and Stock Incentive Committee engaged the compensation consulting firm of Watson Wyatt Worldwide to review our compensation programs and provide advice with respect to the aggregate level of our executive compensation as well as the mix of elements used to compensate our executive officers. In addition to its engagement as a consultant to the Executive Compensation and Stock Incentive Committee, Watson Wyatt provided substantial advisory and actuarial services with respect to our pension plans and other employee benefit plans and compensation programs.

In performing its services, Watson Wyatt interacted collaboratively with the Executive Compensation and Stock Incentive Committee and senior management. In the past, Watson Wyatt has also provided services that resulted in the addition of equity-based incentives that have been added to our compensation programs to ensure appropriate focus on long-term performance and objectives.

Nominating Committee. The Nominating Committee identifies and recommends to the Board nominees for election to the Board consistent with criteria approved by the Board, and recommends to the Board of Directors nominees for election to the Board and for appointment to its committees. This committee also developed and recommended to the Board of Directors our Corporate Governance Principles. In addition, this committee oversees the evaluation of the Board and management. This committee s performance is evaluated annually. The Board of Directors has determined that each committee member is independent under the listing standards of the New York Stock Exchange. The Nominating Committee held five meetings during 2006.

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Executive Sessions

In order to promote open discussion among the non-management directors, we schedule regular executive sessions in which those directors meet without management participation. Unless a majority of the Board of Directors designates a presiding director, the Chairman of the Nominating Committee, currently Mr. Franklin, presides at these meetings. In addition, an executive session of independent (as defined in the listing standards of the New York Stock Exchange), non-management directors is held at least twice each year.

Communications with the Board of Directors

You may send communications to the Board of Directors, the presiding director of the non-management directors, the non-management directors as a group or any individual director by writing to the Board of Directors or an individual director in care of the Corporate Secretary at One Mississippi Plaza, 201 South Spring Street, Tupelo, Mississippi 38804. The Corporate Secretary will directly forward written communications addressed to the entire Board of Directors to the Chairman of the Nominating Committee, written communications addressed to the non-management directors to the non-management directors and all other written communications to the individual director(s) to whom they are addressed.

Governance Information

In addition to the committee charters described above, our Corporate Governance Principles and our Code of Business Conduct and Ethics are available on our website at *www.bancorpsouthonline.com* on our Investor Relations webpage under the caption Corporate Governance. These materials, including the committee charters described above, are also available in print to any shareholder upon request. Such requests should be sent to the following address:

BancorpSouth, Inc.
One Mississippi Plaza
201 South Spring Street
Tupelo, Mississippi 38804
Attention: Corporate Secretary

Director Independence

The Board of Directors reviews the independence of all directors and affirmatively makes a determination as to the independence of each director on an annual basis. No director will qualify as independent unless the Board of Directors affirmatively determines that the director has no material relationship with BancorpSouth (either directly or as a partner, shareholder or officer of an organization that has a relationship with BancorpSouth). In each case, the Board of Directors broadly considers all relevant facts and circumstances when making independence determinations. To assist the Board of Directors in determining whether a director is independent, the Board of Directors has adopted Director Independence Standards, which are attached as Appendix B to this Proxy Statement and are also available on our website at *www.bancorpsouthonline.com* on our Investor Relations webpage under the caption Corporate Governance. The Board of Directors has determined that each of Messrs. Franklin, Holliman, Kirk, Lashlee, Mitchell, Murphy, Nolan, Partee and Staub, a majority of our Board members, meets these standards as well as the current listing standards of the New York Stock Exchange for independence.

Director Qualification Standards

The Nominating Committee and our Chief Executive Officer actively seek individuals qualified to become members of our Board of Directors for recommendation to our Board of Directors and shareholders. The Nominating Committee considers nominees proposed by our shareholders to serve on our Board of Directors that are properly submitted in accordance with our Amended and Restated Bylaws. In recommending candidates and evaluating shareholder nominees for our Board of Directors, the Nominating Committee considers each candidate s qualification regarding independence, as well as diversity of age, ownership, influence and skills such as understanding of financial services industry issues, all in the context of an assessment of the perceived needs of BancorpSouth at that point in time. A copy of our director qualifications is set forth in our Corporate Governance

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Principles, which are available on our website at *www.bancorpsouthonline.com* on our Investor Relations webpage under the caption Corporate Governance. The Nominating Committee meets at least annually with our Chief Executive Officer to discuss the qualifications of potential new members of our Board of Directors. After consulting with our Chief Executive Officer, the Nominating Committee recommends the director nominees to the Board of Directors for their approval. We have not paid any third-party fee to assist the Nominating Committee in the director nomination process to date.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The table below sets forth certain information, as of January 31, 2007, with respect to the beneficial ownership of common stock by (i) each person known by us to be the beneficial owner of more than 5% of the outstanding shares of our common stock, (ii) each director and nominee, (iii) each of our Named Executive Officers identified in the section below entitled EXECUTIVE COMPENSATION Summary Compensation Table and (iv) all of our directors and executive officers as a group. The statute governing Mississippi state banks and our Amended and Restated Bylaws require our directors to hold $200 in par value (*i.e.*, 80 shares) of our common stock. The number of shares of common stock owned by each director reflected in the table includes such shares. We relied on information supplied by our directors, executive officers and beneficial owners for purposes of this table.

Name of Beneficial Owner**	Amount and Nature of Beneficial Ownership[1]	Percent of Class
BancorpSouth, Inc. Amended and Restated Salary Deferral Profit Sharing Employee Stock Ownership Plan	6,498,446	8.00%
L. Nash Allen, Jr.	184,125	*
W. Gregg Cowsert	149,054	*
Hassell H. Franklin	1,052,146	1.33
W. G. Holliman, Jr.	667,732(2)	*
James V. Kelley	340,396	*
Larry G. Kirk	24,460	*
Turner O. Lashlee	96,182	*
Guy W. Mitchell, III	32,243	*
R. Madison Murphy	451,709(3)	*
Robert C. Nolan	624,040(4)	*
W. Cal Partee, Jr.	304,532(5)	*
Aubrey B. Patterson	1,054,217(6)	1.33
Alan W. Perry	71,202	*
Michael L. Sappington	94,204	*
Travis E. Staub	87,723(7)	*
All directors and executive officers as a group (20 persons)	5,658,500	7.15

* Less than 1%.

** The address of each person or entity listed is c/o BancorpSouth, Inc., One Mississippi Plaza, 201 South Spring Street, Tupelo, Mississippi 38804.

(1) Beneficial ownership is deemed to include shares of common stock that an individual has a right to acquire within 60 days after January 31, 2007, including upon the exercise of options granted under our various equity

incentive plans described in the section entitled CORPORATE GOVERNANCE Committees of the Board of Directors Executive Compensation and Stock Incentive Committee as follows:

Name	Common Stock Underlying Options Exercisable within 60 Days
L. Nash Allen, Jr.	101,000
W. Gregg Cowsert	117,000
Hassell H. Franklin	30,762
W. G. Holliman, Jr.	26,400
James V. Kelley	211,500
Larry G. Kirk	14,400
Turner O. Lashlee	30,762
Guy W. Mitchell, III	10,800
R. Madison Murphy	18,000
Robert C. Nolan	18,000
W. Cal Partee, Jr.	18,000
Aubrey B. Patterson	627,618
Alan W. Perry	30,762
Michael L. Sappington	37,000
Travis E. Staub	26,400

These shares are deemed to be outstanding for the purposes of computing the percentage of class for that individual, but are not deemed outstanding for the purposes of computing the percentage of any other person.

Information in the table for individuals also includes shares held in our Amended and Restated Salary Deferral Profit Sharing Employee Stock Ownership Plan, also referred to as the 401(k) Plan, and in individual retirement accounts for which the shareholder can direct the vote. Except as indicated in the footnotes to this table, each person listed has sole voting and investment power with respect to all shares of common stock shown as beneficially owned by him pursuant to applicable law.

(2) Includes 132,863 shares owned by Mr. Holliman s wife, of which Mr. Holliman disclaims beneficial ownership.

(3) Includes 19,087 shares held in trusts of which Mr. Murphy is the trustee for the benefit of his minor children, of which Mr. Murphy disclaims beneficial ownership, 15,964 shares held in trusts of which other persons are the trustees for the benefit of Mr. Murphy s minor children, of which Mr. Murphy disclaims beneficial ownership, 9,735 shares owned by Mr. Murphy s wife, of which Mr. Murphy disclaims beneficial ownership, 48,288 shares beneficially owned in trusts of which Mr. Murphy is not a trustee but has residuary interests, and 248,861 shares held by a limited partnership that is controlled by a limited liability company of which Mr. Murphy is a member.

(4) Includes 4,227 shares owned by Mr. Nolan s wife, of which Mr. Nolan disclaims beneficial ownership, and 426,319 shares held in trusts of which Mr. Nolan is the co-trustee for the benefit of nieces, nephews, children and lineal descendants of the four co-trustees, of which Mr. Nolan disclaims beneficial ownership.

(5) Includes 330 shares owned by Mr. Partee s wife, of which Mr. Partee disclaims beneficial ownership, and 5,208 shares held by Mr. Partee s wife as custodian for the benefit of Mr. Partee s children, of which Mr. Partee disclaims beneficial ownership.

(6) Includes 14,000 shares beneficially owned by Mr. Patterson pursuant to the Stock Bonus Agreement between BancorpSouth and Mr. Patterson, dated January 20, 1998, as amended, over which he exercises voting power but has no right to transfer until released from escrow.

(7) Includes 13,841 shares owned by Mr. Staub s wife, of which Mr. Staub disclaims beneficial ownership.

COMPENSATION DISCUSSION AND ANALYSIS

Overview

The Executive Compensation and Stock Incentive Committee of the Board of Directors administers our executive compensation program. The Executive Compensation Committee is composed entirely of directors who are independent under the listing standards of the New York Stock Exchange and our Director Independence Standards. These Director Independence Standards and the Charter of the Executive Compensation and Stock Incentive Committee are available on our website at *www.bancorpsouthonline.com* on our Investor Relations webpage under the caption Corporate Governance. The Charter is reviewed annually by the Executive Compensation and Stock Incentive Committee and was most recently revised in March 2007.

In performing its duties, among other things the Executive Compensation and Stock Incentive Committee:

- Annually reviews and approves corporate goals and objectives relevant to the compensation of the Chief Executive Officer, evaluates the Chief Executive Officer s performance in light of those goals and objectives and determines and approves the Chief Executive Officer s compensation level based on this evaluation;
- In determining the long-term incentive component of the Chief Executive Officer s compensation, considers BancorpSouth s performance and relative shareholder return, the value of similar incentive awards to chief executive officers at comparable companies, the awards given to the Chief Executive Officer in past years, and such other factors as it may deem relevant;
- For the (i) Chief Executive Officer, Chief Financial Officer and the three most highly compensated executive officers other than the Chief Executive Officer and the Chief Financial Officer, determines and approves, and (ii) other executive officers, annually reviews and recommends to the Board:
  - the annual base salary level(s);
  - annual bonus(es);
  - changes or amendments to incentive-compensation plans and equity-based plans;
  - employment agreements, severance arrangements, and change in control agreements/provisions, in each case as, when and if appropriate; and
  - any special or supplemental benefits plans or programs;
- At least annually and more often as circumstances dictate, reports its actions to the Board; and
- Annually reviews and re-assesses the adequacy of the Executive Compensation and Stock Incentive Committee s Charter and recommends any proposed changes to the Board for approval.

Decisions by the Executive Compensation and Stock Incentive Committee with respect to the compensation of our executive officers, including the Named Executive Officers, are reviewed by the full Board of Directors (excluding directors who are also our employees).

Compensation Policy

Our principal measures of success in achieving our business objectives are an increasing dividend, growth in average deposits and other funding sources, return on average equity, earnings per share growth, our asset quality and our overall market competitive position, as measured against our own internal standards and as compared to a peer group of comparably sized bank holding companies. The variable, performance-based elements of our executive compensation program are designed to reward our executive officers based on our overall performance in achieving defined performance goals relative to these measures.

Through our executive compensation program we seek to provide:

- Base salaries at levels that will attract and retain qualified executive officers;
- Compensation that differentiates pay on the basis of performance;

Incentive compensation opportunities that will motivate executive officers to achieve both our short-term and long-term business objectives and that will provide compensation commensurate with our performance achievements;

Total compensation that is competitive with that of comparable bank holding companies within the context of our performance; and

Protection of shareholder interests by requiring achievement of successful results as a condition to earning above-average compensation.

Our executive compensation program consists of the following primary elements:

Annual base salary is intended to provide a foundation element of compensation that is relatively secure and that reflects the skills and experience that an executive brings to BancorpSouth; we seek to pay base salaries that are competitive with those paid to executive officers in comparable positions at comparable bank holding companies;

Annual incentive compensation is a variable element that is based on the achievement of defined goals for a given fiscal year that are tied to our overall performance and, in some situations, performance of a specific business unit;

Long-term incentive compensation is a variable element that provides an emphasis on longer-term performance goals, stock price performance, ongoing improvement and continuity of performance;

Employee benefits are intended to provide reasonable levels of security with respect to medical, death and disability protection and paid time off; and

Certain perquisites are used to supplement the other elements of compensation, facilitating the attraction and retention of executive officers of the caliber we believe necessary to remain competitive.

The Executive Compensation and Stock Incentive Committee uses the variable compensation elements of our executive compensation program (*i.e.*, annual incentive compensation and long-term incentive compensation) as incentives that are based on our performance. While increases to annual base salaries also take individual and BancorpSouth performance into consideration, they are not predicated solely on performance achievements and are not subject to the same degree of variability as the performance-based incentives. The variable elements of compensation align with shareholder interests by focusing executives attention on key measures of performance that we believe either drive shareholder return or directly reflect our stock price performance.

The allocation of compensation across each of the elements of our executive compensation program is based on the following considerations:

The need to provide a level of basic compensation (base salary and employee benefits) necessary to enable us to attract and retain high-quality executives, regardless of external business conditions;

The goal of providing a substantial amount of compensation opportunities through performance-based, variable-compensation vehicles;

The goal of reflecting reasonable practices of comparable bank holding companies within the context of our performance achievements; and

The desire to align our executives and our shareholders best interests through the use of equity-based compensation vehicles.

To date, we have not implemented policies or procedures with respect to adjustment or recovery of awards or payments in the event of restatements of our earnings or similar events.

The statute governing Mississippi state banks and our Amended and Restated Bylaws require our directors to own common stock of BancorpSouth in an aggregate amount of at least $200 par value (*i.e.*, 80 shares). We do not, however, have any other requirements for minimum stock ownership for our officers or directors. Our Insider Trading Policy prohibits directors, officers and other employees from hedging the economic risk of ownership of any BancorpSouth common stock they own.

Compensation Process

The Executive Compensation and Stock Incentive Committee generally meets two times a year and more often if necessary. Prior to each regular meeting, the Corporate Secretary sends material to each Executive Compensation and Stock Incentive Committee member, including minutes of the previous meeting, an agenda, recommendations for the upcoming meeting and other materials relevant to the agenda items. All materials are reviewed by the Chief Executive Officer before being sent to committee members. On occasion, the Chief Executive Officer attends Executive Compensation and Stock Incentive Committee meetings. The Chief Executive Officer provides information to the Executive Compensation and Stock Incentive Committee concerning the executive officers, discusses performance measures relating to executive officer compensation and makes recommendations to the Executive Compensation and Stock Incentive Committee concerning the compensation of the executive officers. The Executive Compensation and Stock Incentive Committee holds an executive session consisting only of committee members at almost every meeting. The Chief Executive Officer does not engage in discussions with the Executive Compensation and Stock Incentive Committee regarding his own compensation, except to respond to questions posed by committee members outside of the executive session deliberations.

The Executive Compensation and Stock Incentive Committee uses competitive marketplace information developed by Watson Wyatt and Company, its independent executive compensation consultant, with respect to compensation of the senior executives. The Executive Compensation and Stock Incentive Committee uses such information in both its deliberations regarding the Chief Executive Officer s compensation and its review and decision process with respect to the recommendations presented by the Chief Executive Officer. In the compensation deliberations for 2006 salary levels and incentive compensation opportunities, the competitive market data reflected:

Published data from nationally recognized banking industry compensation surveys, including primarily the Watson Wyatt Data Services Survey on Financial Institutions Compensation; and

Publicly disclosed data (primarily from proxy statements) for the following group of bank holding companies (with selected similarly-sized bank holding companies being used as primary comparables for competitive pay levels and opportunities, and other larger regional competitors being used to provide an additional frame of reference with respect to overall pay practices, compensation plan design and pay element relationships):

AmSouth Bancorpation (reference);

BOK Financial Corp. (primary);

Colonial Bancgroup (primary);

Compass Bancshares (reference);

Cullen Frost Bankers (primary);

First Citizens Bancshares (primary);

First Horizon National Corp. (reference);

Firstmerit Corp. (primary);

Fulton Financial Corp. (primary);

Hibernia Corp. (reference);

Mercantile Bankshares Corp. (primary);

South Financial Group (primary);

Synovus Financial Corp. (reference);

Trustmark Corp. (primary); and

Whitney Holding Corp. (primary).

Historically, neither the Executive Compensation and Stock Incentive Committee nor management have utilized comprehensive executive compensation spreadsheets (tally sheets) that set forth our total compensation obligations to the Named Executive Officers under various scenarios. Management began utilizing such spreadsheets in 2006, however, to track total compensation packages for the Named Executive Officers.

The Executive Compensation and Stock Incentive Committee reviews and approves, in advance, employment, severance or similar arrangements or payments to be made to any executive officer. The Executive Compensation and Stock Incentive Committee receives reports from management pertaining to compensation for all other officers. The Executive Compensation and Stock Incentive Committee annually reviews all of the perquisites paid to the Named Executive Officers as discussed below in the section entitled Components of Compensation Perquisites.

Components of Compensation

The Executive Compensation and Stock Incentive Committee allocates compensation to individuals both as to specific components (for example, base salary and incentive compensation) and as a whole. Each of the components of compensation is discussed in more detail below. While considering each component of compensation, the Executive Compensation and Stock Incentive Committee is relatively more focused on the individual components that make up an individual officer s total compensation rather than the total compensation itself.

Annual Base Salary. The Executive Compensation and Stock Incentive Committee views cash compensation as one element of overall compensation, but not necessarily as the principal instrument to provide incentive to our executive officers. We believe that base salary ranges should reflect the competitive employment market and the relative internal responsibilities of each executive s position, with an executive s salary within a salary range being based upon his or her individual performance. In connection with the annual budget process, the Executive Compensation and Stock Incentive Committee considers salaries for executive officers within the context of the competitive market data described above under the caption Compensation Process. In its review of market data for setting 2006 salary levels, the Executive Compensation and Stock Incentive Committee found that, while there were some variances of our executives salaries from salaries for comparable positions at comparable bank holding companies (which particular deviations were deemed appropriate), the salaries of our executives on the whole reasonably approximated the salaries at comparable bank holding companies. Increases in base salary are based upon the following considerations:

- Our salary budget for the applicable fiscal year, which includes the salary of all of our employees;
- Assessment of the competitiveness of the executive s salary as compared to competitive market data (with primary emphasis on setting base salary at the median salary for the comparable position at comparable bank holding companies unless a different compensation level is warranted by individual performance);
- The executive s performance in carrying out his or her specific job responsibilities and attaining specific objectives that may have been established for the year;
- BancorpSouth s performance as a whole for the prior fiscal year; and
- Assessment of the appropriateness of the executive s salary when compared to peers on an internal equity basis.

In January 2007, the Executive Compensation and Stock Incentive Committee determined the base salary for its executive officers for 2007 based on the above methodology. Each Named Executive Officer s base salary was adjusted effective as of January 1, 2007.

Annual Incentive Compensation. Our annual incentive compensation program furthers our objectives to provide compensation that differentiates pay on the basis of performance, provide compensation commensurate with our performance achievements and protect shareholder interests by requiring achievement of successful results as a condition to earning above-average compensation. We believe that annual incentive compensation should reflect the competitive employment market and the relative internal responsibilities of each executive s position. In connection with the annual budget process, the Executive Compensation and Stock Incentive Committee considers

annual bonuses for similarly-situated executive officers of similarly-sized bank holding companies within the context of the competitive market data described above under the caption Compensation Process.

We believe that our annual incentive compensation program should provide meaningful compensation opportunities in relation to our achievement of key annual performance goals. In providing such opportunities, we believe that participants in the program are motivated to achieve the established goals and are rewarded at levels that reflect their achievements.

We provide incentive compensation opportunities to Named Executive Officers under two programs the BancorpSouth, Inc. Executive Performance Incentive Plan, as amended, and the BancorpSouth, Inc. Home Office Incentive Plan. The Executive Performance Incentive Plan provides for the payment of cash incentive bonuses, as well as equity-based awards, to participants based upon the achievement of performance goals established by a subcommittee of the Executive Compensation and Stock Incentive Committee that administers the Executive Performance Incentive Plan. This plan is intended to increase shareholder value and our success by encouraging outstanding performance by our Named Executive Officers. All payments made under the Executive Performance Incentive Plan are intended to be performance-based compensation within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended. The Executive Performance Incentive Plan provides eligible executive officers with incentive awards based on the achievement of goals relating to our performance. The amount of the cash bonus may vary among participants from year to year. During 2006, the Chief Executive Officer and Chief Operating Officer were eligible to participate in the Executive Performance Incentive Plan.

The subcommittee of the Executive Compensation and Stock Incentive Committee that administers the Executive Performance Incentive Plan may establish performance goals based on any of the following business criteria:

- return on average equity or average assets;
- deposits and other funding sources;
- revenue, including interest income and/or non-interest income, and/or return on revenue;
- cash flow (operating, free, cash flow return on equity, cash flow return on investment);
- earnings, before or after taxes, interest, depreciation, and/or amortization;
- earnings per share;
- net interest margin;
- improvement in credit quality measures, including non-performing asset ratio, net charge-off ratio, or reserve coverage of non-performing loans vs. peers;
- efficiency ratio;
- loan growth; and
- total shareholder return.

The subcommittee may take into account several factors when establishing the performance goals each year. The performance goals established by the subcommittee, however, must be objectively determinable and based on levels

of achievement of the business criteria contained in the Executive Performance Incentive Plan. No later than 90 days after the beginning of each fiscal year, the subcommittee will specify in writing (i) the type of award (*i.e.*, cash or equity) and target amount payable to each participant, (ii) the maximum amount payable to each participant, (iii) the performance goals upon which each participant s award is conditioned and (iv) the formula to determine the amount payable or shares that become vested based on the achievement of the specified goals. The amount of awards may vary among participants and from year to year, but the maximum cash bonus payable to any participant under the Executive Performance Incentive Plan in a year is $4 million.

No later than 90 days after the end of each year, or other period of performance specified in an award, the subcommittee must certify in writing for each participant whether the performance goals and any other material conditions have been met. If these goals and conditions have been met, the subcommittee may authorize payment of

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the amount of cash earned under an award. The subcommittee has discretion to reduce or eliminate, but not increase, an amount that is payable to a participant under the Executive Performance Incentive Plan. Any incentive cash bonuses will be paid in cash as soon as practicable following the end of the fiscal year.

In 2006, the subcommittee established the following performance goals for growth in average deposits and other funding sources and return on average equity in connection with the Executive Performance Incentive Plan:

Performance Goal	Threshold Amount	Target Amount	Maximum Amount
Growth in Average Deposits and Other Funding Sources	$ 9,376,000,000	$ 10,644,000,000	$ 11,460,000,000
Return on Average Equity	10.29%	12.11%	13.93%

Based on actual performance, and as certified by the subcommittee in its role as administrator of the Executive Performance Incentive Plan, each of the Named Executive Officer s 2006 bonus represented 120% of his respective target award and no award was reduced or eliminated by the subcommittee. The threshold amount of each respective award was equal to 33% of the target award and the maximum amount of each respective award was equal to 200% of the target award, as reflected in the table under the section entitled EXECUTIVE COMPENSATION Grants of Plan Based Awards.

We also provide incentive compensation opportunities to Named Executive Officers and other participants under the Home Office Incentive Plan. The Home Office Incentive Plan uses the same performance measures and goals as the Executive Performance Incentive Plan referenced above, but allows the Executive Compensation and Stock Incentive Committee to use its discretion to either increase or decrease resultant awards.

Long-Term Incentive Compensation. Long-term incentive compensation is another important part of our executive compensation program and provides equity-based awards to ensure optimal alignment with our shareholders interests. Under the relevant plans that have been approved by our shareholders in recent years the 1994 Stock Incentive Plan and the Executive Performance Incentive Plan we have the ability to make grants of non-qualified stock options, incentive stock options, performance shares, restricted stock and restricted stock units. We believe that long-term incentive compensation should reflect the competitive employment market and the relative internal responsibilities of each executive s position. The Executive Compensation and Stock Incentive Committee considers long-term incentive compensation for executive officers at comparable bank holding companies within the context of the competitive market data described above under the caption Compensation Process. In general, the Executive Compensation and Stock Incentive Committee attempts to set the long-term incentive compensation for Messrs. Patterson and Kelley at a level that is near the 50th percentile for the comparable executive officers and attempts to set the long-term incentive compensation for our other executives at a competitive level that is generally below the 50th percentile.

