CSG SYSTEMS INTERNATIONAL INC
Form 10-Q
November 06, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission file number 0-27512

CSG SYSTEMS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**47-0783182**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

9555 Maroon Circle

Englewood, Colorado 80112

(Address of principal executive offices, including zip code)

(303) 200-2000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES ¨ NO ¨

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

YES ¨ NO x

Shares of common stock outstanding at November 2, 2009: 35,126,766

Table of Contents

CSG SYSTEMS INTERNATIONAL, INC.

FORM 10-Q for the Quarter Ended September 30, 2009

INDEX

Table of Contents

CSG SYSTEMS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS - UNAUDITED

(in thousands, except share and per share amounts)

	September 30, 2009	December 31, 2008 (Note 2)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 121,330	$ 83,886
Short-term investments	35,678	57,331
Total cash, cash equivalents and short-term investments	157,008	141,217
Trade accounts receivable-		
Billed, net of allowance of $2,079 and $2,999	112,324	120,278
Unbilled and other	9,507	9,210
Deferred income taxes	13,109	12,755
Income taxes receivable	4,385	
Other current assets	5,705	4,468
Total current assets	302,038	287,928
Property and equipment, net of depreciation of $84,506 and $80,854	56,731	42,594
Software, net of amortization of $39,171 and $36,385	11,891	9,835
Goodwill	104,803	103,971
Client contracts, net of amortization of $120,076 and $112,675	34,963	34,244
Other assets	5,402	6,199
Total assets	$ 515,828	$ 484,771
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Client deposits	$ 29,971	$ 28,629
Trade accounts payable	24,422	22,943
Accrued employee compensation	25,950	22,997
Deferred revenue	15,600	11,487
Income taxes payable		4,301
Other current liabilities	8,238	12,896
Total current liabilities	104,181	103,253
Non-current liabilities:		
Long-term debt, net of unamortized original issue discount of $14,910 and $24,512	155,390	175,788
Deferred revenue	8,958	9,914
Income taxes payable	5,232	5,132
Deferred income taxes	37,041	20,338
Other non-current liabilities	4,808	5,659
Total non-current liabilities	211,429	216,831
Total liabilities	315,610	320,084

Stockholders equity:		
Preferred stock, par value $.01 per share; 10,000,000 shares authorized; zero shares issued and outstanding		
Common stock, par value $.01 per share; 100,000,000 shares authorized; 35,113,046 and 34,720,191 shares outstanding	636	629
Additional paid-in capital	405,284	400,626
Treasury stock, at cost, 28,456,808 and 28,206,808 shares	(675,623)	(671,841)
Accumulated other comprehensive income (loss):		
Unrealized gain on short-term investments, net of tax	22	241
Unrecognized pension plan losses and prior service costs, net of tax	(919)	(919)
Accumulated earnings	470,818	435,951
Total stockholders equity	200,218	164,687
Total liabilities and stockholders equity	$ 515,828	$ 484,771

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

CSG SYSTEMS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME - UNAUDITED

(in thousands, except per share amounts)

	Quarter Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008 (Note 2)	September 30, 2009	September 30, 2008 (Note 2)
Revenues:				
Processing and related services	$ 116,267	$ 110,582	$ 345,854	$ 324,056
Software, maintenance and services	8,281	7,398	27,076	24,390
Total revenues	124,548	117,980	372,930	348,446
Cost of revenues (exclusive of depreciation, shown separately below):				
Processing and related services	57,881	58,458	175,321	167,482
Software, maintenance and services	6,572	4,448	19,526	14,438
Total cost of revenues	64,453	62,906	194,847	181,920
Other operating expenses:				
Research and development	17,787	16,750	52,496	49,675
Selling, general and administrative	15,084	12,717	43,891	38,386
Data center transition expenses	5,158		9,215	
Depreciation	4,683	4,469	13,824	12,113
Restructuring charges	76	7	184	71
Total operating expenses	107,241	96,849	314,457	282,165
Operating income	17,307	21,131	58,473	66,281
Other income (expense):				
Interest expense	(1,395)	(1,922)	(4,362)	(5,453)
Amortization of original issue discount	(2,017)	(2,515)	(6,325)	(7,396)
Gain on repurchase of convertible debt securities			1,468	
Interest and investment income, net	215	1,193	1,053	3,896
Other, net	(13)	2	(13)	17
Total other	(3,210)	(3,242)	(8,179)	(8,936)
Income before income taxes	14,097	17,889	50,294	57,345
Income tax provision	(4,229)	(5,985)	(16,898)	(20,274)
Income from continuing operations	9,868	11,904	33,396	37,071
Discontinued operations:				
Income from discontinued operations				
Income tax benefit	1,471	323	1,471	323
Discontinued operations, net of tax	1,471	323	1,471	323

Net income	$ 11,339	$ 12,227	$ 34,867	$ 37,394
Basic earnings per common share:				
Income from continuing operations	$ 0.29	$ 0.34	$ 0.97	$ 1.06
Discontinued operations, net of tax	0.04	0.01	0.04	0.01
Net income	$ 0.33	$ 0.35	$ 1.01	$ 1.07
Diluted earnings per common share:				
Income from continuing operations	$ 0.29	$ 0.34	$ 0.97	$ 1.06
Discontinued operations, net of tax	0.04	0.01	0.04	0.01
Net income	$ 0.33	$ 0.35	$ 1.01	$ 1.07
Weighted-average shares outstanding - Basic:				
Common stock	33,287	33,281	33,186	33,191
Participating restricted stock	1,008	1,656	1,143	1,606
Total	34,295	34,937	34,329	34,797
Weighted-average shares outstanding - Diluted:				
Common stock	33,419	33,324	33,269	33,221
Participating restricted stock	1,008	1,656	1,143	1,606
Total	34,427	34,980	34,412	34,827

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

CSG SYSTEMS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(in thousands)

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008 (Note 2)
Cash flows from operating activities:		
Net income	$ 34,867	$ 37,394
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation	14,681	12,113
Amortization	10,463	13,468
Amortization of original issue discount	6,325	7,396
Gain on short-term investments and other	(540)	(368)
Gain on repurchase of convertible debt securities	(1,468)	
Gain on curtailment of pension plan		(601)
Deferred income taxes	17,044	12,429
Excess tax benefit of stock-based compensation awards	(145)	(236)
Stock-based employee compensation	9,473	8,608
Changes in operating assets and liabilities:		
Trade accounts and other receivables, net	8,322	9,649
Other current and non-current assets	(1,824)	706
Income taxes payable/receivable	(10,798)	(941)
Trade accounts payable and accrued liabilities	8,137	637
Deferred revenue	2,911	(4,566)
Net cash provided by operating activities	97,448	95,688
Cash flows from investing activities:		
Purchases of property and equipment	(34,476)	(19,539)
Purchases of short-term investments