The Executive Compensation and Stock Incentive Committee has the ability to use different incentive vehicles for long-term incentive compensation for achieving our compensation objectives. For example, the Executive Compensation and Stock Incentive Committee may grant:

- Stock options to provide a focus on stock price appreciation;

- Restricted stock and restricted stock units (awards that entitle the recipient to receive common stock, cash or a combination of common stock and cash upon the achievement of specified performance goals) as an incentive

for continued service or to emphasize both BancorpSouth performance and executive retention; and

Performance shares (contingent awards where the number of shares earned is based on BancorpSouth s performance and the value of the earned shares is based on our stock price performance over the duration of the performance period) as an incentive to optimize BancorpSouth s performance.

Historically, we have used stock option grants to provide performance-based long-term incentive compensation where the value to the recipient is dependent upon appreciation in our stock price. We have also made limited use of restricted stock grants to both the Chief Executive Officer and Chief Operating Officer to encourage their continued service with BancorpSouth while maintaining a strong focus on performance.

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The 2005 amendments to the 1994 Stock Incentive Plan and the Executive Performance Incentive Plan, which primarily added the ability to grant awards of performance shares and restricted stock units contingent upon certain performance targets for BancorpSouth, constituted the initial step in a new incentive compensation strategy that moved us from predominantly relying on stock price appreciation to using a broader range of performance objectives that are important to our business. The 2006 amendments to the Executive Performance Incentive Plan, which expanded the performance criteria that can be used as the basis for earning awards in a manner that is compliant with Section 162(m) of the Internal Revenue Code, was the next step toward implementing the new incentive compensation strategy. With these enabling amendments approved by our shareholders, our intent is to implement changes to our long-term incentive compensation strategy beginning in 2007 by reducing the role of stock options and introducing the opportunity to earn performance shares. Nearly all of our previous equity-based awards provided rewards based solely on the increase in the market value of our common stock. Placing sole reliance on market value can, we believe, reward short-term or mid-term performance under some circumstances, but cannot adequately support our objectives of encouraging long-term performance.

For 2006, long-term incentive compensation for the Named Executive Officers was solely in the form of stock option grants. Such awards were limited to executives who are responsible for long-term investment, operating or policy decisions and to executives who are instrumental in implementing these decisions. In determining the total number of options to be granted, the Executive Compensation and Stock Incentive Committee considered the available number of shares under the 1994 Stock Incentive Plan, but had no fixed formula for determining the total number of options to be granted. In selecting the award recipients and determining the level of stock option grants made in 2006, management and the Executive Compensation and Stock Incentive Committee utilized market competitive data as described above under the caption Compensation Process. In addition, management (with respect to all executives except the Chief Executive Officer and Chief Operating Officer) and the Executive Compensation and Stock Incentive Committee (with respect to the Chief Executive Officer and Chief Operating Officer, and in its review of management s recommendations for other recipients), considered the (i) present scope of responsibility of the executive, (ii) degree to which the units influenced by that executive contribute to our profits, (iii) degree to which asset quality and other risk decisions are influenced by that executive s direction, (iv) the number of awards currently held by the executive, and (v) long-term management potential of the executive. In 2006, no single factor was weighed more heavily than any other factor in determining the level of stock option grants.

Historically, we have granted stock options on November 1st of each year. In the future, we plan to make any grants of performance shares during January of each fiscal year and the performance goals upon which the awards are conditioned will generally be based on our performance during the year of grant.

Our 2006 stock option grants were made on November 1, 2006, with a strike price of $24.78 (which was the closing price of our common stock on that date). The stock options granted in 2006 have an overall term of seven years and will become exercisable in three equal annual installments, beginning one year after the date of grant.

Executive Benefits. We provide our executive officers with executive benefits in amounts that we believe are reasonable, competitive and consistent with our management compensation program. We believe that such benefits help us to attract and retain executive officers of the caliber we believe necessary to remain competitive. We offer group life insurance, disability insurance, medical, dental and vision insurance to all our employees. We also maintain a Retirement Plan, which is discussed in detail under the section entitled EXECUTIVE COMPENSATION Pension Benefits Retirement Plan. In addition, we maintain bank-owned life insurance for certain executive officers.

Perquisites. We provide our executive officers with perquisites in amounts that we believe help us attract and retain highly-qualified leaders. For certain executives, including the Named Executive Officers, we provide a company automobile and pay for country club dues and the cost of an annual physical examination.

In addition, BancorpSouth owns and operates corporate aircraft to facilitate the business travel of its executive officers consistent with the best use of their time. Although the Named Executive Officers are not generally entitled to use aircraft for personal travel, Messrs. Patterson and Kelley are permitted to use aircraft for personal travel if approved by the Board of Directors.

Internal Revenue Code Section 162(m)

Section 162(m) of the Internal Revenue Code generally limits the corporate tax deduction for compensation in excess of $1 million that is paid to our Named Executive Officers. Qualifying performance-based compensation, however, is fully deductible without regard to the general Section 162(m) limits if certain requirements are met. Section 162(m) also permits full deductibility for certain pension contributions and other payments. The Executive Compensation and Stock Incentive Committee has carefully considered the impact of Section 162(m) and its limits on deductibility, and intends that certain of our compensation plans qualify for an exception to the limitations of Section 162(m) so that we may fully deduct compensation paid under these plans. The Executive Performance Incentive Plan is considered performance based for this purpose, as are certain awards under the 1994 Stock Incentive Plan.

We have certain other executive compensation arrangements that may cause a portion of that compensation to exceed the Section 162(m) limitation and, therefore, prevent us from deducting that excess portion for 2006 and subsequent years. These arrangements include the Stock Bonus Agreement with Mr. Patterson. In adopting these executive compensation arrangements, the Executive Compensation and Stock Incentive Committee determined that the benefits of these arrangements to us and our shareholders outweighed the inability to deduct a portion of the compensation for federal income tax purposes.

Employment Contracts and Change in Control Arrangements

We have no written employment agreements with any of the Named Executive Officers.

We have entered into a Change in Control Agreement with each of the Named Executive Officers that provides certain benefits in the event that we experience a change in control and we terminate the executive s employment without cause (generally because of the executive s conviction for certain crimes, the executive s commission of certain acts of dishonesty or the executive s intentional neglect of or material inattention to his duties), or the executive resigns for cause (generally because of a material adverse alteration in the executive s position, a reduction in the executive s compensation or a material breach by BancorpSouth of its employment policies), within 24 months after the change in control. In general, the amount of benefits payable under the agreements is 300% of the amount of annual base compensation and the highest annual bonus that the executive would otherwise be entitled to receive in the year that the change in control occurs with respect to Messrs. Patterson and Kelley, 200% of such annual base compensation and annual bonus with respect to Messrs. Sappington and Cowsert, and 100% of such annual base compensation and annual bonus with respect to Mr. Allen. The agreements include a double trigger (i.e., requiring both a change in control and termination of the executive s employment for the executive to receive payment) so that the Named Executive Officers will only receive additional benefits if a change in control also has an adverse economic impact on them individually and also protects a surviving entity if it desires to maintain the services of an executive. For more information about the Change in Control Agreements with the Named Executive Officers, see the section entitled EXECUTIVE COMPENSATION Potential Payments Upon Termination or Change-in-Control.

Under our Stock Bonus Agreement with Mr. Patterson, dated January 20, 1998, as amended, if we experience a change in font-family:ARIAL" SIZE="1">3 $1,075.0 6 Technology **153.9** 159.5 (4) 155.2 3 Financial services **288.1** 250.8 15 259.0 (3) Other **368.7** 404.3 (9) 376.9 7

Total revenues

1,986.7 1,954.8 2 1,866.1 5 **Costs and Expenses:** Cost of providing services and products sold **1,240.7** 1,319.4 (6) 1,244.1 6 Selling, general and administrative expenses **507.8** 454.7 12 380.7 19 Research and development costs **22.2** 8.4 4.6 83 Depreciation **66.9** 61.4 9 55.9 10 Amortization **7.3** 4.3 70 2.7 59 Restructuring charges **7.9** 14.0 (44) Asset

impairment 1.4 (100)

Total costs and expenses

1,852.8 1,862.2 (1) 1,689.4 10 **Operating Income $133.9** $92.6 45 $176.7 (48) **Operating Margin 6.7%** 4.7% 9.5%

2009 vs. 2008

Revenues

Customer Management revenues for 2009 were $1,986.7, up 2% from 2008. This includes $166.3 and $63.3 in 2009 and 2008, respectively, in revenue from the Intervoice acquisition that closed on September 3, 2008.

Revenues from the communications vertical increased 3% from the prior year. Growth with our largest communications client and from the Intervoice acquisition was partially offset by a reduction in spending with a few communications clients largely due to the decline in their volumes, as well as a shift in our revenue mix for several of our clients from North America to off-shore locations.

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Revenues from the financial services vertical increased 15%, primarily reflecting growth from the Intervoice acquisition as well as from new collections programs in the current year. Other revenues, which are comprised of clients outside of Customer Management s largest industries, decreased 9% from the prior year. A decline in revenues from several retail and automotive clients as a result of the softness in the current economic environment were partially offset by growth from the Intervoice acquisition.

Costs and Expenses

Customer Management total costs and expenses were $1,852.8, a 1% decrease from the prior year. Customer Management cost of providing services and products sold decreased 6% to $1,240.7 from the prior year. As a percentage of revenues, cost of providing services and products sold was 62.5% for 2009, down 500 basis points from 67.5% in the prior year, due to effective live-agent workforce management, as well as positive contributions from the Intervoice acquisition. Selling, general and administrative expenses of $507.8 increased 12% compared to the prior year. This largely reflects higher sales and marketing costs to service the expanded client base and extensive global channel partnerships obtained through the Intervoice acquisition. As a percentage of revenues, selling, general and administrative expenses were 25.6% for 2009 compared to 23.3% in the prior year. The $13.8 increase in research and development costs reflects investments in the automated self-care and technology solutions related to the acquired Intervoice platforms. Compared to the prior year, the 9% increase in depreciation expense and the 70% increase in amortization expense reflect depreciation and amortization of the assets acquired through the Intervoice acquisition. As discussed more fully under the heading, Restructuring Charges, we recorded restructuring charges of $7.9 and $14.0 during 2009 and 2008, respectively, to better align cost structure to future business needs.

Operating results also include a favorable foreign currency impact of approximately 30 basis points. Customer Management serves a number of its U.S.-based clients using contact center capacity in the Philippines, India and Canada. 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 Philippine pesos, Indian rupees or Canadian dollars, which represents a foreign exchange exposure. As discussed in further detail in the section titled Market Risk, we hedge this exposure by entering into foreign currency forward contracts and options to limit potential foreign currency exposure. We enter into these derivative instruments on a periodic basis over time and, therefore, the 2009 earnings impact is determined based on the difference in the extent of our hedged exposures as well as changes in foreign exchange rates between 2009 and 2008.

Operating Income

As a result of the foregoing, Customer Management 2009 operating income and operating margin were $133.9 and 6.7%, respectively, compared with $92.6 and 4.7%, respectively, in the prior year.

2008 vs. 2007

Revenues

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

Revenues from the communications vertical increased 6% from 2007. Growth with two large wireless clients and from the Intervoice acquisition was partially offset by a shift in our revenue mix for a few of our clients from North America to the Philippines. Revenues from the financial services vertical decreased 3%, reflecting completion of programs with clients that were partially offset by growth from the Intervoice acquisition. Revenues from the other vertical, which is comprised of clients outside of Customer Management s three largest industries, increased 7% from 2007, reflecting growth from the new programs as well as the Intervoice acquisition.

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Costs and Expenses

Customer Management total costs and expenses were $1,862.2, a 10% increase from 2007. Customer Management cost of providing services and products sold increased 6% to $1,319.4 from 2007. As a percentage of revenues, cost of providing services and products sold was 67.5% for 2008, up 80 basis points from 66.7% in 2007. The impact of revenue growth and operating efficiencies were more than offset by the negative foreign currency impact of approximately 165 basis points. As discussed in further detail in the section titled Market Risk, we hedge this exposure by entering into foreign currency forward contracts and options.

Selling, general and administrative expenses of $454.7 increased 19% compared to 2007. This reflects higher investments in our consulting and relationship technology resources and infrastructure costs. As a percentage of revenues, selling, general and administrative expenses were 23.3% for 2008 compared to 20.4% in 2007. The $3.8, or 83%, increase in research and development costs reflects investments in our relationship technology solutions. The 10% increase in depreciation expense and the 59% increase in amortization expense largely reflect depreciation and amortization of the assets acquired through the Intervoice acquisition. As discussed more fully under the heading, Restructuring Charges, Customer Management recorded a restructuring charge of $14.0 during 2008 to streamline operations and reduce headcount.

Operating Income

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

Information Management

	2009	2008	% Change 09 vs. 08	2007	% Change 08 vs. 07
Revenues:					
Data processing	**$ 113.9**	$ 135.4	(16)	$ 239.6	(43)
Professional and consulting	**159.0**	216.1	(26)	262.8	(18)
License and other	**161.4**	220.0	(27)	220.6	
Total revenues	**434.3**	571.5	(24)	723.0	(21)
Costs and Expenses:					
Cost of providing services and products sold	**220.8**	304.4	(27)	382.7	(20)
Selling, general and administrative expenses	**79.9**	79.3	1	101.4	(22)
Research and development costs	**52.0**	46.5	12	67.2	(31)
Depreciation	**22.6**	28.2	(20)	32.4	(13)
Amortization	**3.6**	7.0	(49)	3.7	89
Restructuring charges	**30.4**	9.7		3.4	
Asset impairments	**3.1**			1.3	(100)
Total costs and expenses	**412.4**	475.1	(13)	592.1	(20)

Operating Income	**$ 21.9**	$ 96.4	(77)	$ 130.9	(26)
Operating Margin	**5.0%**	16.9%		18.1%	

2009 vs. 2008

Revenues

Information Management revenues of $434.3 in 2009 were down 24% compared to the prior year, due to North American client migrations as well as international project completions, partially offset by revenue from new clients.

Data processing revenues of $113.9 decreased 16% from the prior year reflecting North American client migrations partially offset by revenues from a new client. Compared to the prior year, professional and consulting revenues of $159.0 decreased 26%, largely reflecting international project completions and reduction in services resulting from client migrations. License and other revenues decreased 27% to $161.4, due to international project completions. In addition, prior year included approximately $25 of termination revenue from client migrations.

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Costs and Expenses

Information Management total costs and expenses were $412.4, a 13% decline from the prior year. Compared to prior year, Information Management cost of providing services and products sold decreased 27% to $220.8. As a percentage of revenues, cost of providing services and products sold was 50.8% for 2009, down from 53.3% in the prior year. Selling, general and administrative expenses of $79.9 remained relatively flat compared to prior year. Increased investments in sales and marketing resources were offset by a decline in other administrative costs. As a percentage of revenues, selling, general and administrative expenses were 18.4% compared to 13.9% in 2008, largely due to revenue declines. The 12% increase in research and development costs reflects our increased spending on strategic initiatives to enhance the functionality of our business support system offerings. The 20%, or $5.6, decrease in depreciation expense and 49%, or $3.4, decrease in amortization expense for 2009 compared to the prior year is the result of fully depreciated and amortized assets. As noted under the heading, Restructuring Charges, we recorded restructuring charges of $30.4 in 2009 related to both consolidating facilities and reductions in headcount. We also recorded a restructuring charge of $9.7 in 2008 to better align our cost structure to future business needs, as well as to shift the geographic mix of some of our resources.

Operating Income

As a result of the foregoing, Information Management 2009 operating income and operating margin were $21.9 and 5.0%, respectively, compared with $96.4 and 16.9%, respectively, in the prior year.

2008 vs. 2007

Revenues

Information Management revenues of $571.5 in 2008 were down 21% compared to 2007, due to North American client migrations as well as project completions.

Data processing revenues of $135.4 decreased 43% from 2007 reflecting North American client migrations. Professional and consulting revenues of $216.1 decreased 18% from 2007 reflecting project completions and reduction in services resulting from client migrations. License and other revenues remained relatively flat at $220.0 compared to 2007. Termination revenue resulting from the completion of the Sprint Nextel and another North American client migration was offset by several items including reduction in client budgets due to slowdown in the industry, delayed project acceptance and completion of some international programs.

Revenues from Sprint Nextel were down approximately $53, or 46%, in 2008 compared to 2007.

Costs and Expenses

Information Management total costs and expenses were $475.1, down 20% from 2007. Information Management cost of providing services and products sold decreased 20% to $304.4 from 2007. As a percentage of revenues, cost of providing services and products sold was 53.3% for 2008, and was relatively flat compared to 2007. Selling, general and administrative expenses of $79.3 decreased 22% from 2007, reflecting benefits from focus on reducing costs. As a percentage of revenues, selling, general and administrative expenses were 13.9% compared to 14.0% in 2007. The 31% decrease in research and development costs reflects our selective approach to research and development spending by focusing our efforts on only what we consider the highest impact areas.

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

Operating Income

As a result of the foregoing, Information Management 2008 operating income and operating margin were $96.4 and 16.9%, respectively, compared with $130.9 and 18.1%, respectively, in 2007.

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HR Management

	2009	2008	% Change 09 vs. 08	2007	% Change 08 vs. 07
Revenues:	**$ 406.2**	$ 259.5	57	$ 255.2	2
Costs and Expenses:					
Cost of providing services and products sold	**464.2**	269.1	73	211.1	27
Selling, general and administrative expenses	**64.5**	58.6	10	66.7	(12)
Research and development costs				1.6	(100)
Depreciation	**8.6**	9.3	(8)	8.7	7
Amortization	**0.8**	2.2	(64)	2.6	(15)
Restructuring charges	**3.7**	10.5	(65)		
Asset impairment	**110.5**	268.6	(59)	2.8	
Total costs and expenses	**652.3**	618.3	5	293.5	
Operating Loss	**$ (246.1)**	$ (358.8)	(31)	$ (38.3)	

2009 vs. 2008

Revenues

HR Management revenues for 2009 were $406.2, a 57% increase from 2008. This increase reflects $122.3 related to the accelerated recognition in 2009 of previously received and deferred implementation revenue related to two large HR Management contracts as discussed in more detail below and revenue growth with two large HR Management contracts. As of December 31, 2009, the remaining deferred implementation revenue not yet recognized related to these two contracts is approximately $81.

Costs and Expenses

Total costs and expenses include implementation-related, settlement and impairment charges of $366.1 and $334.0 in 2009 and 2008, respectively, substantially related to two large HR Management contracts. The $334.0 charges recorded during 2008 reflect HR Management-related asset and goodwill impairment, write-down of deferred charges, and expensing implementation costs in accordance with our capitalization policy. In 2009, the Company restructured these two HR Management contracts to eliminate future implementation obligations related to services not operational to continue providing services already in operation. As a result, during 2009, all of the remaining capitalized implementation costs related to these two HR Management contracts were written-off and a portion of the previously received and deferred implementation revenue related to the services not yet operational was recognized. Refer to the Deferred Charges section of Note 2 of the Notes to Consolidated Financial Statements, for detailed discussion on our policy related to evaluation of our deferred costs. Typically, implementation costs are deferred and amortized ratably over the life of the contract. Deferred amounts are periodically evaluated for impairment or when circumstances indicate a possible inability to recover their carrying amounts. In the event these costs are not deemed recoverable, we follow the guidance in SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, now codified in FASB Topic 310 in the Accounting Standards Codification (ASC), to determine whether impairment exists. The implementation-related, settlement and impairment charges of $366.1 recorded during 2009 consisted of (a) $255.6 recorded within the cost of providing services and products sold caption representing expensing of implementation and settlement costs related to the two large contracts discussed above and (b) $110.5 for impairment of deferred charges and other long-lived assets. During 2008, the implementation and impairment charges of $334.0 consisted of (a) $65.4

recorded within the cost of providing services and products sold caption, related to excess implementation costs that were expensed rather than capitalized in accordance with the Company s accounting policy and (b) $268.6 for impairment of certain long-lived assets. Completing the contract restructurings during 2009 has stabilized the HR Management business and has eliminated the future implementation risk on services not yet operational.

HR Management cost of providing services and products sold for 2009 increased to $464.2 from $269.1 for 2008. As noted above, the cost of providing services and products sold for both 2009 and 2008 includes implementation-

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related and settlement charges of $255.6 and $65.4, respectively. Excluding these charges, the cost of providing services and products sold was relatively flat in 2009 compared to 2008. Selling, general and administrative expenses of $64.5 for 2009 increased 10%, or $5.9 compared to the prior year due to the increase in revenues. As noted under the heading, Restructuring Charges, we recorded restructuring charges of $3.7 in 2009 and $10.5 during 2008 to better align staffing levels to expected future revenues.

Operating Income

As a result of the foregoing, HR Management 2009 operating loss was at $246.1 compared to $358.8 in the prior year.

2008 vs. 2007

Revenues

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

Costs and Expenses

In 2008, we recorded $334.0 of asset impairment and implementation charges at HR Management, of which $207.5 related to impairment of deferred charges, $61.1 related to goodwill impairment and $65.4 related to expensing of implementation costs. The charges reflect challenges we experienced with complex implementations primarily pertaining to two large contracts which caused an increase in overall implementation and delivery costs and an assessment of capitalized implementation expenses and goodwill. The impairment of deferred charges recorded in 2008 triggered an impairment review of the goodwill related to the HR Management segment. As discussed more fully in Note 6 of the Notes to Consolidated Financial Statements, we are required to test goodwill for impairment annually and at other times if events have occurred or circumstances exist that indicate the carrying value of goodwill may no longer be recoverable. The impairment test for goodwill involves a two-step process. The first step compares the fair value of a reporting unit with its carrying amount, including the goodwill allocated to each reporting unit. If the carrying amount is in excess of the fair value, the second step requires the comparison of the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill. Any excess of the carrying value of the reporting unit goodwill over the implied fair value of the reporting unit goodwill will be recorded as an impairment loss. We determined that the fair value of the HR Management segment was less than its carrying value as of September 30, 2008 and, therefore, the second step of the test was required. This second step review of the HR Management segment was completed during the fourth quarter of 2008 and resulted in non-cash goodwill impairment charge of $61.1 recorded within the asset impairment caption in the accompanying Consolidated Statements of Operations. In determining the amount of the HR Management related goodwill impairment, we engaged a third-party appraisal firm to assist in valuing the significant intangible assets of the reporting unit. Key assumptions used by the Company in determining the fair value of the HR Management segment included revenue increases from existing contracts as services become operational and an estimate of future cash implementation costs and revenue.

HR Management cost of providing services and products sold for 2008 increased to $269.1 from $211.1 for 2007. As noted above, the cost of providing services and products sold for 2008 includes implementation-related charges of $65.4. Selling, general and administrative expenses of $58.6 for 2008 decreased 12%, or $8.1 compared to 2007 reflecting an increase in employees working on client-related projects in 2008 and savings realized from cost reduction initiatives. As a percentage of revenues, selling, general and administration expenses were 22.6% in 2008 compared to 26.1% in 2007. The

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decrease in research and development expense in 2008 reflects employees working on client related implementation projects. Additionally, as discussed in further detail under the heading, Restructuring Charges, HR Management recorded a restructuring charge of $10.5 in 2008 to better align our cost structure to future business needs.

Operating Income

As a result of the foregoing, HR Management 2008 operating loss was at $358.8 compared to $38.3 in 2007.

Restructuring Charges

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

2009

During 2009, the Company initiated a restructuring plan to reduce headcount and align resources to future business needs. The total charge of $47.0 included $30.7 of severance-related charges and $16.3 of facility-related charges. The $30.7 of severance-related charges was comprised of $15.3 at Information Management related to shifting the geographic mix of certain resources and further streamlining of operations, $6.7 of severance at Customer Management, resulting from a reduction in one international program and efforts to streamline operations, $3.7 at HR Management, related to headcount reductions across the globe in order to align resources to expected future revenue and $5.0 at Corporate to reduce headcount. The severance charge of $30.7 will largely be paid in cash pursuant to the Company s existing severance policy and employment agreements. These actions will affect approximately 1,000 of our worldwide salaried employees and approximately 800 of our non-salaried employees. We expect the severance actions to be mostly completed by mid-2010 and we expect the payback period on these charges to be less than one year.

Below is a summary of the 2009 net restructuring charge of $47.0 ($32.1 after tax) by segment:

	Customer Management	Information Management	HR Management	Corporate	Total
Severance costs	$ 6.7	$ 15.3	$ 3.7	$ 5.0	$ 30.7
Facility-related costs	1.2	15.1			16.3
Net restructuring	$ 7.9	$ 30.4	$ 3.7	$ 5.0	$ 47.0

The $16.3 facility-related charge relates to lease rent accruals for properties that have closed as the result of consolidating facilities. The $15.1 reserve recorded at Information Management largely relates to consolidating facilities in the United Kingdom. The charge is equal to the future costs associated with the facility, net of 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 these estimates in recording the facilities abandonment charge. Consequently there may be additional reversals or charges relating to this facility closure in the future. At December 31, 2009, the outstanding balance was $16.0, which will be paid over several years until the leases expire.

Restructuring liability activity for the 2009 plan consisted of the following:

	2009
Restructuring charge	**$ 47.0**
Severance payments	**(8.5)**
Facility payments	**(0.3)**
Balance at December 31	**$ 38.2**

2008

During 2008, the Company initiated a restructuring plan to align resources to future business needs and to shift the geographic mix of some of its resources. Restructuring actions were taken in each business segment, of which $14.0 related to Customer Management, $9.7 related to

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Information Management, $10.5 related to HR Management and $0.2 related to Corporate. The $34.4 restructuring consisted primarily of cash paid pursuant to the Company s severance policy and employment agreements. These actions, which affected approximately 1,500 professional and administrative employees and 1,000 non-salaried employees worldwide, were fully completed in 2009.

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

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

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

	2009	2008
Balance at January 1	**$ 22.1**	$
Restructuring charge		34.4
Severance payments	**(20.4)**	(12.2)
Facility payments	**(1.7)**	(0.1)
Balance at December 31	**$**	$ 22.1

Client Concentration

During 2009, our three largest clients accounted for 33.1% of our revenues. We serve AT&T, our largest client with 19.8% of revenues in 2009, under Customer Management and Information Management contracts. We serve DirecTV and Comcast Corporation, our second and third largest clients in 2009, under Customer Management contracts. Volumes under certain of our long-term contracts are subject to variation based on, among other things, the spending by clients on outsourced customer support and subscriber levels.

Business Outlook

Expectations for 2010 performance are as follows:

We expect overall revenue of approximately $2.6 billion. We expect a modest increase in Customer Management with full year revenue of approximately $2 billion reflecting our continued caution regarding existing client call volumes, which is balanced by the continuing solid new business signings. Information Management revenue is expected to be approximately $350 largely due to the impact of North American client migrations (as described in more detail in the Information Management section on Pages 17-18) and HR Management revenue is expected to be approximately $250 reflecting reduction in deferred revenue from the large amount recognized in 2009 and the reduced scope of two large HR Management contracts restructured in 2009.

For 2010, we expect earnings before interest, taxes, depreciation and amortization (EBITDA) of $330 to $360 and we expect earnings per share in the range of $1.05 to $1.20. The outcome depends partially upon the speed of economic recovery. EBITDA includes equity earnings in Cellular Partnerships and other income. Free cash flow is expected to exceed $150 in 2010. The expected 2010 free cash flow, combined with the $332 of cash on the balance sheet at December 31, 2009, will provide us with an improved ability to invest in our business in 2010 and beyond.

We also expect additional cash distribution of approximately $40 from the Cellular Partnerships.

We take opportunities to further streamline the business as we find them. Any future restructuring actions are not reflected in this guidance. Not included in this full year earnings per share, EBITDA and cash flow guidance is the 2010 impact of approximately $0.05 per share for the cost of the change in the President and Chief Executive Officer of the Company.

Financial Condition, Liquidity and Capital Resources

Liquidity and Cash Flows

We believe that Convergys has adequate liquidity from cash and expected future cash flows to fund ongoing operations, invest in the business and make required debt payments. The Company s free cash flow, defined as cash flow from operating activities less capital expenditures (net of proceeds related to disposals) was $189.8 for 2009, which is significantly higher than the 2008 free cash flow of $100.2. Free cash flow is expected to exceed $150 in 2010. The expected 2010 free cash flow, combined with the $331.7 cash on the Balance Sheet at December 31, 2009 and availability under the account receivables securitization facility that was established during 2009, will provide us with an ability to invest in our business in 2010 and beyond.

Cash flows from operating activities generally provide us with a significant source of funding for our investing and financing activities. Cash flows for 2009, 2008 and 2007 were as follows:

	2009	2008	2007
Net cash flows from operating activities	**$ 264.7**	$ 192.3	$ 209.9
Net cash flows used in investing	**(38.0)**	(365.1)	(74.8)
Net cash flows provided by (used in) financing	**(135.0)**	292.5	(250.7)
Computation of Free Cash Flows:			
Net cash flows from operations	**$ 264.7**	$ 192.3	$ 209.9
Capital expenditures, net of proceeds from disposal of assets	**(74.9)**	(92.1)	(101.3)
Free Cash Flows	**$ 189.8**	$ 100.2	$ 108.6

Cash flows from operating activities totaled $264.7 in 2009, compared to $192.3 in 2008 and $209.9 in 2007. The $72.4 increase in cash flows from operations from 2008 to 2009 was largely driven by a decrease in the net implementation spend reflecting completion of implementation activities related to two large HR Management contracts and improvement in our working capital requirements driven by improved accounts receivable collections. Net deferred charges (implementation costs less implementation revenue paid by the clients, and the related amortization of deferred cost and revenue is described as net deferred charges) increased by approximately $40 and $133 during 2009 and 2008, respectively, excluding the impact of the impairment and implementation charges that were incurred in the HR Management segment. The improvements in working capital were largely driven by improved accounts receivable collection. Days sales outstanding decreased to 60 days at December 31, 2009, versus 68 days at December 31, 2008. This performance measure is computed as follows: receivables, net of allowances, divided by average daily revenue.

The decrease in cash flows from operating activities during 2008, compared to 2007, was driven largely by the increase in net deferred charges due to additional HR Management contract implementation costs in 2008. During 2008, net deferred charges increased by approximately $133 excluding the impact of the impairment and implementation charges that were incurred in the HR Management segment. In 2007, the increase in net deferred charges related to client implementations incurred primarily at HR Management was approximately $30. The increase in net deferred charges during 2008 compared to 2007 was partially offset by a reduction in accounts receivable of approximately $60 and a decline in other working capital requirements of approximately $35.

We used $38.0 for investing activities during 2009 compared to $365.1 during 2008 and $74.8 in 2007. During 2008, we paid $312.2 (net of cash acquired) for the acquisition of Intervoice in the Customer Management segment and three other small acquisitions in the Information Management segment. The investing activity in 2009 was favorably impacted by a $40.0 return of capital from the Cellular Partnerships compared to $39.2 and $8.8 in 2008 and 2007, respectively. We are not aware of any material capital calls from the general partner of Cincinnati SMSA Limited Partnership.

Cash flows used for financing activities was $135.0 during 2009 compared to an inflow of $292.5 during 2008 and an

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outflow of $250.7 in 2007. During 2009 we repaid approximately $130 of our 4.875% Senior Notes. During 2008, we borrowed the entire amount available under our $400 Five-Year Competitive Advance and Revolving Credit Facility to fund our acquisition of Intervoice. We also repurchased Company s shares of common stock for $116.6 during 2008. The cash outflow during 2007 was due to repurchase of the Company s common stock and debt repayments.

As of December 31, 2009, our credit ratings and outlook are as follows:

	Long-Term Debt	Outlook
Moody s	Ba1	Negative
Standard and Poor s	BB+	Negative

Our credit ratings and outlook could impact our ability to raise capital in the future as well as increase borrowing costs.

The Company s free cash flows, defined as cash flows from operating activities less capital expenditures (net of proceeds related to disposals), was $189.8, $100.2 and $108.6 for 2009, 2008 and 2007, respectively. Compared to the prior year, the increase in free cash flows of $89.6 in 2009 was largely due to a higher amount of cash generated from operating activities during 2009 as discussed above. The Company uses free cash flow to assess the financial performance of the Company. The Company believes that free cash flow is useful to investors because it relates the operating cash flow of the Company to the capital that is spent to continue and improve business operations, such as investment in the Company s existing businesses. Further, free cash flow facilitates management s ability to strengthen the Company s balance sheet, to repay the Company s debt obligations and to repurchase the Company s common shares. Limitations associated with the use of free cash flow include that it does not represent the residual cash flow available for discretionary expenditures as it does not incorporate certain cash payments including payments made on capital lease obligations or cash payments for business acquisitions. Management compensates for these limitations by utilizing both the non-GAAP measure, free cash flow, and the GAAP measure, net cash flows from operating activities, in its evaluation of performance. There are no material purposes for which we use this non-GAAP measure beyond the purposes described above.

Capital Resources, Off-Balance Sheet Arrangements and Contractual Commitments

At December 31, 2009, total capitalization was $1,676.0, consisting of $469.6 of short-term and long-term debt and $1,206.4 of equity. At December 31, 2008, total capitalization was $1,816.0, consisting of $665.9 of short-term and long-term debt and $1,150.1 of equity. The total debt-to-capital ratio at December 31, 2009, was 28.0%, which compares to 36.7% at December 31, 2008. The decrease in this ratio is due to a lower level of borrowings in 2009 compared to 2008.

At December 31, 2009, we have borrowed the entire amount available under our $400 Five-Year Competitive Advance and Revolving Credit Facility. This borrowing was used mainly to fund our acquisition of Intervoice that closed on September 3, 2008. The maturity date of the Revolving Credit Facility Agreement is October 20, 2011. The Company s credit facility includes certain restrictive covenants including maintenance of interest coverage and debt-to-EBITDA ratios (as defined in the Credit Facility Agreement). Our interest coverage ratio, defined as the ratio of consolidated earnings before interest, tax, depreciation and amortization (EBITDA) to consolidated interest expense, cannot be less than 4.00 to 1.00 for four consecutive quarters. Our debt-to-EBITDA ratio cannot be greater than 3.25 to 1.0 at any time. At December 31, 2009, we were in compliance with all covenants. During February 2010, we repaid $300.0 of the outstanding portion of the Revolving Credit Facility.

In December 2004, we issued $250.0 in 4.875% Unsecured Senior Notes (4.875% Senior Notes) due December 15, 2009. As described in Note 8 of Notes to Consolidated Financial Statements, during the first nine months of 2009, we retired approximately $58 of the outstanding

debt and announced an exchange offer (Exchange Offer), under the terms of which the Company offered to exchange one-thousand twenty dollars in principal amount of its new 5.75% Junior Subordinated Convertible Debentures due September 2029 (2029 Convertible Debentures) for each one-thousand dollars in principal amount of its 4.875% Senior Notes. We issued a total of $125.0 aggregate principal amount of the 2029 Convertible Debentures in exchange for $122.5 of the 4.875% Senior Notes. This exchange transaction resulted in a loss on extinguishment of debt of $2.3 that is reflected within other income (expense), net, in the accompanying Statements of Operations and Comprehensive Income (Loss) for the year ended December 31, 2009. Following the settlement of the exchange, approximately $70 aggregate principal amount of the 4.875% Senior Notes remained outstanding that was fully paid in December 2009.

As discussed in Note 12 of Notes to Consolidated Financial Statements, we lease certain facilities and equipment used in our operations under operating leases. This includes our office complex in Orlando, Florida, which is leased from Wachovia Development Corporation (Lessor), a wholly owned subsidiary of Wells Fargo & Company, under an agreement that expires in June 2010. Upon termination or expiration of the lease, we must either purchase the property from the Lessor for $65.0 or arrange to have the office complex sold to a third party. If the office complex is sold to a third party for an amount less than the $65.0, we have agreed under a residual value guarantee to pay the Lessor up to $55.0. If the office complex is sold to a third party for an amount in excess of $65.0, Convergys is entitled to collect the excess. As of December 31, 2009, we have recognized a liability of approximately $12 for the related residual value guarantee. The value of the guarantee was determined by computing the estimated present value of probability-weighted cash flows that might be expended under the guarantee. The Company recorded a liability for the fair value of the obligation with a corresponding asset recorded as prepaid rent, which is being amortized to rental expense over the lease term. The liability will remain on the balance sheet until the end of the lease term. Under the terms of the lease, the Company also provides certain indemnities to the Lessor, including environmental indemnities. Due to the nature of such potential obligations, it is not possible to estimate the maximum amount of such exposure or the fair value. Convergys does not expect such amounts, if any, to be material. The Company has concluded that we are not required to consolidate the Lessor pursuant to authoritative guidance for the consolidation of variable interest entities included within FASB Topic 810, Consolidation, in the ASC. We are in the process of evaluating whether to purchase or refinance this property.

During 2009, we entered into a $125.0 asset securitization facility collateralized by accounts receivables of certain of the Company s subsidiaries, of which $50.0 expires in June 2010 and $75.0 expires in June 2012. The asset securitization program is conducted through Convergys Funding Inc., a wholly-owned bankruptcy remote subsidiary of the Company. The asset securitization facility does not qualify for sale treatment under the authoritative guidance for the accounting for transfers and servicing of financial assets and extinguishments of liabilities included in FAS Topic 860, Transfers and Servicing, in the ASC. Accordingly, the accounts receivable and related debt obligation will remain on the Company s Consolidated Balance Sheet. As of December 31, 2009, this facility remains undrawn. During February 2010, we drew approximately $65 from this facility.

The Company currently believes that its ability to borrow is greater than its established credit facilities in place.

We did not repurchase any shares of our common stock during 2009. We repurchased 7.7 million shares of our common stock for $116.6 during 2008 pursuant to outstanding authorizations. The timing and terms of any future transactions depend on a number of considerations including market conditions and our liquidity. At December 31, 2009, we had the authority to repurchase an additional 7.1 million common shares.

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The following summarizes our contractual obligations at December 31, 2009, and the effect such obligations are expected to have on liquidity and cash flows in future periods:

Contractual Obligations	Total	Less Than 1 Year	1-3 Years	After 3 Years
Debt [1]	$ 538.3	$ 405.2	$ 2.1	$ 131.0
Debt interest [2]	193.0	21.4	22.1	149.5
Operating leases [3]	131.0	45.2	59.9	25.9
Pension contributions [4]	9.4	9.4		
Unrecognized tax benefits [5]				
Purchase commitments [6]	32.5	32.5		
Total	$ 904.2	$ 513.7	$ 84.1	$ 306.4

(1) See Note 8 of the Notes to Consolidated Financial Statements for further information.
(2) This includes interest expense on both variable and fixed rate debt. Variable interest rates have been assumed to remain constant at current levels through the end of the term.
(3) See Note 12 of the Notes to Consolidated Financial Statements for further information.
(4) In order to meet ERISA funding requirements, the Company expects to contribute $9.4 to fund its cash balance pension plan in 2010. There is no estimate available for 2011 and beyond.
(5) Unrecognized tax benefits of $80.9 are excluded from this table as the uncertainty related to the amount and period of any cash settlement prevent the Company from making a reasonably reliable estimate.
(6) This consists of contractual obligations to purchase services that are enforceable and legally binding. Excludes issuance of purchase orders made in the ordinary course of business that are short-term or cancelable, as well as renewable support and maintenance arrangements.

At December 31, 2009, we had outstanding letters of credit of approximately $55 related to performance and payment guarantees, of which approximately $35 is set to expire by the end of 2010, approximately $8 is set to expire within one to three years and approximately $12 is set to expire after three years. We also had other bond obligations of approximately $41 related to performance and payment guarantees. We do not believe that any obligation that may arise under these arrangements will be material.

Market Risk

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

Interest Rate Risk

At December 31, 2009, we had $403.7 in outstanding variable rate borrowings and $134.6 in outstanding fixed rate borrowings. The carrying amount of our variable borrowings reflects fair value due to their short-term and variable interest rate features. Our variable interest rate debt had an effective interest rate of 3.4% during the year ended December 31, 2009. Based upon our exposure to variable rate borrowings, a one percentage point change in the weighted average interest rate would change our annual interest expense by approximately $4.

We sometimes use interest rate swaps to hedge our interest rate exposure. These instruments are hedges of the variability of cash flows to be received or paid related to a recognized asset or liability. These contracts are entered into to protect against the risk that the eventual cash flows resulting from such transactions will be adversely affected by changes in interest rates. There were no outstanding interest rate swaps covering interest rate exposure at December 31, 2009.

Foreign Currency Exchange Rate Risk

We serve many of our U.S.-based clients using contact center capacity in the Philippines, India and Canada. Although the contracts with these clients are typically priced in U.S. dollars, a substantial portion of the costs incurred to render services under these contracts are denominated in Philippine pesos (PHP), Indian rupees (INR) or Canadian dollars (CAD), which represents a foreign exchange exposure. As of December 31, 2009, we have hedged a portion of our exposure related to the anticipated cash flow requirements denominated in these

foreign currencies by entering into forward contracts with several financial institutions to acquire a total of PHP 11,869 at a fixed price of $256 through September 2012, INR 9,790 at a fixed price of $231 through June 2012 and CAD 92 at a fixed price of $80 through December 2010. Additionally, we had entered into option contracts to purchase PHP 1,370 for a fixed price of $34 through June 2010. The fair value of these derivative instruments as of December 31, 2009 is presented in Note 13 of the Notes to Consolidated Financial Statements. The potential loss in fair value at December 31, 2009 for such contracts resulting from a hypothetical 10% adverse change in all foreign currency exchange rates is approximately $60. This loss would be mitigated by corresponding gains on the underlying exposures.

Other foreign currency exposures arise from transactions denominated in a currency other than the functional currency. We periodically enter into forward exchange contracts that are not designated as hedges. The purpose of these derivative instruments is to protect the Company against foreign currency exposure pertaining to receivables, payables and intercompany transactions that are denominated in currencies different from the functional currencies of the Company or the respective subsidiaries. As of December 31, 2009, the fair value of these derivatives was immaterial to the Consolidated Financial Statements.

Critical Accounting Policies and Estimates

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

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

Contingencies

The Company is from time to time subject to claims and administrative proceedings that are filed in the ordinary course of business. We believe that the results of any such claims or administrative proceedings, either individually or in the aggregate, will not have a materially adverse effect on the results of operations or our financial condition. However, the outcome of any litigation cannot be predicted with certainty. An unfavorable resolution of one or more pending matters could have a material adverse impact on our results of operations or our financial condition in the future.

Deferred Charges

In connection with our outsourcing arrangements, we often perform a significant amount of set-up activities or implementations, which include the installation and customization of our proprietary software in our centers. Under these arrangements, clients do not take possession of the software nor have the right to take possession of the software without incurring a significant penalty. In accordance with authoritative guidance for arrangements that include the right to use software stored on another entity s hardware, the implementations are not treated as separate elements for revenue recognition purposes. Any proceeds collected for the implementations are deferred and recognized over the service period. Additionally, with respect to certain multiple-element arrangements, we defer all revenue related to the contracts until the final element is delivered. We capitalize all direct and incremental implementation and multiple-element costs,

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to the extent recovery is probable, and amortize them ratably over the life of the arrangements as cost of providing services and products sold.

Deferred amounts are periodically evaluated for impairment or when circumstances indicate a possible inability to recover their carrying amounts. In the event these costs are not deemed recoverable, we follow the guidance in FASB Topic 360, Accounting for the Impairment or Disposal of Long-Lived Assets, in the ASC, to determine whether an impairment exists. We evaluate the probability of recovery by considering profits to be earned during the term of the contract, the creditworthiness of the client and, if applicable, contract termination penalties payable by the client in the event that the client terminates the contract early. Our estimate of profitability is dependent in large part on our estimate of costs. Although we make every reasonable effort to accurately estimate costs, revisions may be made based on actual costs incurred that could result in the recording of an impairment loss. Additionally, if the financial condition of a client were to deteriorate, resulting in a reduced ability to make payments, we may be unable to recover the costs, which would result in an impairment loss. Finally, our entitlement to termination fees may be subject to challenge if a client were to allege that we were in breach of contract. The implementation-related, settlement and asset impairment charges of $369.2 recognized during 2009 substantially reflect (a) the costs of implementing an HR Management outsourcing client contract that exceeded the amount recoverable under the contract and (b) impairment of deferred costs resulting from a decision by two large HR Management clients not to implement services that were not operational. During 2008, we recorded $272.9 of impairment and implementation charges related to deferred costs, of which $207.5 was due to impairment of deferred charges and $65.4 was due to expensing of implementation costs that exceeded the termination for convenience fees in a contract at September 30, 2008. Based on our evaluation of all the related contracts, we believe that the remaining $52.7 of deferred charges at December 31, 2009 is recoverable.

Goodwill

At December 31, 2009, we had goodwill with a net carrying value of $1,048.6. As disclosed in Note 6 of Notes to Consolidated Financial Statements, we test goodwill for impairment annually as of October 1 and at other times if events have occurred or circumstances exist that indicate the carrying value of goodwill may no longer be recoverable. The impairment test for goodwill involves a two-step process. The first step compares the fair value of a reporting unit with its carrying amount, including the goodwill allocated to each reporting unit. If the carrying amount is in excess of the fair value, the second step requires the comparison of the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill. Any excess of the carrying value of the reporting unit goodwill over the implied fair value of the reporting unit goodwill will be recorded as an impairment loss. Fair value of the reporting unit is determined using a combination of the market approach and the income approach. Under the market approach, fair value is based on actual stock price or transaction prices of comparable companies. The market approach requires significant judgment regarding the selection of comparable companies. Under the income approach, value is dependent on the present value of net cash flows to be derived from the ownership. The income approach requires significant judgment including estimates about future cash flows and discount rates.

Asset impairment charges recorded during 2009 and 2008 required a review of goodwill related to the HR Management segment both in 2009 and 2008. The review performed in 2009 did not result in any goodwill impairment, however the review performed in 2008 resulted in an impairment loss of $61.1 at HR Management. The goodwill impairment loss of $61.1 for 2008 is reflected in the asset impairment caption in the accompanying Consolidated Statements of Operations.

During the fourth quarter of 2009, we completed our annual impairment tests for the five reporting units: Information Management International, Information

Management North America, Customer Management, Relationship Technology Management and HR Management. Based on the results of the first step, we had no goodwill impairment related to any of our reporting units. We believe we make every reasonable effort to ensure that we accurately estimate the fair value of the reporting units. However, future changes in the assumptions used to make these estimates could result in impairment losses.

Income Taxes

The Company accounts for income taxes in accordance with FASB Topic 740, Income Taxes, in the ASC (ASC 740), which recognizes deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The deferred tax assets and liabilities are determined based on the enacted tax rates expected to apply in the periods in which the deferred tax assets or liabilities are expected to be settled or realized.

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

The Company also reviews its tax activities and records a liability for its uncertain tax positions in accordance with ASC 740. The guidance contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining whether the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit, which is the largest amount that is more than 50% likely of being realized upon ultimate settlement. The Company s policy is to recognize interest and penalties accrued on unrecognized tax benefits as part of income tax expense. Significant judgment is required in determining our liability for uncertain tax positions. The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations and court rulings. Therefore, the actual liability for U.S. or foreign taxes may be significantly different from our estimates, which could result in the need to record additional tax liabilities or potentially reverse previously recorded tax liabilities. We believe that we make a reasonable effort to ensure accuracy in our judgments and estimates.

Restructuring Charges

We account for restructuring charges in accordance with FASB Topic 420, Exit or Disposal Cost Obligations, in the ASC, recognizing liabilities for a cost associated with an exit or disposal activity measured initially at fair value only when the liability is incurred. During the last three years, we have recorded restructuring charges related to reductions in headcount and facility closures. As of December 31, 2009, we had a restructuring accrual of $38.2, $16.0 of which relates to facility closure costs that will be paid over several years until the leases expire. The accrual is equal to the future costs associated with the abandoned facilities, net of the proceeds from any probable future sublease agreements. We have used estimates, based on consultation with real estate advisors, to arrive at the proceeds from any future sublease agreements. We will continue to evaluate our estimates in recording the facilities abandonment charge. As a result, there may be additional charges or reversals in the future.

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Revenue Recognition

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

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

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

Multiple Element Outsourcing Arrangements HR Management, which accounted for 15% of our consolidated revenues in 2009, delivers multiple services under our client arrangements (e.g., benefits administration, recruiting, payroll and learning). In connection with these arrangements, we must assess these multiple-element arrangements to determine whether they can be separated into more than one unit of accounting. The authoritative guidance for revenue arrangements with multiple deliverables establishes the following criteria, all of which must be met, in order for a deliverable to qualify as a separate unit of accounting:

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

If these criteria are met, each of the contractual services included in the contract is treated as a separate unit of accounting and revenue is recognized as we deliver each of the contractual services. If these criteria are not met, all of the services included are accounted for as a single unit of accounting. Revenue is then recognized either using a proportional performance method such as recognizing revenue based on

transactional services delivered or on a straight-line basis once HR Management begins to deliver the final service.

The assessments of these areas require us to make a significant number of judgments. The judgments made in these areas could have a significant effect on revenues recognized in any period by changing the amount and/or

the timing of the revenue recognized. We believe that we make a reasonable effort to ensure accuracy in our judgment and estimates.

Other

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

New Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles a replacement of FAS No. 162, now codified as FASB Topic 105, Generally Accepted Accounting Principles, (ASC 105) in the ASC as the single source of authoritative non-governmental U.S. GAAP. ASC 105 does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all authoritative literature related to a particular topic in one place. All existing accounting standard documents will be superseded and all other accounting literature not included in the FASB Codification will be considered non-authoritative. The provisions of ASC 105 are effective for interim and annual periods ending after September 15, 2009 and, accordingly, are effective for the Company for the current fiscal reporting period. The adoption of this pronouncement did not have an impact on the Company s financial condition or results of operations, but will impact our financial reporting process by eliminating all references to pre-codification standards. On the effective date of this Statement, the Codification superseded all then-existing non-SEC accounting and reporting standards, and all other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative.

In April 2007, the FASB issued EITF 06-04, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements which has subsequently been codified in FASB Topic 715 in the ASC (ASC 715). This Standard requires an employer to recognize a liability for future benefits in accordance with authoritative guidance for the accounting for postretirement benefits other than pensions if, in substance, a postretirement benefit plan exists. The Company adopted ASC 715 effective January 1, 2008. Adoption of this Standard resulted in a $2.2 reduction to the retained earnings balance as of January 1, 2008.

In December 2008, the FASB issued FASB Staff Position No. FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets, which was primarily codified in FASB Topic 715, Compensation Retirement Benefits in the ASC. This guidance impacts an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. The guidance is effective for fiscal years ending after December 15, 2009. The Company has included additional information about plan assets in Note 10 of the Notes to Consolidated Financial Statements.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events , which was codified in FASB Topic 855, Subsequent Events in the ASC. This guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. Specifically, the guidance addresses the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This guidance is effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively. We evaluated all events or transactions that occurred after

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December 31, 2009 through the date we issued these financial statements, February 26, 2010. See Note 20 of the Notes to Consolidated Financial Statements for disclosures related to the Company s subsequent events.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets (SFAS No. 166). SFAS No. 166, which has not yet been codified in the ASC, is a revision to SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets and requires additional disclosures. SFAS No. 166 will be effective at the start of a reporting entity s first fiscal year beginning after November 15, 2009. Early application is not permitted. The Company will provide the disclosures required by this Standard in the first quarter of 2010.

In October 2009, the FASB issued ASU 2009-13, Multiple-Deliverable Revenue Arrangements, (amendments to FASB ASC Topic 605, Revenue Recognition) (ASU 2009-13) and ASU 2009-14, Certain Arrangements That Include Software Elements, (amendments to FASB ASC Topic 985, Software) (ASU 2009-14). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 and ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company is currently evaluating the impact of the adoption of ASU 2009-13 or ASU 2009-14 on the Company s consolidated results of operations and financial condition.

Risks Relating to Convergys and Its Business

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

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

AT&T, our largest client, has substantially migrated its subscribers from the legacy wireless billing system that we supported through a managed services agreement onto AT&T s other wireless billing system. The migration began in 2008 and was substantially complete by the end of 2009. In addition, AT&T acquired several other Convergys clients, resulting in their migration to the other billing system. The loss of revenue resulting from the AT&T related migrations was approximately $30 in 2009 compared to our 2008 Information Management revenues. In September 2005, Sprint PCS, a large data processing outsourcing client, completed its acquisition of Nextel Communications. In 2006, Sprint Nextel informed us that it intended to consolidate its billing systems onto a competitor s system. The migration began in 2006 and was fully completed during 2009. Revenues from Sprint Nextel were down approximately $50 for 2009 compared to the corresponding period last year.

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

Our three largest clients, as discussed under the section above titled Client Concentration, collectively represented 33.1% of our revenues for 2009. Our relationship

with AT&T is represented by separate contracts/work orders with Customer Management and Information Management. Our relationships with DirecTV and Comcast Corporation are represented by contracts under Customer Management. We do not believe that it is likely that our entire relationship with AT&T would terminate at one time; and, therefore, we are not substantially dependent on any particular contract/work order. However, the loss of all of the contracts/work orders with a particular client at the same time or the loss of one or more of the larger contracts/work orders with a client would adversely affect our total revenues if the revenues from such client were not replaced with revenues from that client or other clients. Our revenues and earnings would also be negatively impacted by general weakness or slowdown in the communications industry.

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

Several significant clients account for a large percentage of our accounts receivable. As of December 31, 2009, our largest clients, AT&T, DirecTV and Comcast Corporation, collectively accounted for 29.8% of our accounts receivable. During the past five years, each of these clients has generally paid its accounts receivable on a timely basis, and write-downs that we have incurred in connection with such accounts receivable were consistent with write-downs that we incurred with other clients. We anticipate that several clients will continue to account for a large percentage of our accounts receivable. Although we currently do not expect payment issues with any of these clients, if any of them were unable or unwilling, for any reason, to pay our accounts receivable, our income would decrease. We have several important clients that are in industries, including automotive, that have been severely impacted by the current global economic slowdown. We also carry significant receivable balances with other clients whose declaration of bankruptcy could decrease our income. In addition, our income could be materially impacted by a number of small clients declaring bankruptcy in a short period of time.

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

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

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

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

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and unfavorable publicity, any of which could negatively affect our operating results and financial condition. In addition, third party vendors that we engage to perform services for us may have an unintended release of personally identifiable information.

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

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

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

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

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

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

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

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

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

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

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

Our earnings are affected by changes in foreign currency.

Customer Management serves an increasing number of its U.S.-based clients using contact center capacity in the Philippines, India and Canada. About one-half of our approximately 60,000 contact center employees are located outside the United States. Although the contracts with these clients are typically priced in U.S. dollars, a substantial portion of the costs incurred by Customer Management to render services under these contracts is denominated in Philippine pesos, Indian rupees or Canadian dollars, which represents a foreign exchange exposure to the Company. We enter into forward exchange contracts and options to limit potential foreign currency exposure. As the U.S. dollar weakens the operating expenses of these contact centers, translated into U.S. dollars, increase. The increase in operating expenses will be partially offset by gains realized through the settlement of the hedged instruments. As the derivative instruments that limit our potential foreign currency exposures are entered into over a period of several years, the overall impact to earnings will be determined by both the timing of the derivative instruments and the movement of the U.S. dollar. In addition to the impact on our operating expenses that support dollar-denominated Customer Management contracts, changes in foreign currency impact the results of our international business units that are located outside of North America. In 2009, 16.5% of our revenues were generated outside of North America.

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

Our ability to profit from the global trend toward outsourcing depends largely on how effectively we manage our Customer Management and HR Management contact center capacity. In order to create the additional capacity necessary to accommodate new or expanded outsourcing projects, we may need to open new contact centers. The opening or expansion of a contact center may result, at least in the short term, in idle capacity until we fully implement the new or expanded program. Expanded use of home agents is helping to mitigate this risk. We periodi -

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Item 7. Management s Discussion and Analysis

of Financial Condition and Results of Operations (continued)

(Amounts in Millions Except Per Share Amounts)

cally assess the expected long-term capacity utilization of our contact centers. As a result, we may, if deemed necessary, consolidate, close or partially close under-performing contact centers to maintain or improve targeted utilization and margins. There can be no guarantee that we will be able to achieve or maintain optimal utilization of our contact center capacity.

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

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

We employ approximately 70,000 employees worldwide. At times, we have experienced difficulties in hiring personnel with the desired levels of training or experience. Additionally, in regard to the labor-intensive business of Customer Management, quality service depends on our ability to retain employees and control personnel turnover. Any increase in the employee turnover rate could increase recruiting and training costs and could decrease operating effectiveness and productivity. We may not be able to continue to hire, train and retain a sufficient number of qualified personnel to adequately staff new client projects. Because a significant portion of our operating costs relates to labor costs, an increase in wages, costs of employee benefits or employment taxes could have a materially adverse effect on our business, results of operations or financial condition.

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

In the recent past, war and terrorist attacks have caused uncertainty in the global financial markets and economy. Additional attacks and wars could contribute to economic instability in the United States and disrupt our operations in the U.S. and abroad. Such disruptions could cause service interruptions or reduce the quality level of the services that we provide, resulting in a reduction of our revenues. These activities may also cause our clients to delay or defer decisions regarding their use of our services and, thus, delay receipt of additional revenues. In addition, war and terrorist attacks in other regions could disrupt our operations and/or create economic uncertainty with our clients, which could cause a reduction in revenues and earnings.

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

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

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

Our liquidity is a function of our ability to successfully generate cash flows from a combination of operations and access to capital markets. As of December 31, 2009, total cash and cash equivalents was $331.7. We believe our liquidity (including operating and other cash flows that we expect to generate) will be sufficient to meet operating requirements and required debt repayments as

they occur; however, our ability to maintain sufficient liquidity going forward depends on our ability to generate cash from operations and access capital markets. As further described in the Capital Resources section of the Management Discussion and Analysis, our $400.0 revolving credit agreement, which was fully drawn at December 31, 2009, contains certain restrictive covenants. At December 31, 2009, we were in compliance with all covenants in the agreements.

Our results of operations could be adversely affected by litigation and other commitments and contingencies.

The Company faces risks arising from various unasserted and asserted litigation matters, including, but not limited to, commercial, securities law and patent infringement claims. Unfavorable outcomes in pending litigation matters, or in future litigation, could negatively affect us. Aggressive plaintiffs counsel often file litigation on a wide variety of allegations, and even when the allegations are groundless, we may need to expend considerable funds and other resources to respond to such litigation.

In the ordinary course of business, we may make certain commitments, including representations, warranties and indemnities relating to current and past operations, including those related to acquired or divested businesses and issue guarantees of third party obligations.

If we were required to make payments as a result of any of these matters, they could exceed the amounts accrued, thereby adversely affecting our results of operations, cash flows, financial condition, or business.

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

Our expansion and growth may be dependent in part on our ability to make acquisitions. The risks we face related to acquisitions include that we could overpay for acquired businesses, face integration challenges, have difficulty finding appropriate acquisition candidates, and any acquired business could significantly under-perform relative to our expectations. If acquisitions are not successfully integrated, our revenues and profitability could be adversely affected as well as adversely impact our reputation. Our Board of Directors reviews our businesses, including acquired businesses, on an ongoing basis to assess how and to what extent they contribute to our strategic goals. Businesses that they determine are not strategic could be divested at any time.

Our debt ratings are not considered investment grade.

In 2008, both Moody s and Standard and Poor s downgraded our debt ratings to below investment grade. This could impact our ability to raise capital in the future as well as increase borrowing costs. In addition, prospective clients and vendors may be less willing to do business with a provider with higher perceived credit risk or demand more onerous terms.

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

As described in Note 6 of the Notes to Consolidated Financial Statements, we test goodwill for impairment annually as of October 1 and at other times if events have occurred or circumstances exist that indicates the carrying value of goodwill may no longer be recoverable. Although no goodwill impairment charges were recorded during 2009, during 2008 we recorded a non-cash goodwill impairment charge of $61.1. There can be no assurances that we will not incur additional charges in the future, particularly in the event of a prolonged economic slowdown.

We sometimes rely on business partners to market, develop and deliver our solutions. Their failure to perform could negatively impact our financial results and harm our reputation in the marketplace.

We use third party business partners to assist in project implementations, to provide components of our solutions and to expand our ability to sell into new markets. Failure of third parties to perform in a timely manner could result in contractual or regulatory penalties, project delays or cost overruns as well as a failure to close new business.

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Item 7. Management s Discussion and Analysis

of Financial Condition and Results of Operations (continued)

(Amounts in Millions Except Per Share Amounts)

Our accounting for our long-term contracts requires using estimates and projections that may change over time. Such changes may have a significant or adverse effect on our reported results of operations and Consolidated Balance Sheet.

Projecting contract profitability on our long-term outsourcing contracts requires us to make assumptions and estimates of future contract results. All estimates are inherently uncertain and subject to change. In an effort to maintain appropriate estimates, we review each of our long-term outsourcing contracts, the related contract reserves and intangible assets on a regular basis. If we determine that we need to change our estimates for a contract, we will change the estimates in the period in which the determination is made. These assumptions and estimates involve the exercise of judgment and discretion, which may also evolve over time in light of operational experience, regulatory direction, developments in accounting principles and other factors. Further, initially foreseen effects could change over time as a result of changes in assumptions, estimates or developments in the business or the application of accounting principles related to long-term outsourcing contracts. Any such changes may have a significant or adverse effect on our reported results of operations and Consolidated Balance Sheet.

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

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

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

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

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Item 7A. and 8.

Item 7A. Quantitative and Qualitative Disclosures about

Market Risk

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

Item 8. Financial Statements and Supplementary Data

Beginning on page 47 are the Consolidated Financial Statements with applicable notes and the related Reports of Independent Registered Public Accounting Firm and the supplementary financial information specified by Item 302 of Regulation S-K.

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Report of Management

Management s Responsibilities for and Audit Committee Oversight of the Financial Reporting Process

The management of Convergys Corporation is responsible for the preparation, integrity and fair presentation of the Consolidated Financial Statements and all related information appearing in this Annual Report. The Consolidated Financial Statements and notes have been prepared in conformity with accounting principles generally accepted in the United States and include certain amounts, which are estimates based upon currently available information, and management s judgment of current conditions and circumstances.

The Audit Committee, consisting entirely of independent directors, meets regularly with management, the compliance officer, internal auditors and the independent registered public accounting firm, and reviews audit plans and results, as well as management s actions taken in discharging responsibilities for accounting, financial reporting and internal control. Ernst & Young LLP, independent registered public accounting firm, and the internal auditors have direct and confidential access to the Audit Committee at all times to discuss the results of their examinations.

Management s Report on Internal Control over Financial Reporting

Convergys management is also responsible for establishing and maintaining adequate internal control over financial reporting that is designed to produce reliable Financial Statements in conformity with accounting principles generally accepted in the United States. The system of internal control over financial reporting is evaluated for effectiveness by management and tested for reliability through a program of internal audits. Actions are taken to correct potential deficiencies as they are identified. Any internal control system, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and may not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to Financial Statement preparation and presentation.

Convergys management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2009. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework.* Based on its assessment, management has concluded that, as of December 31, 2009, the Company s internal control over financial reporting is effective based on those criteria.

Convergys engaged Ernst & Young LLP in 2009 to perform an integrated audit of the Consolidated Financial Statements in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Their report appears on page 48. Additionally, Ernst & Young LLP has issued an audit report on the Company s internal control over financial reporting. That report appears on page 47.

/s/ Jeffrey H. Fox
Jeffrey H. Fox
Chief Executive Officer

/s/ Earl C. Shanks
Earl C. Shanks
Chief Financial Officer

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of

Convergys Corporation

We have audited Convergys Corporation s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Convergys Corporation s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Convergys Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Convergys Corporation as of December 31, 2009 and 2008, and the related consolidated statements of operations and comprehensive income (loss), shareholders equity, and cash flows for each of the three years in the period ended December 31, 2009 and our report dated February 26, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Ernst & Young LLP
Cincinnati, Ohio
February 26, 2010

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Convergys Corporation

We have audited the accompanying consolidated balance sheets of Convergys Corporation as of December 31, 2009 and 2008, and the related consolidated statements of operations and comprehensive income (loss), shareholders equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Convergys Corporation at December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 15 to the Consolidated Financial Statements, at January 1, 2007, Convergys Corporation changed its method of accounting for income taxes with the adoption of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (codified primarily in FASB ASC Topic 740, Income Taxes). Additionally, as discussed in Note 10 to the Consolidated Financial Statements, at January 1, 2008, Convergys Corporation changed its method of accounting for certain employee benefit plans with the adoption of Emerging Issues Task Force Issue No. 06-04, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements (codified primarily in FASB ASC Topic 715, Compensation Retirement Benefits).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Convergys Corporation s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2010, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Ernst & Young LLP
Cincinnati, Ohio
February 26, 2010

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Consolidated Statements of Operations and Comprehensive Income (Loss)

(Amounts In Millions Except Per Share Amounts)	Year Ended December 31, 2009	2008	2007
Revenues	**$ 2,827.2**	$ 2,785.8	$ 2,844.3
Operating Costs and Expenses:			
Cost of providing services and products sold [(1)]	**1,925.8**	1,892.9	1,837.9
Selling, general and administrative expenses	**648.8**	593.8	554.9
Research and development costs	**74.2**	54.9	73.4
Depreciation	**118.9**	119.0	115.4
Amortization	**11.7**	13.5	9.0
Restructuring charges	**47.0**	34.4	3.4
Asset impairment	**113.6**	268.6	5.5
Total costs and expenses	**2,940.0**	2,977.1	2,599.5
Operating (Loss) Income	**(112.8)**	(191.3)	244.8
Equity in earnings of Cellular Partnerships	**41.0**	35.7	14.3
Other income (expense), net	**(16.9)**	14.3	4.0
Interest expense	**(28.9)**	(22.6)	(17.5)
(Loss) income before income taxes	**(117.6)**	(163.9)	245.6
Income tax (benefit) expense	**(40.3)**	(71.0)	76.1
Net (Loss) Income	**$ (77.3)**	$ (92.9)	$ 169.5
Other Comprehensive (Loss) Income, net of tax:			
Foreign currency translation adjustments	**$ 25.4**	$ (59.4)	$ 12.9
Change related to pension liability (net of tax benefit (expense) of ($2.4), $12.2 and ($0.9))	**2.2**	(20.3)	1.6
Unrealized gain (loss) on hedging activities (net of tax benefit (expense) of ($27.9), $57.5 and ($17.3))	**51.8**	(107.0)	32.1
Total Comprehensive Income (Loss)	**$ 2.1**	$ (279.6)	$ 216.1
(Loss) earnings per share:			
Basic	**$ (0.63)**	$ (0.75)	$ 1.26
Diluted	**$ (0.63)**	$ (0.75)	$ 1.23
Weighted average common shares outstanding:			

Basic	**122.8**	123.5	134.1
Diluted	**122.8**	123.5	137.7

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

The accompanying notes are an integral part of the Financial Statements.

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Consolidated Balance Sheets

(In Millions)	At December 31, 2009	2008
Assets		
Current Assets		
Cash and cash equivalents	**$ 331.7**	$ 240.0
Receivables, net of allowances of $17.6 and $10.8	**433.1**	523.8
Deferred income tax benefits	**41.5**	85.8
Prepaid expenses	**41.3**	36.0
Other current assets	**113.5**	92.4
Total current assets	**961.1**	978.0
Property and equipment, net	**367.7**	420.9
Goodwill, net	**1,048.6**	1,034.9
Other intangibles, net	**50.2**	68.8
Investments in Cellular Partnerships	**52.7**	51.4
Deferred charges	**52.8**	243.8
Other assets	**80.5**	43.6
Total Assets	**$ 2,613.6**	$ 2,841.4
Liabilities and Shareholders Equity		
Current Liabilities		
Debt maturing within one year	**$ 405.2**	$ 259.5
Payables, deferred revenue and other current liabilities	**483.9**	538.7
Total current liabilities	**889.1**	798.2
Long-term debt	**64.4**	406.4
Deferred income tax liability	**57.7**	39.5
Accrued pension liability	**131.3**	138.2
Deferred revenue	**89.5**	134.9
Other long-term liabilities	**175.2**	174.1
Total liabilities	**1,407.2**	1,691.3
Shareholders Equity		
Preferred shares without par value, 5.0 authorized; none outstanding		
Common shares without par value, 500.0 authorized;		
183.3 and 182.8 issued, 123.1 and 122.1 outstanding, as of December 31, 2009 and December 31, 2008, respectively	**1,048.1**	1,034.2
Additional paid-in capital	**36.0**	

Treasury stock 60.2 shares in 2009 and 60.7 in 2008	**(1,042.0)**	(1,050.0)
Retained earnings	**1,221.3**	1,302.3
Accumulated other comprehensive income (loss)	**(57.0)**	(136.4)
Total shareholders equity	**1,206.4**	1,150.1
Total Liabilities and Shareholders Equity	**$ 2,613.6**	$ 2,841.4

The accompanying notes are an integral part of the Financial Statements.

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Consolidated Statements of Cash Flows

(Amounts in Millions)	Year Ended December 31, 2009	2008	2007
Cash Flows from Operating Activities:			
Net (loss) income	**$ (77.3)**	$ (92.9)	$ 169.5
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	**130.6**	132.5	124.4
Asset impairment	**113.6**	268.6	5.5
Deferred income tax (benefit) expense	**(23.6)**	(41.5)	46.6
Equity in earnings of Cellular Partnerships	**(41.0)**	(35.7)	(14.3)
Stock compensation	**19.1**	19.4	25.6
Changes in assets and liabilities, net of effects from acquisitions:			
Change in receivables	**102.6**	41.7	(19.3)
Change in other current assets	**(14.5)**	(23.3)	(25.4)
Change in deferred charges, net	**93.2**	(143.6)	(47.5)
Change in other assets and liabilities	**(3.6)**	72.1	8.2
Change in payables and other current liabilities	**(37.1)**	(3.9)	(58.4)
Other, net	**2.7**	(1.1)	(5.0)
Net cash provided by operating activities	**264.7**	192.3	209.9
Cash Flows from Investing Activities:			
Capital expenditures	**(74.9)**	(100.5)	(102.3)
Sales of variable rate securities, net			20.5
Return of capital from Cellular Partnerships	**40.0**	39.2	8.8
Acquisitions, net of cash acquired	**(3.1)**	(312.2)	(2.8)
Proceeds from disposal of property and equipment		8.4	1.0
Net cash used in investing activities	**(38.0)**	(365.1)	(74.8)
Cash Flows from Financing Activities:			
Borrowings (repayments) of credit facilities and other debt, net	**(135.0)**	6.0	(7.8)
Borrowings under revolving credit facility		400.0	
Purchase of treasury shares		(116.6)	(181.3)
Repayments under Canadian & UK credit facility, net			(75.8)
Other, net		3.1	14.2
Net cash (used) provided by financing activities	**(135.0)**	292.5	(250.7)
Net increase (decrease) in cash and cash equivalents	**91.7**	119.7	(115.6)

Cash and cash equivalents at beginning of year	**240.0**	120.3	235.9
Cash and cash equivalents at end of year	**$ 331.7**	$ 240.0	$ 120.3
Supplemental Cash Flow Information:			
Cash paid for interest	**$ 31.1**	$ 19.6	$ 17.5
Income taxes paid, net of refunds	**$ (13.5)**	$ (13.0)	$ 36.2

The accompanying notes are an integral part of the Financial Statements.

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Consolidated Statements of Shareholders Equity

(Amounts in Millions)	Number of Common Shares	Common Shares	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2007	179.6	$ 965.1	$	$ (749.4)	$ 1,235.7	$ 3.7	$ 1,455.1
Adoption of FIN 48					(7.8)		(7.8)
Issuance of common shares	1.6	6.6					6.6
Excess tax benefits from share-based payment arrangements		7.6					7.6
Repurchase of common shares				(184.0)			(184.0)
Net income					169.5		169.5
Other comprehensive income						46.6	46.6
Amortization of stock-based compensation		28.1					28.1
Balance at December 31, 2007	181.2	1,007.4		(933.4)	1,397.4	50.3	1,521.7
Issuance of common shares	1.6	3.5					3.5
Tax related to share-based arrangements, net of excess tax benefits		(11.3)					(11.3)
Foreign tax valuation allowance release		15.2					15.2
Repurchase of common shares				(116.6)			(116.6)
Net loss					(92.9)		(92.9)
Adoption of ASC 715					(2.2)		(2.2)
Other comprehensive loss						(186.7)	(186.7)
Amortization of stock-based compensation		19.4					19.4
Balance at December 31, 2008	182.8	1,034.2		(1,050.0)	1,302.3	(136.4)	1,150.1
Issuance of common shares	**0.5**	**3.9**					**3.9**
Treasury shares issued for share-based plans, net				**8.0**	**(3.7)**		**4.3**
Tax related to share-based arrangements, net of excess tax benefits		**(9.1)**					**(9.1)**
Equity component of 2029 Convertible Debentures, net of deferred tax liability			**36.0**				**36.0**
Net loss					**(77.3)**		**(77.3)**
Other comprehensive income						**79.4**	**79.4**
Amortization of stock-based compensation		**19.1**					**19.1**
Balance at December 31, 2009	**183.3**	**$ 1,048.1**	**$ 36.0**	**$ (1,042.0)**	**$ 1,221.3**	**$ (57.0)**	**$ 1,206.4**

The accompanying notes are an integral part of the Financial Statements.

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Notes to Consolidated Financial Statements

(Amounts in Millions Except Share and Per Share Amounts)

1. Background and Basis of Presentation

Convergys Corporation (the Company or Convergys) is a global leader in relationship management. The Company provides solutions that drive more value from the relationships its clients have with their customers and employees. Convergys turns these everyday interactions into a source of profit and strategic advantage for the Company s clients. The Company s unique combination of domain expertise, operational excellence and innovative technologies has delivered process improvement and actionable business insight to clients to enhance their relationships with customers and employees. The Company reports three segments: (i) Customer Management, which provides agent-assisted services, self-service, and intelligent technology care solutions; (ii) Information Management, which provides business support system (BSS) solutions; and (iii) HR Management, which provides global human resource business process outsourcing (HR BPO) solutions.

2. Accounting Policies

Consolidation The Consolidated Financial Statements include the accounts of the Company s majority-owned subsidiaries. All significant intercompany accounts and transactions are eliminated upon consolidation.

Reclassification Certain prior year amounts have been reclassified to conform to current year presentation.

Use of Estimates Preparation of Financial Statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported. These estimates include project completion dates, time and cost required to complete projects for purposes of revenue recognition and future revenue, expense and cash flow estimates for purposes of impairment analysis and loss contract evaluation. Actual results could differ from those estimates.

Foreign Currency Assets and liabilities of foreign operations are translated to U.S. dollars at year-end exchange rates. Revenues and expenses are translated at average exchange rates for the year. Translation adjustments are accumulated and reflected as adjustments to comprehensive income (loss). Gains or losses resulting from foreign exchange transactions are recorded in the Consolidated Statements of Operations and Comprehensive Income (Loss) within other income (expense), net.

Revenue Recognition Revenues from Customer Management and HR Management, which accounted for 70% and 15%, respectively, of the Company s 2009 consolidated revenues, mostly consist of fees generated from outsourced services provided to the Company s clients. Information Management, which accounted for 15% of 2009 consolidated revenues, generates its revenues from three primary sources: data processing, professional and consulting services and license and other services.

The Company s revenues are recognized in conformity with Securities and Exchange Commission Staff Accounting Bulletin No. 104, Revenue Recognition, Accounting Standards Codification (ASC) 605, Revenue Arrangements with Multiple Deliverables (ASC 605), and ASC 985, Software Revenue Recognition (ASC 985). Revenues are recognized only when there is evidence of an arrangement and the Company determines that the fee is fixed and determinable and collection of the fee included in the arrangement is considered probable. When determining whether the fee is considered fixed and determinable and collection is probable, the Company considers a number of factors including the

creditworthiness of the client and the contractual payment terms. If a client is not considered creditworthy, all revenue under arrangements with that client is recognized upon receipt of cash. If payment terms extend beyond what is considered customary or standard in the related industry and geographic location, the related fees are considered extended and deferred until they become due and payable.

Approximately 90% of Customer Management revenues are derived from agent-related services. The Company typically recognizes these revenues as services are performed based on staffing hours or the number of contacts handled by

Notes to Consolidated Financial Statements (continued)

(Amounts in Millions Except Share and Per Share Amounts)

service agents using contractual rates. In a limited number of engagements where the client pays a fixed fee, the Company recognizes revenues, based on the specific facts and circumstances of the engagement, using the proportional performance method or upon final completion of the engagement. Customer Management s remaining revenues are derived from sale of premise-based and hosted automated self-care and technology solutions. License, professional and consulting and maintenance and software support services revenues recognized from sale of these advanced speech recognition solutions are recognized pursuant to ASC 985, more fully described below with Information Management revenues.

Professional and consulting revenues accounted for 37% of the 2009 Information Management revenues. These revenues consist of fees generated for installation, implementation, customization, training and managed services related either to the clients use of Information Management s software in Information Management s data centers or in their own processing environments. The professional and consulting revenues are recognized monthly based on time and materials incurred at contractually agreed upon rates or, in some instances, based upon a fixed fee. Professional and consulting services provided in connection with license arrangements are evaluated to determine whether those services are essential to the client s functionality of the software. When significant customization or modification of the software and the development of complex interfaces are required to meet the client s functionality, those services are considered essential. Accordingly, the related professional and consulting revenue is recognized together with the license fee using the percentage-of-completion method. The Company calculates the percentage of work completed by comparing contract costs incurred to date to total estimated contract costs at completion. Payment for these services sometimes is dependent on milestones (e.g., commencement of work, completion of design plan, completion of configuration, completion of customization). These milestone payments normally do not influence the Company s revenue recognition as the scheduled payments coincide with the period of time the Company completes the work. When the professional and consulting services provided in connection with license arrangements are not considered essential or when professional and consulting services are provided in connection with outsourcing arrangements, the revenues are recognized as the related services are delivered.

License and other revenues, which accounted for 37% of the 2009 Information Management revenues, consist of revenues generated from the sale of licenses to use Information Management s proprietary software and related software support and maintenance fees. License arrangements are contracted as either perpetual or term licenses, depending on the software product. When Information Management provides professional and consulting services that are considered essential to the software s functionality, the license element is recognized together with the professional and consulting element using the percentage-of-completion method. In circumstances where the Company is providing professional and consulting services that are considered essential to the software s functionality, and the Company is unable to determine the pattern in which Information Management s professional and consulting services will be utilized, the license revenue is recognized on a straight-line basis over the implementation period. When Information Management is not required to provide services that are considered essential to the software s functionality, the license element is recognized upon delivery of the software, assuming all other revenue recognition criteria have been met.

In connection with its license arrangements, Information Management typically is engaged to provide support and maintenance services. Revenues for support and maintenance services are recognized ratably over the term of the agreement. For these arrangements, Information Management allocates the contract value to the elements based on fair value of the individual elements. Fair value is determined using vendor specific objective evidence

(VSOE), which represents the normal pricing for these elements when sold separately. For a very limited number of its arrangements, the Company has not had sufficient VSOE of fair value of its undelivered elements, principally related to support and maintenance. As a result, revenue for the entire arrangement, including license fees and related professional and consulting fees, has been deferred and recognized over the term of the support and maintenance period. There may be cases in which there is VSOE of fair value of the undelivered item but no such evidence for the delivered items. In these cases, the residual method is used to allocate the arrangement consideration. Under the residual method, the amount of consideration allocated to the delivered items equals the total arrangement consideration less the aggregate VSOE of fair value of the undelivered elements.

Data processing, which accounted for 26% of the 2009 Information Management revenues, consists of monthly fees for processing client transactions in Information Management s data centers and, in some cases, the clients data centers, using Information Management s proprietary software. Data processing revenues are recognized based on the number of invoices, subscribers or events that are processed by Information Management using contractual rates. In connection with any new data processing outsourcing arrangements, Information Management often must perform significant set-up activities or implementations, including the installation and customization of its proprietary software in its centers. Under these arrangements, a client does not take possession of the software nor has the right to take possession of the software without incurring a significant penalty. As the client does not derive benefit from the implementation itself (but rather from the underlying services that are delivered once the systems and processes are launched), the implementation services do not meet the separation criteria as defined primarily under ASC 605. Therefore, any proceeds collected for the implementation are deferred and recognized over the contract period beginning from the commencement of services.

HR Management s arrangements typically span several years and entail delivery of multiple services (e.g., benefits administration, compensation, payroll administration, recruiting and learning) in different countries. These multiple-element arrangements are assessed to determine whether they can be separated into more than one unit of accounting. ASC 605 establishes the following criteria, all of which must be met, in order for a deliverable to qualify as a separate unit of accounting: (i) the delivered items have value to the client on a stand-alone basis, (ii) there is objective and reliable evidence of the fair value of the undelivered items, and (iii) if the arrangement includes a general right of return relative to the delivered items, delivery or performance of the undelivered items is considered probable and substantially in the control of the Company. If these criteria are met, each of the contractual services included in the contract is treated as a separate unit of accounting and revenue is recognized as services are performed based on the number of employees or participants served. If the above criteria are not met, all of the services included are accounted for as a single unit of accounting. Revenue is then recognized either using a proportional performance method such as recognizing revenue based on transactional services delivered or on a straight-line basis once HR Management begins to deliver the final service.

Similar to Information Management s data processing arrangements, HR Management s arrangements normally involve significant implementation activities including the installation and configuration of software, migration of participant data and development of methods and procedures. To the extent the client pays directly for the implementations, the Company defers the proceeds and recognizes it over the service period once HR Management begins to deliver the services. Revenues for services provided outside the scope of the implementation activities are recognized as services are performed or upon completion of the engagement based on specific facts and circumstances of the engagement.

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Notes to Consolidated Financial Statements (continued)

(Amounts in Millions Except Share and Per Share Amounts)

The Company considers the criteria established primarily by ASC 605-45, Reporting Revenue Gross as a Principal versus Net as an Agent, in determining whether revenue should be recognized on a gross versus a net basis. Factors considered in determining if gross or net basis recognition is appropriate include whether the Company is primarily responsible to the client for the services, has discretion on vendor selection, or bears credit risk. The Company provides certain services to clients using third party vendors. Typically, the costs incurred with third party vendors related to these services are passed through to the clients. In consideration of the above mentioned criteria, total payments the Company receives from clients related to these services are recorded as revenue and payments the Company makes to third party vendors are recorded as cost of providing services and products sold.

The Company sometimes earns supplemental revenues in each of the three segments depending on the satisfaction of certain service levels or achievement of certain performance measurement targets. The supplemental revenues are recognized only after required measurement targets are met.

Stock Compensation Convergys provides stock-based awards to certain employees and Directors. The Company accounts for these awards pursuant to Statement of Financial Accounting Standard (SFAS) No. 123(R), Share-Based Payment, (the guidance of which has subsequently been codified primarily under FASB Topic 718, in the ASC (ASC 718)) using the modified prospective method. Under ASC 718, the Company has elected to recognize the compensation cost of all share-based awards on a straight-line basis over the vesting period of the award. Tax benefits related to this stock compensation expense are reported as financing cash flow and tax expenses are reported as operating cash flow. Further, the Company applies an estimated forfeiture rate to unvested awards when computing the stock compensation-related expenses.

Income Taxes The Company accounts for income taxes pursuant to SFAS No. 109, Accounting for Income Taxes, (the guidance of which has subsequently been codified primarily under FASB Topic 740, in the ASC (ASC 740)) which requires recognition of deferred tax assets and liabilities for the expected future income tax consequences of transactions that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance for amounts that do not satisfy the realization criteria of ASC 740.

The Company also reviews its tax activities and records a liability for its uncertain tax positions in accordance with FIN 48, Accounting for Uncertainty in Income Taxes an interpretation of SFAS No. 109 (the guidance of which is also primarily included under ASC 740). The interpretation contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with ASC 740. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit, which is the largest amount that is more than 50% likely of being realized upon ultimate settlement. The Company s policy is to recognize interest and penalties accrued on unrecognized tax benefits as part of income tax expense.

Other Comprehensive Income (Loss) Components of other comprehensive income (loss) include currency translation adjustments, changes related to pension liabilities, net of tax, and unrealized gains (losses) on hedging activities, net of tax. Foreign currency translation adjustments generally are not adjusted for income taxes as they relate to indefinite investments in non-U.S. operations. Accumulated other comprehensive income (loss) also includes, net of tax, actuarial gains or losses, prior service costs or credits and transition assets and

obligations that are not recognized as components of net periodic pension cost pursuant to SFAS No. 87, Employers Accounting for Pensions, (SFAS No. 87) and SFAS No. 106, Employers Accounting for Postretirement Benefits Other than Pensions (SFAS No. 106). The guidance described above in SFAS No. 87 and SFAS No. 106 has subsequently been codified primarily under SFAS Topic 715, in the ASC.

Concentration of Credit Risk In the normal course of business, the Company is exposed to credit risk. The principal concentrations of credit risk are short-term investments, accounts receivable and derivative instruments. The Company regularly monitors credit risk exposures and takes steps to mitigate the likelihood of these exposures resulting in a loss. Historically, credit losses on accounts receivable have not been material because of the large concentration of revenues with a small number of large, established companies. The Company does not require collateral or other security to support accounts receivable. The Company evaluates the creditworthiness of its clients in conjunction with its revenue recognition processes, as discussed above, as well as through its ongoing collectability assessment processes for accounts receivable. The Company maintains an allowance for doubtful accounts receivable based upon factors surrounding the credit risk of specific clients, historical trends and other information. The Company limits its counterparty credit risk exposures by entering into derivative contracts with significant financial institutions that are rated A (S&P) or better.

Cash Equivalents Cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less.

Receivables Trade receivables are comprised primarily of amounts owed to the Company by clients and are presented net of an allowance for doubtful accounts of $17.6 and $10.8 at December 31, 2009 and 2008, respectively. Contracts with individual clients determine when receivables are due, generally within 30-60 days, and whether interest is accrued on late payments.

Property and Equipment Property and equipment are stated at cost. Depreciation is based on the straight-line method over the estimated useful lives of the assets. Buildings are depreciated over a 30-year life, software over a two- to eight-year life and equipment generally over a three- to five-year life. Leasehold improvements are depreciated over the shorter of their estimated useful life or the remaining term of the associated lease.

Software Development Costs Research and development expenditures are charged to expense as incurred. The development costs of software to be marketed are charged to expense until technological feasibility is established and capitalized thereafter, subject to assessment of realizability. Amortization of the capitalized amounts is computed using the greater of the sales ratio method or the straight-line method over a life of five years or less. The Company did not capitalize any software development costs during the periods reported.

Internal Use Software The Company follows ASC 350, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, that requires the capitalization of certain expenditures for software that is purchased or internally developed for use in the business. During 2009, 2008 and 2007, internally developed software amounts capitalized were $4.5, $9.0 and $14.7, respectively. Amortization of internal use software begins when the software is ready for service and continues on the straight-line method generally over a life of three years.

Goodwill and Other Intangibles As discussed more fully in Note 6, goodwill is tested at least annually for impairment. Other intangibles, primarily customer relationship assets and trademarks, are amortized over a straight-line basis with lives ranging from four to twelve years and are evaluated periodically if events or circumstances indicate a possible inability to recover their carrying amounts.

Deferred Charges As more fully described under the heading above Revenue Recognition, the Company often

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Notes to Consolidated Financial Statements (continued)

(Amounts in Millions Except Share and Per Share Amounts)

performs, in connection with its outsourcing arrangements, certain set-up activities or implementations, including the installation and customization of its proprietary software in its centers. Additionally, with regard to arrangements where all of the services are accounted for as a single unit of accounting, the Company defers all revenue until it begins to deliver the final service. In connection with these arrangements, the Company capitalizes all direct and incremental multiple-element costs (by analogy to ASC 310, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases (ASC 310)), to the extent recovery of these costs is probable. All implementation and set-up activity costs are amortized ratably over the life of the arrangements as costs of providing service and products sold. Deferred amounts are periodically evaluated for impairment or when circumstances indicate a possible inability to recover their carrying amounts. In the event these costs are not deemed recoverable, the Company follows the guidance in ASC 360, Accounting for the Impairment or Disposal of Long-Lived Assets, to determine whether an impairment exists. The Company evaluates the probability of recovery by considering profits to be earned during the term of the related contract, the creditworthiness of the client and, if applicable, termination for convenience fees payable by the client in the event that the client terminates the contract early.

In connection with certain of the Company s outsourcing arrangements, the Company from time to time will incur costs that are non-refundable cash payments to clients to acquire or extend a contractual relationship. To the extent recovery of these costs is probable, the Company capitalizes these client acquisition costs (by analogy to ASC 310) and amortizes them ratably over the life of the contract as a reduction of revenue.

Investments The Company owns limited partnership interests of 33.8% in Cincinnati SMSA Limited Partnership, a provider of wireless communications in central and southwestern Ohio and northern Kentucky, and 45.0% in the Cincinnati SMSA Tower Holdings LLC, an operator of cellular tower space (the Cellular Partnerships). Cincinnati SMSA Limited Partnership conducts its operations as a part of AT&T. AT&T is the general partner and a limited partner of both Cincinnati SMSA Limited Partnership and Cincinnati SMSA Tower Holdings LLC with a partnership interest of approximately 66% and 53%, respectively.

The general partner is authorized to conduct and manage the business of the Cellular Partnerships. The Company, as a limited partner, does not take part in the day-to-day management of the Cellular Partnerships. Limited partners are entitled to their percentage share of earnings and cash distributions and are responsible for their share of losses. The Company accounts for its interest in the Cellular Partnerships under the equity method of accounting.

Postemployment Benefits The Company provides severance benefits to certain employees. Pursuant to ASC 712, Employers Accounting for Postemployment Benefits, the Company accrues the benefits when it becomes probable that such benefits will be paid and when sufficient information exists to make reasonable estimates of the amounts to be paid.

Deferred Revenue and Government Grants As more fully described under the heading above Revenue Recognition, amounts billable to the client for implementation or set-up activities are deferred and recognized as revenue evenly over the service period the outsourcing services are provided. During 2009, restructuring of two HR Management contracts resulted in termination of certain services that were not operational. This contract restructuring resulted in the Company recognizing all of the deferred implementation revenue related to services terminated in 2009. Additionally, billings and collections in excess of revenues recognized are recorded as deferred revenues until revenue recognition criteria are met.

From time to time, the Company receives grants from local or state governments as an incentive to locate or retain operations in their jurisdictions. Depending on the

arrangement, the grants are either received up-front or at the time the Company achieves the milestones set forth in the grant. The Company s policy is to record the grant funds received as deferred credit and to amortize the deferred credit as a reduction of cost of providing services and products sold or selling, general and administrative expense as the milestones are met over the term of the grant. The terms of the grants range from 6 to 15 years.

Derivative Instruments The Company s risk management strategy includes the use of derivative instruments to reduce the effects on its operating results and cash flows from fluctuations caused by volatility in currency exchange and interest rates. The Company currently uses cash flow and fair value hedges. These instruments are hedges of forecasted transactions or of the variability of cash flows to be received or paid related to a recognized asset or liability. The Company generally enters into forward exchange contracts and options expiring within 36 months as hedges of anticipated cash flows denominated in foreign currencies. These contracts are entered into to protect against the risk that the eventual cash flows resulting from such transactions will be adversely affected by changes in exchange rates. Additionally, the Company from time to time enters into interest rate swap agreements to effectively fix the interest rates of variable rate borrowings. In using derivative financial instruments to hedge exposures to changes in exchange rates and interest rates, the Company exposes itself to counterparty credit risk.

All derivatives, including foreign currency exchange contracts, are recognized in the Balance Sheet at fair value. Fair values for the Company s derivative financial instruments are based on quoted market prices of comparable instruments or, if none are available, on pricing models or formulas using current assumptions. On the date the derivative contract is entered into, the Company determines whether the derivative contract should be designated as a hedge. For derivatives that are designated as hedges, the Company further designates the hedge as either a fair value or cash flow hedge. Changes in the fair value of derivatives that are highly effective and designated as fair value hedges are recorded in the Consolidated Statement of Operations along with the loss or gain on the hedged asset or liability. Changes in the fair value of derivatives that are highly effective and designated as cash flow hedges are reported as a component of Other Comprehensive Income (Loss) and reclassified into earnings in the same line-item associated with the forecasted transaction and in the same periods during which the hedged transaction affects earnings. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging activities. This process includes linking all derivatives that are designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to forecasted transactions. The Company also formally assesses, both at the hedge s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively.

The Company also periodically enters into forward exchange contracts and options that are not designated as hedges. The purpose of the majority of these derivative instruments is to protect the Company against foreign currency exposure pertaining to receivables, payables and intercompany transactions that are denominated in currencies different from the functional currencies of the Company or the respective subsidiaries. The Company records changes in the fair value of these derivative instruments in the Consolidated Statements of Operations and Comprehensive Income (Loss) within other income (expense), net.

New Accounting Pronouncements In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification™ and the Hierarchy of Generally

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Notes to Consolidated Financial Statements (continued)

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Accepted Accounting Principles a replacement of FAS No. 162, now codified as FASB Topic 105, Generally Accepted Accounting Principles, (ASC 105) in the ASC as the single source of authoritative nongovernmental U.S. GAAP. ASC 105 does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all authoritative literature related to a particular topic in one place. All existing accounting standard documents will be superseded and all other accounting literature not included in the FASB Codification will be considered non-authoritative. These provisions of ASC 105 are effective for interim and annual periods ending after September 15, 2009 and, accordingly, are effective for the Company for the current fiscal reporting period. The adoption of this pronouncement did not have an impact on the Company s financial condition or results of operations, but will impact the financial reporting process by eliminating all references to pre-codification standards. On the effective date of this Statement, the Codification superseded all then-existing non-SEC accounting and reporting standards, and all other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative.

In April 2007, the FASB issued EITF 06-04, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements which has subsequently been codified in FASB Topic 715 in the ASC (ASC 715). This Standard requires an employer to recognize a liability for future benefits in accordance with authoritative guidance for the accounting for postretirement benefits other than pensions if, in substance, a postretirement benefit plan exists. The Company adopted ASC 715 effective January 1, 2008. Adoption of this Standard resulted in a $2.2 reduction to the retained earnings balance as of January 1, 2008.

In December 2008, the FASB issued FASB Staff Position No. FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets, which was primarily codified in FASB Topic 715, Compensation Retirement Benefits in the ASC. This guidance impacts an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. The guidance is effective for fiscal years ending after December 15, 2009. The Company has included additional information about plan assets in Note 10 of the Notes to Consolidated Financial Statements.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events , which was codified in FASB Topic 855, Subsequent Events in the ASC. This guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. Specifically, the guidance addresses the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This guidance is effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively. The Company evaluated all events or transactions that occurred after December 31, 2009 through the date these financial statements were issued, February 26, 2010. See Note 20 of the Notes to Consolidated Financial Statements for disclosures related to the Company s subsequent events.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets (SFAS No. 166). SFAS No. 166, which has not yet been codified in the ASC, is a revision to SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a qualifying special-purpose

entity, changes the requirements for derecognizing financial assets and requires additional disclosures. SFAS No. 166 will be effective at the start of a reporting entity s first fiscal year beginning after November 15, 2009. Early application is not permitted. The Company will provide the disclosures required by this Standard in the first quarter of 2010.

In October 2009, the FASB issued ASU 2009-13, Multiple-Deliverable Revenue Arrangements, (amendments to FASB ASC Topic 605, Revenue Recognition) (ASU 2009-13) and ASU 2009-14, Certain Arrangements That Include Software Elements, (amendments to FASB ASC Topic 985, Software) (ASU 2009-14). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 and ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company is currently evaluating the impact of the adoption of ASU 2009-13 or ASU 2009-14 on the Company s consolidated results of operations and financial condition.

3. Common and Preferred Shares

There were no shares repurchased during the year ended December 31, 2009. The timing and terms of any future transactions will depend on a number of considerations including market conditions and liquidity. Below is a summary of the Company s share repurchases for the years ended December 31, 2008 and 2007:

2008	7.7 million shares	$ 116.6
2007	9.9 million shares	$ 184.0

At December 31, 2009, the Company has the authority to repurchase 7.1 million additional common shares pursuant to current authorizations.

As described in detail in Note 8 on Notes to Consolidated Financial Statements, during 2009 the Company issued approximately $125.0 aggregate principal amount of 5.75% Junior Subordinated Convertible Debentures due 2029 (2029 Convertible Debentures). The 2029 Convertible Debentures are convertible, subject to certain conditions, into shares of the Company s common stock at an initial conversion price of approximately $12.07 per share, or 82.82 shares per one thousand in principal amount of debentures. Upon conversion, the Company will pay cash up to the aggregate principal amount of the 2029 Convertible Debentures and settle the remainder of the debentures in cash or stock at the Company s option.

Preferred Shares

The Company is authorized to issue up to five million preferred shares, of which four million would have voting rights. At December 31, 2009 and 2008, there were no preferred shares outstanding.

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4. Earnings (Loss) Per Share

The following is a reconciliation of the numerator and denominator of the basic and diluted earnings per share (EPS) computations:

Shares (in Millions)	Net Income (Loss)	Shares	Per Share Amount
2009:			
Basic EPS	**$ (77.3)**	**122.8**	**$ (0.63)**
Effect of dilutive securities:			
Stock-based compensation arrangements			
2029 Convertible Debentures			
Diluted EPS	**$ (77.3)**	**122.8**	**$ (0.63)**
2008:			
Basic EPS	$ (92.9)	123.5	$ (0.75)
Effect of dilutive securities:			
Stock-based compensation arrangements			
Diluted EPS	$ (92.9)	123.5	$ (0.75)
2007:			
Basic EPS	$ 169.5	134.1	$ 1.26
Effect of dilutive securities:			
Stock-based compensation arrangements		3.6	(0.03)
Diluted EPS	$ 169.5	137.7	$ 1.23

The diluted EPS calculation for the years ended December 31, 2009 and 2008 excludes the effect of dilutive securities because of the loss from operations. The diluted EPS calculation excludes the effect of 8.8 million outstanding stock options for the year ended December 31, 2007, because they are anti-dilutive.

5. Acquisitions

On September 3, 2008, the Company acquired 100 percent of the outstanding common shares of Intervoice Inc. (Intervoice), a developer of automated voice response systems, for cash consideration of $338.8. Intervoice is a market leader in the delivery of personalized, multi-channel automated information solutions that connect people with information, empowering them to control the way they interact with a business. Integration of Intervoice s speech automation and mobile applications with the Company s agent-assisted services has enabled the Company to build upon its leadership position in relationship management solutions. The Company s solutions result in improved operational efficiencies, new revenue streams, and most importantly enhanced differentiation in the large and growing automated services market.

The Intervoice acquisition was accounted for as a purchase transaction. The purchase price has been allocated to fixed assets, liabilities and tangible and identifiable intangible assets based upon valuations using management s estimates and assumptions. Fair values for the intangible assets were valued by a third-party appraisal firm based on information provided by the Company. The excess purchase price over the estimated fair value of the net assets acquired was allocated to goodwill. The total amount of goodwill deductible for tax purposes is approximately $23. Intervoice s operating results have been included in the Consolidated Financial Statements of the Company in the Customer Management segment since the date of acquisition and goodwill, as reflected in the table below, was entirely assigned to the Customer Management segment. This acquisition was financed using the Company s $400 Five-Year Competitive Advance and Revolving Credit Facility.

The final allocation of purchase price to the assets and liabilities resulting from this acquisition is presented in the table below:

Assets:	
Cash	$ 45.4
Accounts receivable	34.3
Property, plant & equipment	84.7
Goodwill	212.4
Intangible assets	40.0
Other assets	77.9
Liabilities:	
Accounts payable and accrued liabilities	(34.3)
Deferred taxes, net	(64.7)
Other long-term liabilities	(56.9)
Acquisition Price	$ 338.8

Intangible assets of $40.0 above include $30.0 related to customer relationships with an estimated useful life of eleven years and $10.0 related to Intervoice trademarks with an estimated useful life of four years. The remaining weighted average useful life of the intangibles is 7.8 years. Included in property, plant and equipment of $84.7 is $38.8 of software assets with estimated useful lives of two to eight years with a remaining weighted average useful life of 5.7 years.

In addition, during 2008, the Company made three smaller strategic acquisitions to expand its business support systems solution footprint: Shanghai Hong Xun Software Co., Ltd. for its web self-care, service provisioning, and workforce management capabilities, Visage s Subscriber Management Platform and Ceon Corporation in order to expand the breadth of its business support system solutions. The total initial purchase price related to these acquisitions was $20.7. In addition, with respect to the Ceon Corporation acquisition, the Company made additional earn-out payments of $3.1 during 2009 and $3.0 during January of 2010 as certain performance targets were met. All of the earn-out payments made are accounted for as goodwill. There are no additional earn-out payments due related to any of the acquisitions.

6. Goodwill and Other Intangible Assets

The Company tests goodwill for impairment annually as of October 1 and at other times if events have occurred or circumstances exist that indicate the carrying value of goodwill may no longer be recoverable. The impairment test for goodwill involves a two-step process. The first step compares the fair value of a reporting unit with its carrying amount, including the goodwill allocated to each reporting unit. If the carrying amount is in excess of the fair value, the second step requires the comparison of the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill. Any excess of the carrying value of the reporting unit goodwill over the implied fair value of the reporting unit goodwill will be recorded as an impairment loss. Fair value of the reporting units is determined using a combination of the market approach and the income approach. Under the market approach, fair value is based on actual stock price or transaction prices of comparable companies. Under the income approach, value is dependent on the present value of net cash flows to be derived from the ownership. Based on the results of its first-step impairment tests performed as of October 1, 2009, the Company had no goodwill impairment related to its five reporting units: Information Management International, Information Management North America, Customer Management, HR Management and Relationship Technology Management.

As more fully described in Note 7 of Notes to Consolidated Financial Statements, the impairment and implementation-related charges recorded at HR Management during 2009 and 2008 required a review of goodwill related to the HR Management segment both in 2009 and 2008. The reviews did not result in any goodwill impairment during 2009 and resulted in an impairment loss of $61.1 during 2008. The Company determined that the fair value of the HR Management segment was less than its carrying value in 2008 and, therefore, the second step of the test was required. This second step review resulted in a non-cash goodwill impairment charge of $61.1 recorded in the asset impairment caption in the accompanying Consolidated Statements of Operations. In determining the amount of the HR Management related goodwill impairment, the Company engaged a third-party appraisal firm to assist in valuing the significant intangible assets of the reporting unit. Key assumptions used by the Company in determining the fair value of the HR Management segment include revenue increases from existing contracts as services become operational and an estimate of future cash implementation costs and revenue. The approximate amount of the goodwill asset impairment charge that was deductible for tax purposes was $20. During the year ended December 31, 2008, the Company had no goodwill impairment related to any of its other reporting units. The Company believes it makes every reasonable effort to ensure that it accurately estimates the fair value of the reporting units. However, future

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changes in the assumptions used to make these estimates could result in impairment losses.

Below is a progression of goodwill for the Company s segments for 2009 and 2008:

	Customer Management	Information Management	HR Management	Total
Balance at January 1, 2008	$ 578.5	$ 187.8	$ 129.9	$ 896.2
Acquisitions	213.1	7.9		221.0
Impairment			(61.1)	(61.1)
Other	(15.2)	(6.3)	0.3	(21.2)
Balance at December 31, 2008	$ 776.4	$ 189.4	$ 69.1	$ 1,034.9
Acquisitions	(0.7)	3.1		2.4
Other	10.2	1.0	0.1	11.3
Balance at December 31, 2009	$ 785.9	$ 193.5	$ 69.2	$ 1,048.6

The goodwill additions to the Customer Management and Information Management segments for the years ended December 31, 2009 and 2008 resulted from the Intervoice acquisition and a few smaller Information Management acquisitions that are described in Note 5 of the Notes to Consolidated Financial Statements. The other changes to goodwill in 2009 and 2008 principally reflect foreign currency translation adjustments. Accumulated goodwill impairment charges at December 31, 2009 and 2008 were $61.1 and related entirely to HR Management.

The Company s other intangible assets, primarily acquired through business combinations, are evaluated periodically if events or circumstances indicate a possible inability to recover their carrying amounts. The evaluation of intangible assets during 2009 resulted in recording impairment charges of $6.8 related to certain acquired intangible assets. As of December 31, 2009 and 2008, the Company s other intangible assets consisted of the following:

	Gross Carrying Amount	Accumulated Amortization	Net
2009:			
Software (classified with Property, Plant & Equipment)	**$ 92.2**	**$ (55.2)**	**$ 37.0**
Trademarks	**12.0**	**(5.3)**	**6.7**
Customer relationships and other intangibles	**164.0**	**(120.5)**	**43.5**

Total	**$ 268.2**	**$ (181.0)**	**$ 87.2**
2008:			
Software (classified with Property, Plant & Equipment)	$ 92.2	$ (46.3)	$ 45.9
Trademarks	12.0	(2.7)	9.3
Customer relationships and other intangibles	176.2	(116.7)	59.5
Total	$ 280.4	$ (165.7)	$ 114.7

The intangible assets are being amortized using the following amortizable lives: two to eight years for software, four years for trademarks and five to twelve years for customer relationships and other. The remaining weighted average amortization period for intangible assets is 6.7 years.

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Customer relationships, trademarks and other intangibles amortization expense was $11.7 for the year ended December 31, 2009 and the related estimated expense for the five subsequent fiscal years is as follows:

For the year ended 12/31/10	$ 10
For the year ended 12/31/11	$ 10
For the year ended 12/31/12	$ 9
For the year ended 12/31/13	$ 7
For the year ended 12/31/14	$ 3
Thereafter	$ 11

7. Deferred Charges, Deferred Revenue and Asset Impairment

During 2009, 2008 and 2007, the Company capitalized $151.4, $273.2 and $129.5 of client acquisition and implementation costs, respectively. The related amortization charge for these years was $34.1, $65.8 and $53.2, respectively. The Company also recognized implementation-related, settlement and impairment charges of $369.2 during the year ended December 31, 2009 and $334.0 during the year ended December 31, 2008. These charges related to the impairment of deferred charges, goodwill and other long term assets as well as expensing of implementation and settlement costs. These charges were substantially driven by two large HR Management contracts.

During 2009, 2008 and 2007, the Company deferred implementation revenue of $116.3, $140.6 and $63.9, respectively. The related deferred revenue amortization for these years was $38.1, $43.4 and $15.6, respectively. Also during the year ended December 31, 2009, the Company recognized on an accelerated basis $122.3 of deferred implementation revenue related to two of its HR Management contracts as discussed below. As of December 31, 2009, the remaining deferred implementation revenue not yet recognized related to these two contracts is approximately $81.

The 2009 charge of $369.2 includes (a) $255.6 recorded within the cost of providing services and products sold caption and (b) $113.6 for impairment of deferred charges and other long-lived assets. These charges substantially related to two large HR Management contracts. During 2009, the Company restructured two of its HR Management contracts that were in implementation stages to terminate services that were not operational. As a result, during 2009, all of the remaining capitalized implementation costs related to these contracts were written-off and of the related implementation revenue was recognized.

The 2008 charge of $334.0 includes (a) $65.4 recorded within the cost of providing services and products sold caption related to expensing of implementation costs that exceeded the termination for convenience fees in a contract and (b) $207.5 for impairment of deferred charges and $61.1 for impairment of goodwill. The charges related to HR Management and were primarily driven by the two large contracts that were restructured during 2009. Based upon the contract profitability analysis completed in 2008, two HR Management contracts were projected to be unprofitable over their contract terms due to an increase in overall implementation and delivery costs. As a result, $207.5 of the capitalized costs related to these contracts were impaired, and were, therefore, written down. See also Deferred Charges in Note 2 to Consolidated Financial for more detailed discussions on deferred charges and the Company s policy on assessing recoverability of deferred charges.

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8. Debt

Debt consists of the following:

	At December 31,	
	2009	2008
Revolving credit facility	**$ 400.0**	$ 400.0
4.875% Senior Notes		249.8
2029 Convertible Debentures	**56.3**	
Other	**13.3**	16.1
Total debt	**469.6**	665.9
Less current maturities	**405.2**	259.5
Long-term debt	**$ 64.4**	$ 406.4
Weighted average effective interest rates:		
Revolving credit facility	**3.3%**	4.7%
4.875% Senior notes		5.0%
2029 Convertible Debentures	**7.6%**	
Other	**8.3%**	4.4%

During 2008, the Company borrowed the entire amount available under the $400 Five-Year Competitive Advance and Revolving Credit Facility (the Revolving Credit Facility). This borrowing was mainly to fund the acquisition of Intervoice as detailed in Note 5 of the Notes to Consolidated Financial Statements. The interest rate on the Revolving Credit Facility is based on LIBOR or prime rate. The commitment fee on this facility at December 31, 2009 was 0.1%. The maturity date of the Credit Facility Agreement is October 20, 2011. The Company s credit facility includes certain restrictive covenants including maintenance of interest coverage and debt-to-EBITDA ratios. The Company s interest coverage ratio, defined as the ratio of consolidated earnings before interest, tax, depreciation and amortization (EBITDA) (as defined in the Credit Facility Agreement) to consolidated interest expense, cannot be less than 4.00 to 1.00 for four consecutive quarters. The Company s debt-to-EBITDA ratio cannot be greater than 3.25 to 1.0 at any time. At December 31, 2009, the Company was in compliance with all covenants. During 2010, the Company repaid $300.0 of the outstanding portion of the Revolving Credit Facility.

In December 2004, the Company issued $250.0 in 4.875% Unsecured Senior Notes (4.875% Senior Notes) due December 15, 2009. During 2009, the Company announced an exchange offer (Exchange Offer) for up to $122.5 aggregate principal amount of its outstanding 4.875% Senior Notes. Under the terms of the Exchange offer, the Company offered to exchange one-thousand twenty dollars in principal amount of its new 5.75% Junior Subordinated Convertible Debentures due 2029 (2029 Convertible Debentures) for each one-thousand dollars in principal amount of its 4.875% Senior Notes. Upon settlement of the Exchange Offer on October 13, 2009, the Company issued a total of $125.0 aggregate principal amount of the 2029 Convertible Debentures in exchange for $122.5 of the 4.875% Senior Notes. This exchange transaction

resulted in a loss on extinguishment of debt of $2.3 that is reflected within other income (expense), net, in the accompanying Statements of Operations and Comprehensive Income (Loss) for the year ended December 31, 2009.

The 2029 Convertible Debentures are convertible, subject to certain conditions, into shares of the Company s common stock at an initial conversion price of approximately $12.07 per share, or 82.82 shares of the Company s common stock per one thousand dollars in principal amount of debentures. Upon conversion, the Company will pay cash up to the aggregate principal amount of the 2029 Convertible Debentures and settle the remainder of the debentures in cash or stock at the Company s option. The conversion rate will be subject to adjustment for certain events outlined in the indenture governing the debenture (the Indenture). The conversion rate will increase for a holder who elects to convert the debenture in connection with certain share exchanges, mergers or consolidations involving the Company, as described in the indenture.

The Company may not redeem the 2029 Convertible Debentures prior to September 15, 2019, except if certain U.S. federal tax legislation, regulations or rules are enacted or are issued. On or after September 15, 2019, the Company may redeem for cash all or part of the 2029 Convertible Debentures for the principal amount, plus any

accrued and unpaid interest, if the last closing price of the Company s common shares has been at least 150% of the applicable conversion price for at least 20 trading days immediately prior to the date on which the Company provides notice of redemption. Holders may convert their 2029 Convertible Debentures prior to the close of business on the business day immediately preceding September 15, 2028, if certain market conditions related to the trading price of the Company s common shares and 2029 Convertible Debentures occur. On or after September 15, 2028, holders may convert their 2029 Convertible Debentures at the option of the holder regardless of the foregoing circumstances. Holders may also convert if the Company calls any or all of the 2029 Convertible Debentures for redemption prior to the maturity date. The conversion rate will equal 100% of the principal amount of the 2029 Convertible Debentures to be redeemed, plus accrued and unpaid interest and will be subject to adjustment for certain events outlined in the Indenture. If certain events occur in the future, the Indenture provides that each holder of the debentures can, for a pre-defined period of time, require the Company to repurchase the holder s debentures for the principal amount plus any accrued and unpaid interest. The Company concluded that the dentures are not conventional convertible debt instruments and that the embedded stock conversion option qualifies as a derivative. Under the appropriate authoritative guidance, the Company further concluded that the option is indexed to the Company s stock and does not require bifurcation from the host instrument. Therefore the embedded conversion option is not accounted for separately as a derivative.

The 2029 Convertible Debentures, which pay a fixed rate of interest semi-annually, have a contingent interest component that will require the Company to pay interest based on certain thresholds commencing on September 15, 2019, as outlined in the indenture. The maximum amount of contingent interest that will accrue is 0.75% per annum of the average trading price. The fair value of this embedded derivative was not significant at December 31, 2009.

The Company recognized both the liability and equity component of the 2029 Convertible Debenture at fair value. The liability component is recognized as the fair value of a similar instrument that does not have a conversion feature at issuance. The equity component, which is the value of the conversion feature at issuance, is recognized as the difference between the proceeds from the issuance of the debentures and the fair value of the liability component, after adjusting for the deferred tax impact. The 2029 Convertible Debentures were issued at a coupon rate of 5.75%, which was below that of a similar instrument that does not have a conversion feature. Therefore, the valuation of the debt component, using the income approach, resulted in a debt discount. The debt discount will be amortized over the life of the 2029 Convertible Debentures based upon the effective interest rate method and will be included within the interest expense caption in the accompanying Consolidated Statements of Operations.

Other debt of $13.3 and $16.1 at December 31, 2009 and 2008, respectively, consisted of capital leases and miscellaneous domestic and international borrowings.

At December 31, 2009, future minimum payments of the Company s debt arrangements are as follows:

2010	$ 405.2
2011	2.1
2012	
2013	
2014	6.0
Thereafter	125.0
Total	$ 538.3

9. Restructuring

2009

During 2009, the Company initiated a restructuring plan to reduce headcount and align resources to future business needs. The total charge of $47.0 included $30.7 of severance-related charges and $16.3 of facility-related charges. The $30.7 of severance-related charges were comprised of $15.3 at Information Management related to

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shifting the geographic mix of certain resources and further streamlining of operations, $6.7 of severance at Customer Management resulting from a reduction in one international program and efforts to streamline operations, $3.7 at HR Management, related to headcount reductions across the globe to align resources to expected future revenue and $5.0 at Corporate to reduce headcount. The severance charge of $30.7 will largely be paid in cash pursuant to the Company s severance policy and employment agreements. These actions will affect approximately 1,000 worldwide salaried employees and approximately 800 non-salaried employees. The severance actions are expected to be mostly completed by mid-2010.

Below is a summary of the 2009 net restructuring charge of $47.0 by segment:

	Customer Management	Information Management	HR Management	Corporate	Total
Severance costs	$ 6.7	$ 15.3	$ 3.7	$ 5.0	$ 30.7
Facility-related costs	1.2	15.1			16.3
Net restructuring	$ 7.9	$ 30.4	$ 3.7	$ 5.0	$ 47.0

The $16.3 facility-related charge relates to lease rent accruals for properties that have closed as the result of consolidating facilities. The $15.1 recorded at Information Management largely relates to consolidating facilities in the United Kingdom. The charge is equal to the future costs associated with the facility, net of proceeds from any probable future sublease agreements. The Company used estimates, based on consultation with the Company s real estate advisors, to determine the proceeds from any future sublease agreements. The Company will continue to evaluate these estimates in recording the facilities abandonment charge. Consequently, there may be additional reversals or charges relating to this facility closure in the future. At December 31, 2009, this facility-related restructuring reserve had an outstanding balance of $16.0, which will be paid over several years until the leases expire.

Restructuring liability activity for the 2009 plan consisted of the following:

	2009
Restructuring charge	**$ 47.0**
Severance payments	**(8.5)**
Facility payments	**(0.3)**
Balance at December 31	**$ 38.2**

2008

During 2008, the Company initiated a restructuring plan to align resources to future business needs and to shift the geographic mix of some of its resources. Restructuring actions were taken in each business segment, of which $14.0 related to Customer Management, $9.7 related to Information Management, $10.5 related to HR Management and $0.2 related to Corporate. The $34.4 restructuring consisted primarily of cash paid pursuant to the Company s severance policy and employment agreements as well as facility closure related accruals of $1.8. These actions, which affected approximately 1,500 professional and administrative employees and 1,000 non-salaried employees worldwide, were fully completed in 2009.

Below is a summary of the 2008 net restructuring charge of $34.4 by segment:

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

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

	2009	2008
Balance at January 1	**$ 22.1**	$
Restructuring charge		34.4
Severance payments	**(20.4)**	(12.2)
Facility payments	**(1.7)**	(0.1)
Balance at December 31	**$**	$ 22.1

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10. Employee Benefit Plans

Pensions

The Company sponsors a defined benefit pension plan, which includes both a qualified and non-qualified portion, for all eligible employees (the cash balance plan). The Company also sponsors a non-qualified, unfunded executive deferred compensation plan and a supplemental, non-qualified, unfunded plan for certain senior executives (the executive pension plans). The pension benefit formula for the cash balance plan is determined by a combination of compensation and age-based credits and annual guaranteed interest credits. Benefits for the executive deferred compensation plan are based on employee deferrals, matching contributions and investment earnings on participant accounts. Benefits for the supplemental plan are based on age, years of service and eligible pay. Funding of the qualified portion of the cash balance plan has been achieved through contributions made to a trust fund. The contributions have been determined using the prescribed methods in accordance with the Pension Protection Act of 2006. Based on the funded status of the Cash Balance Plan and mandatory legislative requirements under the Pension Protection Act, beginning April 29, 2009, lump sum payments from the Cash Balance Plan have been partially restricted. The Company s measurement date for all plans is December 31. The projected unit credit cost method is used for determining the unfunded executive pension cost for financial reporting purposes. The plan assumptions are evaluated annually and are updated as necessary.

During 2008, the Company amended its cash balance plan to cease future benefit accruals and to close participation effective March 31, 2008. After March 31, 2008, participants do not earn future accruals or credits to their cash balance account with respect to compensation earned after March 31, 2008, but will continue to be credited with interest to their cash balance account. This plan amendment resulted in recognizing a curtailment loss of $4.0 during 2008.

Components of pension cost and other amounts recognized in other comprehensive income (loss) for the cash balance plan are as follows:

	Year Ended December 31,		
	2009	2008	2007
Service cost	**$**	$ 4.2	$ 17.9
Interest cost on projected benefit obligation	**12.0**	12.7	11.7
Expected return on plan assets	**(10.4)**	(14.4)	(14.6)
Amortization and deferrals net	**6.1**	1.1	2.5
Settlement loss		8.0	
Curtailment loss		4.0	
Total pension cost	**$ 7.7**	$ 15.6	$ 17.5
Other comprehensive (income) loss	**$ (9.6)**	$ 57.2	$ (0.3)

The settlement loss of $8.0 in 2008 resulted from the benefit payments exceeding the sum of the 2008 service cost and interest cost.

The reconciliation of the cash balance plan s projected benefit obligation and the fair value of plan assets for the years ended December 31, 2009 and 2008 are as follows:

	At December 31,	
	2009	2008
Change in benefit obligation:		
Benefit obligation at beginning of year	**$ 201.4**	$ 215.6
Service cost		4.2
Interest cost	**12.0**	12.7
Actuarial (gain) loss	**9.8**	(0.5)
Benefits paid	**(14.6)**	(30.6)
Benefit obligation at end of year	**$ 208.6**	$ 201.4
Change in plan assets:		
Fair value of plan assets at beginning of year	**$ 112.3**	$ 185.1
Actual return on plan assets	**23.6**	(56.3)
Employer contribution	**8.4**	14.1
Benefits paid	**(14.6)**	(30.6)
Fair value of plan assets at end of year	**$ 129.7**	$ 112.3
Funded status	**$ (78.9)**	$ (89.1)
Amounts recognized in the Consolidated Balance Sheets consisted of:		
Non-current liability	**$ 78.9**	$ 89.1
Accumulated other comprehensive loss	**83.4**	93.0

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Accumulated other comprehensive loss at December 31, 2009 and 2008 represents unrecognized actuarial losses of $83.4 ($54.2, net of tax) and $93.0 ($60.4, net of tax), respectively. The actuarial loss included in accumulated other comprehensive loss that is expected to be recognized in net periodic pension cost during the fiscal year ended December 31, 2010 is $4.6. The accumulated benefit obligation for the cash balance plan was $208.6 and $201.4 at December 31, 2009 and 2008, respectively.

Estimated future benefit payments from the cash balance plan for the following five years are as follows:

2010	$ 10.5
2011	9.8
2012	9.3
2013	9.0
2014	38.8
Thereafter	66.8
Total	$ 144.2

Components of pension cost and other amounts recognized in other comprehensive income (loss) for the unfunded executive pension plans are as follows:

	Year Ended December 31,		
	2009	2008	2007
Service cost	**$ 1.5**	$ 2.0	$ 3.6
Interest cost on projected benefit obligation	**2.1**	3.5	4.4
Settlement loss		3.3	0.7
Amortization and deferrals net	**(0.8)**	0.3	1.1
Total pension cost	**$ 2.8**	$ 9.1	$ 9.8
Other comprehensive (income) loss	**$ 3.9**	$ (24.0)	$ (6.2)

The reconciliation of the unfunded executive pension plans projected benefit obligation for the years ended December 31, 2009 and 2008 is as follows:

	At December 31,	
	2009	2008
Change in benefit obligation:		
Benefit obligation at beginning of year	**$ 37.4**	$ 75.1
Service cost	**1.5**	2.0
Interest cost	**2.1**	3.5
Change in plan provisions		(2.1)
Actuarial loss (gain)	**3.1**	(18.3)
Benefits paid	**(7.0)**	(22.8)
Benefit obligation at end of year	**$ 37.1**	$ 37.4
Funded status	**$ (37.1)**	$ (37.4)
Amounts recognized in the Consolidated Balance Sheets consisted of:		
Current Liability	**$ 4.2**	$ 5.6
Non-current liability	**32.9**	31.8
Accumulated other comprehensive income	**5.9**	9.8

Included in accumulated other comprehensive income at December 31, 2009 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service credits of 2.1 ($1.4, net of tax) and unrecognized actuarial gain of $3.8 ($2.5, net of tax). Included in accumulated other comprehensive income at December 31, 2008 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service credits of $2.3 ($1.5, net of tax) and unrecognized actuarial gain $7.5 ($4.9, net of tax). The accumulated benefit obligation for the unfunded executive pension plans was $35.3 and $34.1 at December 31, 2009 and 2008, respectively. The prior service credit and actuarial gain included in accumulated other comprehensive income and expected to be recognized in net periodic pension cost during the year ending December 31, 2010 is ($0.2) and ($0.1), respectively.

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Estimated future benefit payments from the unfunded executive plans for the following five years are as follows:

2010	$ 4.2
2011	3.4
2012	3.2
2013	2.9
2014	3.3
Thereafter	14.4
Total	$ 31.4

The table above does not reflect expected future benefit payments of approximately $7 resulting from the change in the Company s Chief Executive Officer as described in Note 20 in the Notes to Consolidated Financial Statements.

The following rates were used in determining the benefit obligations at December 31:

	2009	2008
Discount rate projected benefit obligation	**5.50%-6.00%**	6.25%-6.50%
Future compensation growth rate	**4.00%**	4.00%
Expected long-term rate of return on plan assets	**8.00%**	8.00%

The following rates were used in determining the pension cost for all years ended December 31:

	2009	2008	2007
Discount rate projected benefit obligation	**6.25%-6.50%**	6.25%	5.75%
Future compensation growth rate	**4.00%**	4.00%-5.00%	4.00%-5.00%
Expected long-term rate of return on plan assets	**8.00%**	8.50%	8.50%

As of December 31, 2009 and 2008, plan assets for the cash balance plan consisted of approximately 70% of equity securities and 30% of fixed income instruments, which is consistent with the Company s targeted allocation. Plan assets for the cash balance plan included $3.6 and $2.6 of the Company s common shares at December 31, 2009 and 2008, respectively. The investment objectives for the plan assets are to generate returns that will enable the plan to meets its future obligations. The Company s expected long-term rate of return was determined based on the

asset mix of the plan, past performance and other factors. The Company contributed $8.4 and $14.1 in 2009 and 2008, respectively, to fund its cash balance plan in order to satisfy its ERISA funding requirements. The Company expects to make $9.4 in contributions in 2010 to fund its cash balance plan. No plan assets are expected to be returned to the Company during 2010.

The following table sets forth by level, within the fair value hierarchy, the Plan s assets at fair value as of December 31, 2009:

Investments	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common/Collective trusts	**$ 122.8**	**$**	**$ 122.8**[(a)]	**$**
Convergys common stock	**3.6**	**3.6**		
Equity funds	**3.3**			**3.3**
Total investments	**$ 129.7**	**$ 3.6**	**$ 122.8**	**$ 3.3**

(a) 70% of shares of registered investment companies invest in equity securities and 30% in fixed income instruments.

Savings Plans

The Company sponsors a defined contribution plan covering substantially all U.S. employees. The Company s contributions to the plan are based on matching a portion of the employee contributions. Total Company contributions to the defined contribution plan were $17.6, $16.1 and $14.3 for 2009, 2008 and 2007, respectively. Plan assets for these plans included 2.6 million ($27.9) and 2.8 million ($17.9) of Company s common shares at December 31, 2009 and 2008, respectively.

Employee Postretirement Benefits Other Than Pensions

The Company sponsors postretirement health and life insurance plans for certain eligible employees. The

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Company funds life insurance benefits of certain retirees through a Voluntary Employee Benefit Association (VEBA) trust. Contributions to the VEBA are subject to IRS limitations developed using the aggregate cost method. At December 31, 2006, the Company eliminated the postretirement life insurance plan benefits for non-retirement eligible employees. The Company s postretirement benefit cost was $0.6, ($3.7) and $0.2 for 2009, 2008 and 2007, respectively. The accrued benefit costs pertaining to these benefits of $19.4 and $17.4 at December 31, 2009 and 2008, respectively, are classified with other long-term liabilities. The amounts included within accumulated other comprehensive income related to these benefits were $2.9 and $5.2 at December 31, 2009 and 2008, respectively. As discussed within the new accounting pronouncements section of Note 2 of the Notes to Consolidated Financial Statements, adoption of ASC 715 resulted in a $2.2 reduction to the retained earnings balance as of January 1, 2008.

11. Stock-Based Compensation Plans

At December 31, 2009, the Company had 38 million common shares that were authorized for issuance under the Convergys Corporation 1998 Long-Term Incentive Plan (Convergys LTIP), as amended on April 22, 2008. The Convergys LTIP provides for the issuance of stock-based awards to certain employees and Directors. From time to time, the Company grants restricted stock awards that generally vest over terms of three to five years, pursuant to the plan. During the restriction period, restricted stock awards entitle the holder to all the rights of a holder of common shares (other than the right to transfer the shares). Unvested shares are restricted as to disposition and subject to forfeiture under certain circumstances. The Company also grants stock options with exercise prices that are no less than market value of the stock at the grant date and have a ten-year term and vesting terms of three to four years. The Company has not issued any stock options to employees or Directors during 2009, 2008 and 2007. The Company also grants certain employees and Directors restricted stock units. Unlike the restricted stock awards discussed above, the restricted stock units do not possess dividend or voting rights. The restricted stock units consist of both time-related and performance-related units. The restrictions for the time-related restricted stock units generally lapse three years after the grant date. The performance-related units vest upon the Company s satisfaction of certain financial performance conditions (relative shareholder return versus the S&P 500 return). Performance-related units that have not vested by the end of three years from the grant date (i.e. the performance conditions for vesting of those units have not been met within that period) are forfeited.

The following table shows certain information as of December 31, 2009, with respect to compensation plans under which common shares are authorized for issuance:

	No. of Common Shares to be Issued Upon Exercise	Weighted Average Exercise Price	Common shares Available for Future Issuance
Equity compensation plans approved by shareholders			
Stock options	7,860,173	$ 32.21	6,496,551
Restricted stock			
Restricted stock units	4,870,563	N/A	
Equity compensation plans not approved by shareholders			
Total	12,730,736	$ 32.21	6,496,551

The Company s operating results reflect long-term incentive plan expense of $17.5, $18.3 and $24.5 for the years ended December 31, 2009, 2008 and 2007, respectively. Long-term incentive plan expenses include: (a) incentive plan expense that is paid in cash based on relative shareholder return, and (b) stock compensation expense. Stock compensation expense for the year ended December 31, 2009, 2008 and 2007 was $19.1, $19.4 and $25.6, respectively.

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Stock Options

Presented below is a summary of Company stock option activity:

Shares (in Thousands)	Shares	Weighted Average Exercise Price
Options outstanding at January 1, 2007	12,828	$ 28.69
Options exercised in 2007	(1,112)	14.73
Options forfeited in 2007	(775)	35.95
Options outstanding and exercisable at December 31, 2007	10,941	$ 29.55
Options exercised in 2008	(233)	$ 13.29
Options forfeited in 2008	(1,362)	25.02
Options outstanding and exercisable at December 31, 2008	9,346	$ 30.69
Options exercised in 2009		N/A
Options forfeited in 2009	(1,486)	22.67
Options outstanding and exercisable at December 31, 2009	7,860	$ 32.21

The weighted average remaining contractual term for both the outstanding and exercisable options at December 31, 2009 was approximately 1.4 years. The weighted average grant date fair value per share for the outstanding and exercisable options at December 31, 2009 was $13.28.

The following table summarizes the status of the Company stock options outstanding and exercisable at December 31, 2009:

Shares (in Thousands)		Options Outstanding and Exercisable	
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$11.55 to $11.55	1,038	3.0	$ 11.55
$11.56 to $21.81	464	3.2	13.94

$21.82 to $29.53	149	1.8	27.32
$29.54 to $36.49	1,795	0.1	29.89
$36.50 to $36.67	1,975	2.0	36.67
$36.68 to $43.50	399	0.5	38.76
$43.51 to $43.63	1,980	1.0	43.62
$43.64 and Over	60	0.6	46.03
Total	7,860	1.4	$ 32.21

Restricted Stock Awards and Restricted Stock Units

During 2009, 2008 and 2007, the Company granted 2.8 million, 1.6 million and 1.5 million shares, respectively, of restricted stock and restricted stock units. The weighted average fair values of these grants were $7.69, $12.09 and $24.08, respectively. Included in the total grants were 1.8 million, 1.2 million and 0.4 million of performance-related restricted stock units for 2009, 2008 and 2007, respectively.

The Company used a Monte Carlo simulation model to estimate the fair value for performance-based restricted stock units issued during 2009, 2008 and 2007. The assumptions used in this model for performance-based restricted stock units granted during 2009 and 2008 are set forth in the table below. Expected volatilities for the 2009 performance awards were based on historical volatility and daily returns for the three-year period ended

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January 1, 2009 of the Company s stock and S&P 500 companies. For the 2009 performance awards, the total stock return for the Company over the performance period is based on comparing Convergys average closing price from the fourth quarter of 2008 with the average expected closing price for the fourth quarter of 2011. For these awards, the total stock return of the S&P 500 companies is computed by comparing the average closing price of the S&P 500 companies from the fourth quarter of 2008 with the average expected closing price for the fourth quarter of 2011. The risk-free interest rate for the expected term of the award granted is based on the U.S. Treasury yield curve in effect at the time of grant.

	2009	2008
Expected volatility	**52.8%**	30.1%
Expected term (in years)	**3.0**	3.0
Risk-free interest rate	**1.2%**	2.1%

The total compensation cost related to non-vested restricted stock and restricted stock units not yet recognized as of December 31, 2009 was approximately $19, which is expected to be recognized over a weighted average of 1.1 years. Changes to non-vested restricted stock and restricted stock units for the years ended December 31, 2009 and 2008 were as follows:

Amounts in millions	Number of Shares	Weighted Average Fair Value at Date of Grant
Non-vested at December 31, 2007	**3.5**	$ 20.35
Granted	**1.6**	12.09
Vested	**(1.2)**	14.26
Forfeited	**(0.3)**	19.34
Non-vested at December 31, 2008	**3.6**	16.82
Granted	**2.8**	7.69
Vested	**(0.7)**	19.09
Forfeited	**(0.8)**	13.92
Non-vested at December 31, 2009	**4.9**	$ 12.18

12. Commitments and Contingencies

Commitments

The Company leases certain facilities and equipment used in its operations under operating leases. Total rent expense was $92.6, $85.4 and $86.4 in 2009, 2008 and 2007, respectively.

At December 31, 2009, the total minimum rental commitments under non-cancelable operating leases are as follows:

2010	$ 45.2
2011	30.7
2012	19.2
2013	10.0
2014	6.8
Thereafter	19.1
Total	$ 131.0

The Company leases certain equipment and facilities used in its operations under operating leases. This includes its office complex in Orlando, Florida, which is leased from Wachovia Development Corporation (Lessor), a wholly owned subsidiary of Wells Fargo & Company, under an agreement that expires in June 2010. Upon termination or expiration of the lease, the Company must either purchase the property from the Lessor for $65.0 or arrange to have the office complex sold to a third party. If the office complex is sold to a third party for an amount less than the $65.0, the Company has agreed under a residual value guarantee to pay the Lessor up to $55.0. If the office complex is sold to a third party for an amount in excess of $65.0, the Company is entitled to collect the excess. As of December 31, 2009, the Company has recognized a liability of approximately $12 for the related residual value guarantee. The value of the guarantee was determined based on the estimated present value of probability-weighted cash flows that might be expended under the guarantee. The Company recorded a liability for the fair value of the obligation with a corresponding asset recorded as prepaid rent, which is being amortized to rental expense over the lease term. The liability will

remain on the Balance Sheet until the end of the lease term. Under the terms of the lease, the Company will also provide certain indemnities to the Lessor, including environmental indemnities. Due to the nature of such potential obligations, it is not possible to estimate the maximum amount of such exposure or the fair value. The Company does not expect such amounts, if any, to be material. The Company has concluded that it is not required to consolidate the Lessor pursuant to authoritative guidance for the consolidation of variable interest entities included within FASB Topic 810, Consolidation in the ASC. The Company is in the process of evaluating whether to purchase or refinance this property.

At December 31, 2009, the Company had outstanding letters of credit of approximately $55 and other bond obligations of approximately $41 related to performance and payment guarantees. The Company believes that any guarantee obligation that may arise will not be material.

The Company also has purchase commitments with three telecommunications providers of approximately $33 in 2010.

Contingencies

The Company from time to time is involved in various loss contingencies, including tax and legal contingencies that arise in the ordinary course of business. Pursuant to ASC 450, Contingencies, the Company accrues for a loss contingency when it is probable that a liability has been incurred and the amount of such loss can be reasonably estimated. At this time, the Company believes that the results of any such contingencies, either individually or in the aggregate, will not have a materially adverse effect on the Company s results of operations or financial condition. However, the outcome of any litigation cannot be predicted with certainty. An unfavorable resolution of one or more pending matters could have a materially adverse impact on the Company s results of operations or financial condition in the future.

Several related class action lawsuits were filed in the United States District Court for the Northern District of Texas on behalf of purchasers of common stock of Intervoice during the period from October 12, 1999 through June 6, 2000 (the Class Period). Plaintiffs have filed claims, which were consolidated into one proceeding, under Sections 10(b) and 20(a) of the Exchange Act and SEC Rule 10b-5 against Intervoice as well as certain named former officers and directors of Intervoice on behalf of the alleged class members. In the complaint, Plaintiffs claim that Intervoice and the named former officers and directors issued false and misleading statements during the Class Period concerning the financial condition of Intervoice, the results of the merger with Brite and the alleged future business projections of Intervoice. Plaintiffs have asserted that these alleged statements resulted in artificially inflated stock prices.

The District Court dismissed the Plaintiffs complaint because it lacked the degree of specificity and factual support to meet the pleading standards applicable to federal securities litigation. The Plaintiffs appealed the dismissal to the United States Court of Appeals for the Fifth Circuit, which affirmed the dismissal in part and reversed in part. The Fifth Circuit remanded a limited number of issues for further proceedings in the District Court.

On September 26, 2006, the District Court granted the Plaintiffs motion to certify a class of people who purchased Intervoice stock during the Class Period. On November 14, 2006, the Fifth Circuit granted Intervoice s petition to appeal the District Court s decision to grant Plaintiffs motion to certify a class. On January 8, 2008, the Fifth Circuit vacated the District Court s class-certification order and remanded the case to the District Court for further consideration in light of the Fifth Circuit s decision in *Oscar Private Equity Investments v. Allegiance Telecom, Inc*. The parties filed additional briefing in the District Court regarding class certification and are awaiting the District Court s ruling. On July 7, 2009, the District Court ordered the parties to file additional briefing regarding class certification in light of the Fifth Circuit s more recent decision in *Alaska Electric*

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Pension Fund v. Flowserve Corporation. On October 26, 2009, the District Court denied the Plaintiffs motion to certify a class. The named plaintiffs claims remain pending in the District Court. On November 9, 2009, the Plaintiffs sought permission from the Fifth Circuit to appeal the District Court s order denying class certification. In December 2009, the Fifth Circuit accepted the plaintiff s appeal.

Since 2002, the Company has been cooperating with the U.S. Department of Labor s wage and hour division (DOL) on a number of matters to investigate and resolve allegations of the Company s incorrect measurement of hourly call center employees work time. The Company expects to conclude its negotiations with the DOL, and to reach a mutually-satisfactory resolution in 2010. Such resolution would involve, among other things, the payment of back wages to some of the Company s U.S. agents. The Company expects that the outcome of this DOL matter will not individually or in the aggregate have a material adverse effect on the Company s results of operations or financial condition.

13. Financial Instruments

The Company is exposed to a variety of market risks, including the effects of changes in foreign currency exchange rates and interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices. The Company s risk management strategy includes the use of derivative instruments to reduce the effects on its operating results and cash flows from fluctuations caused by volatility in currency exchange and interest rates.

The Company serves many of its U.S.-based clients using contact center capacity in the Philippines, India and Canada. Although the contracts with these clients are typically priced in U.S. dollars, a substantial portion of the costs incurred to render services under these contracts are denominated in Philippine pesos (PHP), Indian rupees (INR) or Canadian dollars (CAD), which represents a foreign exchange exposure. The Company has hedged a portion of its exposure related to the anticipated cash flow requirements denominated in these foreign currencies by entering into forward exchange contracts and options with several financial institutions. These instruments mature within the next 36 months and had a notional value of $601.3 at December 31, 2009 and $866.7 at December 31, 2008. The derivative instruments discussed above are designated and effective as cash flow hedges. The following table reflects the fair values of these derivative instruments:

	December 31,	
	2009	2008
Forward exchange contracts and options designated as hedging instruments under ASC 815		
Included within other current assets	**$ 11.5**	$ 1.8
Included within other current liabilities	**18.3**	40.8
Included within other long-term liabilities	**14.9**	60.6

The Company recorded deferred tax benefits of $8.0 and $35.8 related to these derivatives at December 31, 2009 and 2008, respectively. A total of $14.8 and $66.6 of deferred losses, net of tax, related to these cash flow hedges at December 31, 2009 and 2008, respectively, were in accumulated other comprehensive income (OCI). As of December 31, 2009, deferred losses of $11.2 ($7.3 net of tax), on derivative instruments included in accumulated other comprehensive income are expected to be reclassified into earnings during the next 12 months. The following table provides the effect of these derivative instruments on the Company s Consolidated Financial Statements for the year ended December 31, 2009:

Derivatives in FASB Topic 815 Cash Flow Hedging Relationships	Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)
Foreign exchange contracts	$ 49.8	$ (27.5)	- Cost of providing services and products sold - Selling, general and administrative

The gain recognized related to the ineffective portion of the derivative instruments was immaterial for the year ended December 31, 2009 and 2008.

During 2009, 2008 and 2007, the Company recorded a net loss of $27.5 and net gains of $9.3 and $46.4, respectively, related to the settlement of forward contracts and options which were designated as cash flow hedges.

The Company also enters into derivative instruments (forwards) to economically hedge the foreign currency impact of assets and liabilities denominated in nonfunctional currencies. During the years ended December 31, 2009 and 2008, losses of $8.5 and $9.0, respectively, were recognized related to changes in fair value of these derivative instruments not designated as hedges. These losses are classified in other income (expense), net in the accompanying Consolidated Statements of Operations. The fair value of these derivative instruments not designated as hedges at December 31, 2009, was immaterial to the Company s Consolidated Financial Statements. During early 2008, the Company had entered into treasury lock derivative instruments with a total notional amount of $200.0 in anticipation of a probable debt issuance later in 2008. As the Company did not expect issuance of the debt in the near future given the market conditions during the third quarter of 2008, the $6.0 gain on termination of the treasury lock was recognized within the other income, net in the accompanying Consolidated Statements of Operations for the year ended December 31, 2008.

Certain of the Company s counterparty agreements related to derivative instruments contain provisions that require that the Company maintain collateral on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments in liability position at December 31, 2009 was $33.2 for which the Company posted collateral of approximately $3, which is included in other current assets. Downgrades in the Company s credit ratings and/or adverse change in the foreign currency markets will require additional collateral to counterparties.

14. Fair Value Disclosures

The following table summarizes the Company s assets and liabilities measured and reported in the Financial Statements at fair value on a recurring basis as of December 31, 2009 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value. The three levels of the fair value hierarchy defined by FASB Topic 820, Fair Value Measurement and Disclosures, in the ASC are as follows: level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument; and level 3 inputs are unobservable inputs based on the Company s assumptions used to measure assets and liabilities at fair value. A financial asset or liability s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative assets	$ 11.5		$ 11.5	
Derivative liabilities	$ 34.8		$ 34.8	

Effective January 1, 2009, the Company adopted Fair Value Measurements and Disclosures Topic, ASC 820-10-15-1a, for all nonfinancial assets and liabilities that are measured at fair value on a non-recurring basis, such as goodwill and identifiable intangible assets. The adoption of the guidance for nonfinancial assets and liabilities that are measured at fair value on a non-recurring basis did not impact the Company s financial position or results of operations for the year ended December 31, 2009.

During 2009, as described in Note 7, the Company restructured two large HR Management contracts. These contract restructurings resulted in the Company evaluating the recoverability of deferred charges and certain other long-lived assets. The Company performed the recoverability analysis in accordance with FASB Subtopic 360-10, Impairment or Disposal of Long-Lived Assets, in the ASC, primarily based on a discounted cash flow model, which resulted in recording impairment charges of $113.6 largely related to its deferred charges.

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Fair values of cash equivalents, short-term investments and current accounts receivable and payable approximate the carrying amounts because of their short-term nature. The fair value of short-term debt approximates its recorded value because of its short-term nature. Based on quoted market prices at December 31, 2009, the fair value of the $125.0 of the Company s 2029 Convertible Debentures is $149.3.

15. Income Taxes

The Company s provision (benefit) for income taxes consists of the following:

	Year Ended December 31,		
	2009	2008	2007
Current:			
United States federal	**$ (31.7)**	$ (32.2)	$ 3.8
Foreign	**11.6**	17.4	22.9
State and local	**3.4**	(14.7)	2.8
Total current	**(16.7)**	(29.50)	29.5
Deferred:			
United States federal	**(5.5)**	(27.8)	47.6
Foreign	**(13.5)**	(0.6)	(5.4)
State and local	**(4.6)**	(13.1)	4.4
Total deferred	**(23.6)**	(41.5)	46.6
Total	**$ (40.3)**	$ (71.0)	$ 76.1

The Company s combined pre-tax earnings from foreign subsidiaries or branches were $95.5, $56.5 and $93.1 during 2009, 2008 and 2007, respectively.

The following is a reconciliation of the statutory federal income tax rate with the effective tax rate for the tax benefit in 2009 and 2008 and the expense for 2007:

	Year Ended December 31,		
	2009	2008	2007

U.S. federal statutory rate	**35.0%**	35.0%	35.0%
Permanent differences	**1.4**	(9.5)	0.1
State and local income taxes, net of Federal income tax benefit	**2.1**	3.5	1.4
International rate differential	**11.9**	12.8	(6.0)
Foreign valuation allowances	**3.3**	(4.4)	0.4
Income tax reserve adjustments	**(21.6)**	4.4	0.9
Tax credits and other	**2.2**	1.5	(0.8)
Effective rate	**34.3%**	43.3%	31.0%

The 9.0% reduction in the income tax benefit rate in 2009 is primarily due to the impact on the tax rate of changes in reinvestment assertions related to certain foreign entities unremitted earnings, adjustments to income tax reserves and the geographic mix of world-wide income. The Company s foreign taxes for 2009, 2008 and 2007 included $8.5 (7.2%), $13.7 (8.4%) and $11.8 (4.8%) respectively, of benefit derived from tax holidays in the Philippines and India. The Company s foreign taxes for 2009, 2008 and 2007 include $7.5, $12.6 and $11.0, respectively, related to a tax holiday in India scheduled to expire March 2011. The tax holidays in the Philippines are scheduled to expire by December 2012. The Company has applied for one- or two-year extensions of the Philippine tax holidays in accordance with local law.

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The components of deferred tax assets and liabilities are as follows:

	At December 31,	
	2009	2008
Deferred tax asset:		
Loss and credit carryforwards	**$ 164.1**	$ 218.0
Pension and employee benefits	**45.4**	51.2
Restructuring charges	**11.1**	10.7
Deferred revenue	**1.4**	2.0
Other comprehensive income	**34.1**	63.2
Other	**35.9**	5.0
Valuation allowance	**(51.3)**	(93.2)
Total deferred tax asset	**240.7**	256.9
Deferred tax liability:		
Depreciation and amortization	**143.0**	118.4
Deferred implementation costs	**11.2**	72.8
Other comprehensive income	**32.7**	
Other	**14.5**	
Total deferred tax liability	**201.4**	191.2
Net deferred tax asset	**$ 39.3**	$ 65.7

As of December 31, 2009 and 2008, $22.0 and $23.6, respectively, of the valuation allowance relates to the Company s foreign operations.

As of December 31, 2009, the Company has federal, state, and foreign operating loss carryforwards of $233.9, $974.3 and $145.0, respectively. The federal operating loss carryforwards and state operating loss carryforwards expire between 2020 and 2029. The foreign operating loss carryforwards include $102.2 with no expiration date; the remainder will expire between 2010 and 2024. The federal and state operating loss carryforwards include losses of $153.3 and $215.9, respectively, that were acquired in connection with business combinations. Utilization of the acquired federal and state tax loss carryforwards may be limited pursuant to Section 382 of the Internal Revenue Code of 1986. At December 31, 2009, the Company also had $9.7 in state tax credits that expire from 2010 to 2012.

The Company has not provided for U.S. federal income taxes or foreign withholding taxes on $292.5 of undistributed earnings of its foreign subsidiaries at December 31, 2009, because such earnings are intended to be reinvested indefinitely. It is not practicable to determine the amount of applicable taxes that would be due if such were distributed.

As of December 31, 2008, the liability for unrecognized tax benefits was $62.0, and is recoded within the other long-term liabilities in the accompanying Consolidated Financial Statements. The liability for unrecognized benefits of $62.0 as of December 31, 2008 included an accrual for interest and penalties of $17.9. As of December 31, 2009, the liability for unrecognized tax benefits was $80.9 and is recorded within other long-term liabilities in the accompanying Consolidated Financial Statements. The liability for unrecognized tax benefits of $80.9 as of December 31, 2009 included an accrual for interest and penalties of $16.2. The total amount of net unrecognized tax benefits that would affect income tax expense, if ever recognized in the Financial Statements, is $70.6. This amount includes net interest and penalties of $15.3. The Company s policy is to recognize interest and penalties accrued on unrecognized tax benefits as part of income tax expense. During the years ended December 31, 2009 and 2008, the Company recognized approximately $5.5 and $5.8 in interest and penalties, respectively.

A reconciliation of the beginning and ending total amounts of unrecognized tax benefits (exclusive of interest and penalties) is as follows:

	2009	2008
Balance at January 1	**$ 44.1**	$ 60.4
Additions based on tax positions related to the current year	**39.0**	2.3
Additions for tax positions of prior years	**2.5**	1.8
Reductions for tax positions of prior years	**(3.7)**	(13.2)
Settlements	**(16.6)**	(4.0)
Lapse of statutes	**(0.6)**	(3.2)
Balance at December 31	**$ 64.7**	$ 44.1

The increase in the liability for unrecognized tax benefits was largely due to uncertainty related to the deductibility

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of certain items, partially offset by decreases for the resolution of tax audits in the current year. The Company is currently attempting to resolve income tax audits relating to prior years in various jurisdictions. The Company has received assessments from these jurisdictions including transfer pricing and deductibility of expenses. The Company believes that it is appropriately reserved with regard to these assessments as of December 31, 2009. Furthermore, the Company believes that it is reasonably possible that the total amounts of unrecognized tax benefits will decrease between $5.0 to $10.0 prior to December 31, 2010, based upon resolution of audits; however, actual developments could differ from those currently expected.

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With a few exceptions, the Company is no longer subject to examinations by tax authorities for years before 2002.

16. Asset Securitization

During 2009, the Company entered into a $125.0 asset securitization facility collateralized by accounts receivables of certain of its subsidiaries, of which $50.0 expires in June 2010 and $75.0 expires in June 2012. The asset securitization program is conducted through Convergys Funding Inc., a wholly-owned bankruptcy remote subsidiary of the Company. The asset securitization facility does not qualify for sale treatment under the authoritative guidance for the accounting for transfers and servicing of financial assets and extinguishments of liabilities included in FAS Topic 860, Transfers and Servicing, in the ASC. Accordingly, the accounts receivable and related debt obligation will remain on the Company s Consolidated Balance Sheet. As of December 31, 2009, this facility remained undrawn. During February 2010, the Company has drawn down approximately $65 from this facility.

17. Additional Financial Information

	At December 31,	
	2009	2008
Property and equipment, net:		
Land	**$ 21.2**	$ 21.2
Buildings	**179.4**	178.5
Leasehold improvements	**184.7**	180.0
Equipment	**647.5**	643.8
Software	**508.8**	489.3
Construction in progress and other	**28.1**	35.7
	1,569.7	1,548.5
Less: Accumulated depreciation	**(1,202.0)**	(1,127.6)
	$ 367.7	$ 420.9

Payables and other current liabilities:		
Accounts payable	**$ 37.5**	$ 68.5
Accrued taxes	**37.5**	26.8
Accrued payroll-related expenses	**112.2**	126.1
Derivative Liabilities	**19.8**	43.5
Accrued expenses, other	**146.7**	158.0
Restructuring and exit costs	**38.2**	23.1
Deferred revenue and government grants	**92.0**	92.7
	$ 483.9	$ 538.7

Accumulated other comprehensive (loss) income:		
Foreign currency translation adjustments	**$ 6.3**	$ (19.1)
Changes related to pension liability, net of tax benefit of $26.1 and $28.5	**(48.5)**	(50.7)
Unrealized loss on hedging activities, net of tax benefit of $7.9 and $35.8	**(14.8)**	(66.6)
	$ (57.0)	$ (136.4)

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Cellular Partnerships

Summarized financial information for the Cellular Partnerships is as follows:

	At December 31,		
	2009	2008	2007
Current assets	**$ 59.9**	$ 66.5	$ 68.7
Non-current assets	**213.8**	213.1	234.4
Current liabilities	**29.0**	30.4	27.0
Non-current liabilities	**89.6**	97.0	108.5

	Year Ended December 31,		
	2009	2008	2007
Revenues	**$ 594.7**	$ 514.9	$ 446.6
Depreciation and amortization	**35.5**	38.6	65.9
Operating income	**123.2**	107.4	45.3
Net income	**121.3**	103.8	41.8

18. Industry Segment and Geographic Operations

Industry Segment Information

The Company has three segments, which are identified by service offerings. Customer Management provides agent-assisted services, self-service and technology solutions. Information Management provides business support system solutions for the global communications industry. HR Management provides global human resource business process outsourcing solutions. These segments are consistent with the Company s management of the business and reflect its internal financial reporting structure and operating focus.

The Company does not allocate activities below the operating income level to its reported segments. The Company s business segment information is as follows:

	Year Ended December 31,		
	2009	2008	2007
Revenues:			
Customer Management	**$ 1,986.7**	$ 1,954.8	$ 1,866.1
Information Management	**434.3**	571.5	723.0
HR Management	**406.2**	259.5	255.2

	$ 2,827.2	$ 2,785.8	$ 2,844.3
Depreciation:			
Customer Management	**$ 66.9**	$ 61.4	$ 55.9
Information Management	**22.6**	28.2	32.4
HR Management	**8.6**	9.3	8.7
Corporate and other (1)	**20.8**	20.1	18.4
	$ 118.9	$ 119.0	$ 115.4
Amortization:			
Customer Management	**$ 7.3**	$ 4.3	$ 2.7
Information Management	**3.6**	7.0	3.7
HR Management	**0.8**	2.2	2.6
	$ 11.7	$ 13.5	$ 9.0
Restructuring Charges:			
Customer Management	**$ 7.9**	$ 14.0	$
Information Management	**30.4**	9.7	3.4
HR Management	**3.7**	10.5	
Corporate and other	**5.0**	0.2	
	$ 47.0	$ 34.4	$ 3.4
Asset Impairments:			
Customer Management	**$**	$	$ 1.4
Information Management	**3.1**		1.3
HR Management	**110.5**	268.6	2.8
	$ 113.6	$ 268.6	$ 5.5

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Notes to Consolidated Financial Statements (continued)

(Amounts in Millions Except Share and Per Share Amounts)

	Year Ended December 31,		
	2009	2008	2007
Operating Income (Loss):			
Customer Management	**$ 133.9**	$ 92.6	$ 176.7
Information Management	**21.9**	96.4	130.9
HR Management	**(246.1)**	(358.8)	(38.3)
Corporate [1]	**(22.5)**	(21.5)	(24.5)
	$ (112.8)	$ (191.3)	$ 244.8
Capital Expenditures:			
Customer Management	**$ 44.5**	$ 49.7	$ 32.4
Information Management	**10.8**	17.9	18.4
HR Management	**3.7**	8.3	17.1
Corporate [1]	**15.9**	24.6	34.4
	$ 74.9	$ 100.5	$ 102.3

[1] Includes shared services-related capital expenditures and depreciation.

	At December 31,	
	2009	2008
Total Assets:		
Customer Management	**$ 1,503.1**	$ 1,570.4
Information Management	**464.6**	516.7
HR Management	**156.0**	385.5
Corporate	**489.9**	368.8
	$ 2,613.6	$ 2,841.4

Geographic Operations

The following table presents certain geographic information regarding the Company s operations:

	Year Ended December 31,	
2009	2008	2007

	2009	2008	2007
Revenues:			
North America	**$ 2,361.2**	$ 2,336.3	$ 2,449.8
Rest of World	**466.0**	449.5	394.5
	$ 2,827.2	$ 2,785.8	$ 2,844.3

	At December 31,		
	2009	2008	2007
Long-lived Assets:			
North America	**$ 1,490.8**	$ 1,614.5	$ 1,465.5
Rest of World	**161.7**	240.5	230.2
	$ 1,652.5	$ 1,855.0	$ 1,695.7

Concentrations

The Customer Management and Information Management segments derive significant revenues from AT&T. Revenues from AT&T were 19.8%, 18.2% and 16.3% of the Company s consolidated revenues for 2009, 2008 and 2007, respectively. Related accounts receivable from AT&T totaled $85.8 and $93.1 at December 31, 2009 and 2008, respectively.

19. Quarterly Financial Information (Unaudited)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
2009:					
Revenues	**$ 694.7**	**$ 682.7**	**$ 765.4**	**$ 684.4**	**$ 2,827.2**
Operating (loss) income	**$ 38.8**[(a)]	**$ (71.1)**[(b)]	**$ (90.3)**[(c)]	**$ 9.8**[(d)]	**$ (112.8)**
Net (loss) income	**$ 28.0**[(a)]	**$ (60.9)**[(b)]	**$ (86.0)**[(c)]	**$ 41.6**[(d)]	**$ (77.3)**
(Loss) earnings per share					
Basic	**$ 0.23**	**$ (0.50)**	**$ (0.70)**	**$ 0.34**	**$ (0.63)**
Diluted	**$ 0.23**	**$ (0.50)**	**$ (0.70)**	**$ 0.33**	**$ (0.63)**
2008:					
Revenues	$ 716.4	$ 689.5	$ 676.2	$ 703.7	$ 2,785.8
Operating (loss) income	$ 38.9	$ 47.4	$ (242.0)[(e)]	$ (35.6)[(f)]	$ (191.3)
Net (loss) income	$ 35.9	$ 40.5	$ (140.0)[(e)]	$ (29.3)[(f)]	$ (92.9)
(Loss) earnings per share					
Basic	$ 0.28	$ 0.33	$ (1.15)	$ (0.24)	$ (0.75)
Diluted	$ 0.28	$ 0.32	$ (1.15)	$ (0.24)	$ (0.75)

Segment Data:

Customer Management

2009:

Revenues	**$ 516.9**	**$ 494.6**	**$ 491.6**	**$ 483.6**	**$ 1,986.7**
Operating income	**$ 40.3**	**$ 36.9**	**$ 33.5**	**$ 23.2**	**$ 133.9**
2008:					
Revenues	$ 476.0	$ 469.0	$ 483.2	$ 526.6	$ 1,954.8
Operating income	$ 21.9	$ 19.4	$ 23.3	$ 28.0	$ 92.6

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Information Management					
2009:					
Revenues	**$ 107.6**	**$ 115.1**	**$ 99.2**	**$ 112.4**	**$ 434.3**
Operating income (loss)	**$ 12.5**	**$ 17.0**	**$ 3.3**	**$ (10.9)[(g)]**	**$ 21.9**
2008:					
Revenues	$ 163.2	$ 161.1	$ 133.6	$ 113.6	$ 571.5
Operating income	$ 29.5	$ 37.9	$ 17.4	$ 11.6	$ 96.4
HR Management					
2009:					
Revenues	**$ 70.2**	**$ 73.0**	**$ 174.6**	**$ 88.4**	**$ 406.2**
Operating (loss) income	**$ (9.5)[(a)]**	**$ (119.4)[(b)]**	**$ (124.9)[(c)]**	**$ 7.7[(h)]**	**$ (246.1)**
2008:					
Revenues	$ 77.2	$ 59.4	$ 59.4	$ 63.5	$ 259.5
Operating (loss)	$ (4.9)	$ (4.2)	$ (279.8)[(e)]	$ (69.9)[(f)]	$ (358.8)

(a) Includes implementation charges of $8.6. See Note 7 of the Notes to Consolidated Financial Statements for more details related to these charges.
(b) Includes asset impairment and implementation charges of $121.0. See Note 7 of the Notes to Consolidated Financial Statements for more details related to these charges.
(c) Includes asset impairment, settlement and implementation charges, net of previously deferred implementation recognized, of $118.3. See Note 7 of the Notes to Consolidated Financial Statements for more details related to these charges.
(d) Includes asset impairment, settlement and implementation charges, net of previously deferred implementation revenue recognized, of ($1.0). See Note 7 of the Notes to Consolidated Financial Statements for more details related to these charges.
(e) Includes asset impairment and implementation charges of $272.9. See Note 7 of the Notes to Consolidated Financial Statements for more details related to these charges.
(f) Includes goodwill impairment charge of $61.1. See Note 6 of the Notes to Consolidated Financial Statements for more details related to this charge.
(g) Includes asset impairment charge of $3.1.
(h) Includes asset impairment, settlement and implementation charges, net of previously deferred implementation revenue recognized, of ($4.1). See Note 7 of the Notes to Consolidated Financial Statements for more details related to these charges.

20. Subsequent Events

On February 9, 2010, David F. Dougherty s role as President and Chief Executive Officer and a member of the Board of Directors terminated. On February 9, 2010, the Company appointed Jeffrey H. Fox as President and Chief Executive Officer of the Company. Mr. Fox is currently a member of the Board of Directors of the Company. The impact of this change on the Company s net income for 2010 is expected to be approximately $6 to $7.

During February 2010, the Company repaid $300.0 of its outstanding portion of the Revolving Credit Facility and also drew approximately $65 from its $125.0 asset securitization facility. The Revolving Credit Facility and $125.0 asset securitization facility are described more fully under Notes 8 and 16, respectively, of the Notes to Consolidated Financial Statements.

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Item 9., 9A. and 9B.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

No disagreements with accountants on any accounting or financial disclosure or auditing scope or procedure occurred during 2009.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company s Chief Executive Officer and Chief Financial Officer evaluated, together with General Counsel, the Chief Accounting Officer and other key employees, the effectiveness of design and operation of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Act)) as of the year ended December 31, 2009 (Evaluation Date). Based on this evaluation, the Company s Chief Executive Officer and Chief Financial Officer have concluded that the Company s disclosure controls and procedures were effective as of the Evaluation Date such that the information required to be disclosed by the Company in the reports that it files or submits under the Act is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure, and are effective to ensure that such information is recorded, processed, summarized and reported within the time periods specified in the Security and Exchange Commission s rules and forms.

Attestation Report on Internal Control Over Financial Reporting

Convergys management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) that is designed to produce reliable Financial Statements in conformity with accounting principles generally accepted in the United States. Management conducted an evaluation of the effectiveness of the Company s internal control over financial reporting as of December 31, 2009. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework.* Based on its assessment, management concluded that, as of December 31, 2009, the Company s internal control over financial reporting was effective based on those criteria. The Company s independent registered accounting firm, Ernst & Young LLP, has issued an attestation report on internal control over financial reporting, which appears on page 47.

Changes in Internal Control

There have been no changes in the Company s internal control over financial reporting that occurred during the year ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Item 9B. Other Information

None.

Part III, Item 10. through 14.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 with respect to directors, the Audit Committee of the Board of Directors, Audit Committee financial experts, Financial Code of Ethics and Section 16 compliance is incorporated herein by reference to the Company s proxy statement relating to its annual meeting of shareholders to be held on April 20, 2010.

Certain information concerning the executive officers of the Company is contained on page 13 of this Form 10-K.

Item 11. Executive Compensation

The information required by Item 11 is incorporated herein by reference to the Company s proxy statement relating to its annual meeting of shareholders to be held on April 20, 2010.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The Share Ownership of Directors and Officers section is incorporated herein by reference to the Company s proxy statement relating to its annual meeting of shareholders to be held on April 20, 2010.

The remaining information called for by this Item relating to securities authorized for issuance under equity compensation plans is incorporated by reference to Note 11 of the Notes to Consolidated Financial Statements.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Relationships and related transactions section, and director independence is incorporated herein by reference to the Company s proxy statement relating to its annual meeting of shareholders to be held on April 20, 2010.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 is incorporated by reference to the Company s proxy statement relating to its annual meeting of shareholders to be held on April 20, 2010.

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Part IV, Items 15., 15(a)(1) and (2)

PART IV

Item 15. Exhibits, Financial Statement Schedule

Item 15(a)(1) and (2). List of Financial Statements and Financial Statement Schedule

The following consolidated financial statements of Convergys are included in Item 8:

		Page
(1)	**Consolidated Financial Statements:**	
	Reports of Independent Registered Public Accounting Firm	47
	Consolidated Statements of Operations and Comprehensive Income (Loss)	49
	Consolidated Balance Sheets	50
	Consolidated Statements of Cash Flows	51
	Consolidated Statements of Shareholders Equity	52
	Notes to Consolidated Financial Statements	53
(2)	**Financial Statement Schedule:**	
	II - Valuation and Qualifying Accounts	90

Financial statement schedules other than that listed above have been omitted because the required information is not required or applicable.

(3) Exhibits:

Exhibits identified in parenthesis below, on file with the Securities and Exchange Commission (SEC), are incorporated herein by reference as exhibits hereto.

Exhibit Number

3.1 Amended Articles of Incorporation of Convergys Corporation. (Incorporated by reference from Exhibit 3.1 to Form S-3 Registration Statement (File No. 333-43404) filed on August 10, 2000.)

3.2 Amended and Restated Code of Regulations of Convergys Corporation. (Incorporated by reference from Exhibit 3.2 to Form 10-Q filed on May 5, 2009.)

4.1	Indenture, dated October 13, 2009, by and between Convergys Corporation and U.S. Bank National Associated, as trustee, relating to Convergys Corporation s 5.75% Junior Subordinated Convertible Debentures due 2029. (Incorporated by reference from Exhibit 4.1 to Form 8-K filed October 13, 2009.)
4.2	Form of 5.75% Junior Subordinated Convertible Debenture due 2029. (Incorporated by reference from Exhibit 4.1 to Form 8-K filed October 13, 2009.)
10.1	Employment Letter between Convergys Corporation and Andrea J. Ayers dated June 4, 1998.
10.2	Change-in-control Agreement between Convergys Corporation and Andrea J. Ayers dated June 8, 2008.
10.3	Offer of Employment Letter between Convergys Corporation and James P. Boyce dated February 22, 2000.
10.4	Change-in-control Agreement between Convergys Corporation and James P. Boyce dated June 8, 2008.
10.5	Employment Agreement between Convergys Corporation and Robert A. Lento dated September 1, 2002.
10.6	Amendment to Employment Agreement dated September 1, 2002 between Convergys Corporation and Robert A. Lento dated December 29, 2008.
10.8	Offer Letter, dated February 9, 2010, between Convergys Corporation and Jeffrey Fox (Incorporated by reference from Exhibit 10.1 to Form 8-K filed on February 12, 2010).
10.9	Convergys Corporation Deferred Compensation and Long-Term Incentive Plan Award Deferral Plan for Non-Employee Directors as amended and restated effective February 24, 2004. (Incorporated by

reference from Exhibit 10.24 to Form 10-Q filed on August 9, 2004.) *

10.10 Convergys Corporation Deferred Compensation Plan for Non-Employee Directors dated August 26, 2008. (Incorporated by reference from Exhibit 10.2 to Form 10-Q filed on November 5, 2008.) *

10.11 Convergys Corporation Long-Term Incentive Plan as amended and restated effective as of April 22, 2008. (Incorporated by reference from Exhibit 10.4 to Form 10-Q filed on May 7, 2008.) *

10.12 Convergys Corporation Supplemental Executive Retirement Plan amended effective February 20, 2007. (Incorporated by reference from Exhibit 10.1 to Form 10-Q filed on August 7, 2007.) *

10.13 Convergys Corporation Supplemental Executive Retirement Plan as amended dated August 26, 2008. (Incorporated by reference from Exhibit 10.3 to Form 10-Q filed on November 5, 2008.) *

10.14 Convergys Corporation Executive Deferred Compensation Plan as amended October 29, 2001. (Incorporated by reference from Exhibit 10.9 to Form 10-K filed on February 28, 2008.) *

10.15 Convergys Corporation Executive Deferred Compensation Plan as amended effective February 24, 2004. (Incorporated by reference from Exhibit 10.25 to Form 10-Q filed on August 9, 2004.) *

10.16 Convergys Corporation Executive Deferred Compensation Plan as amended dated December 21, 2005. (Incorporated by reference from Exhibit 10.14 to Form 10-K filed on February 27, 2009.) *

10.17 Convergys Corporation Executive Deferred Compensation Plan as amended dated October 21, 2008. (Incorporated by reference from Exhibit 10.15 to Form 10-K filed on February 27, 2009.) *

10.18 Convergys Corporation Employee Stock Purchase Plan. (Incorporated by reference from Appendix IV of Convergys Corporation s Definitive Schedule 14A filed on March 12, 2004.) *

10.19 Convergys Corporation Retirement and Savings Plan as amended and restated dated January 28, 2008. (Incorporated by reference from Exhibit 10.17 to Form 10-K filed on February 27, 2009.) *

10.20 Amendment to Convergys Corporation Retirement and Savings Plan dated March 31, 2008. (Incorporated by reference from Exhibit 10.18 to Form 10-K filed on February 27, 2009.) *

10.21 Amendment to Convergys Corporation Retirement and Savings Plan dated December 23, 2008. (Incorporated by reference from Exhibit 10.19 to Form 10-K filed on February 27, 2009.) *

10.22 Convergys Corporation Canadian Employee Share Plan. (Incorporated by reference from Exhibit 4.2.1 to Form S-8 Registration Statement (File No. 333-86137) filed on December 29, 1999.) *

10.23 Annual Executive Incentive Plan dated February 20, 2007. (Incorporated by reference from Appendix IV of the Convergys Corporation s Definitive Schedule 14A filed on March 13, 2007.) *

10.24 Convergys Corporation Qualified and Non-Qualified Pension Plan as amended and restated dated January 28, 2008. (Incorporated by reference from Exhibit 10.22 to Form 10-K filed on February 27, 2009.) *

10.25 Amended Convergys Corporation Qualified and Non-Qualified Pension Plan dated March 31, 2008. (Incorporated by reference from Exhibit 10.23 to Form 10-K filed on February 27, 2009.) *

10.26 Amended Convergys Corporation Qualified and Non-Qualified Pension Plan dated December 17, 2008. (Incorporated by reference from Exhibit 10.24 to Form 10-K filed on February 27, 2009.) *

10.27 Convergys Corporation Severance Pay Plan dated December 9, 2008. (Incorporated by reference from Exhibit 10.25 to Form 10-K filed on February 27, 2009.) *

10.28 2007 Form of Performance-Based Restricted Stock Unit Award Agreement. (Incorporated by reference from Exhibit 10.26.1 to Form 10-K filed on February 28, 2007.) *

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Part IV (continued)

10.29 2007 Form of Performance Unit Award Agreement. (Incorporated by reference from Exhibit 10.27.1 to Form 10-K filed on February 28, 2007.) *

10.30 2007 Form of Time-Based Restricted Stock Unit Award Agreement for Directors. (Incorporated by reference from Exhibit 10.31 to Form 10-K filed on February 27, 2009.) *

10.31 2008 Form of Time-Based Restricted Stock Unit Award for Directors. (Incorporated by reference from Exhibit 10.1 to Form 10-Q filed on May 7, 2008.) *

10.32 2008 Form of Performance-Based Restricted Stock Unit Award. (Incorporated by reference from Exhibit 10.2 to Form 10-Q filed on May 7 2008.) *

10.33 2008 Form of Performance Unit Award. (Incorporated by reference from Exhibit 10.3 to Form 10-Q filed on May 7, 2008.) *

10.34 Five-Year Competitive Advance and Revolving Credit Facility Agreement, dated October 20, 2006, between Convergys Corporation, certain financial institutions, JPMorgan Chase Bank, National Association, as Administrative Agent, Citicorp, USA, Inc., as Syndication Agent, and Deutsche Bank AG, New York Branch and PNC Bank, National Association, as Co-Documentation Agents. (Incorporated by reference from Exhibit 10.1 to Form 8-K filed October 24, 2006.)

10.35 Amendment to Five-Year Competitive Advance and Revolving Credit Facility Agreement dated as of August 11, 2008. (Incorporated by reference from Exhibit 10.4 to Form 10-Q filed on November 5, 2008.)

10.36 Participation Agreement, dated as of June 30, 2003, between Convergys Corporation, Various Guarantors and Wachovia Development Corporation. (Incorporated by reference from Exhibit 10.1 to Form 10-Q filed on August 12, 2003.)

10.37 Amended and Restated Lease Agreement, dated as of June 30, 2003, between Wachovia Development Corporation and Convergys Corporation. (Incorporated by reference from Exhibit 10.2 to Form 10-Q filed on August 12, 2003.)

10.38 Security Agreement, dated as of June 30, 2003, between Wachovia Development Corporation and Wachovia Bank, National Association and accepted and agreed to by Convergys Corporation. (Incorporated by reference from Exhibit 10.3 to Form 10-Q filed on August 12, 2003.)

10.39 Assignment and Recharacterization Agreement, dated as of June 30, 2003, between Convergys Corporation, Wells Fargo Bank Northwest, National Association, and Bank of America, National Association. (Incorporated by reference from Exhibit 10.4 to Form 10-Q filed on August 12, 2003.)

10.40 Agreement, dated February 4, 2009, by and between Convergys Corporation and JANA Partners LLC. (Incorporated by reference from Exhibit 10.1 to Form 8-K filed on February 5, 2009.)

10.41

	First Amendment to Agreement, dated December 23, 2009, between Convergys Corporation and JANA Partners, LLC. (Incorporated by reference from Exhibit 10.1 for Form 8-K filed on December 28, 2009.)
10.42	Receivables Sales Agreement, dated as of June 30, 2009, between Convergys Corporation, as Originator, and Convergys Funding Inc., as Buyer. (Incorporated by reference from Exhibit 10.1 to Form 10-Q filed on August 4, 2009.)
10.43	Receivables Purchase Agreement, dated as of June 30, 2009, among Convergys Funding Inc. as Seller, Convergys Corporation as Services, Wachovia Bank, National Association, Liberty Street Funding LLC, the Bank of Nova Scotia, The Bank of Nova Scotia as Scotiabank Group Agent, and Wachovia Bank, National Association as Administrative Agent. (Incorporated by reference from Exhibit 10.2 to Form 10-Q filed on August 4, 2009.)
10.44	Second Amendment to the Five-Year Competitive Advance and Revolving Credit facility Agreement dated as of October 20, 2006, among Convergys Corporation, the Lenders party thereto and JPMorgan Chase Bank, National Association, as Administrative Agent, dated as of February 12, 2010.

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Part IV (continued)**, Item 15(b) and (c).**

10.45 2009 Form of Time-Based Restricted Stock Unit Award Agreement for Employees. *

10.46 2009 Form of Performance-Based Stock Unit Award Agreement. *

10.47 2009 Form of Performance-Based Restricted Stock Unit Award Agreement. *

12 Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Dividends.

21 Subsidiaries of Convergys Corporation.

23 Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.

24 Powers of Attorney.

31.1 Rule 13(a) - 14(a) Certification by Chief Executive Officer.

31.2 Rule 13(a) - 14(a) Certification by Chief Financial Officer.

32 Section 1350 Certifications.

* Management contract or compensatory plan or arrangement.

Item 15(b) and (c). Exhibits and Financial Statement Schedule

The responses to these portions of Item 15 are submitted as a separate section of this report.

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CONVERGYS CORPORATION

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

(Millions of Dollars)

COL. A	COL. B	COL. C Additions		COL. D	COL. E
		(1)	(2)		
Description	Balance at Beginning of Period	Charged to Expense	Charged to Other Accounts	Deductions	Balance at End of Period
Year 2009					
Allowance for Doubtful Accounts	**$ 10.8**	**$ 23.1**	**$**	**$ 16.3[a]**	**$ 17.6**
Deferred Tax Asset Valuation Allowance	**$ 93.2**	**$ 6.6[b]**	**$ (40.2)[c]**	**$ 8.3[d]**	**$ 51.3**
Year 2008					
Allowance for Doubtful Accounts	$ 7.6	$ 9.9	$	$ 6.7[a]	$ 10.8
Deferred Tax Asset Valuation Allowance	$ 56.0	$ 14.9[b]	$ 29.2[e]	$ 6.9[d]	$ 93.2
Year 2007					
Allowance for Doubtful Accounts	$ 12.0	$ 12.3		$ 16.7[a]	$ 7.6
Deferred Tax Asset Valuation Allowance	$ 73.6	$ 5.4[b]	$ (18.0)[f]	$ 5.0[d]	$ 56.0

[a] Primarily includes amounts written-off as uncollectible.
[b] Amounts relate to valuation allowances recorded for state and foreign operating loss carryforwards.
[c] Primarily includes adjustments for acquired net operating losses and credits no longer expected to be realized. Also includes foreign currency translation adjustment for foreign deferred tax assets.
[d] Primarily includes the release of foreign valuation allowances related to the utilization of foreign net operating losses in the current year.
[e] Primarily includes adjustments for: acquisition related net operating losses and credits of ($44.7), and valuation allowance release to additional paid-in capital of $15.2.
[f] Includes adjustments to fully valued deferred tax assets and foreign currency translation adjustments on foreign deferred tax assets.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	CONVERGYS CORPORATION
February 26, 2010	By /s/ Earl C. Shanks
	Earl C. Shanks
	Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ JEFFREY H. FOX Jeffrey H. Fox	Principal Executive Officer; Chief Executive Officer and Director	February 26, 2010
/s/ EARL C. SHANKS Earl C. Shanks	Principal Financial Officer; Chief Financial Officer	February 26, 2010
/s/ ANDRE S. VALENTINE Andre S. Valentine	Principal Accounting Officer; Senior Vice President, Controller	February 26, 2010
ZOË BAIRD* Zoë Baird	Director	
JOHN F. BARRETT* John F. Barrett	Director	
WILLARD W. BRITTAIN JR.* Willard W. Brittain Jr.	Director	
RICHARD R. DEVENUTI* Richard R. Devenuti	Director	
DAVID B. DILLON* David B. Dillon	Director	
JOSEPH E. GIBBS* Joseph E. Gibbs	Director	

THOMAS L. MONAHAN III*	Director
Thomas L. Monahan III	
RONALD L. NELSON*	Director
Ronald L. Nelson	
PHILIP A. ODEEN*	Director
Philip A. Odeen	
BARRY ROSENSTEIN*	Director
Barry Rosenstein	
RICHARD F. WALLMAN*	Director
Richard F. Wallman	

*By: /s/ Earl C. Shanks February 26, 2010

Earl C. Shanks

as attorney-in-fact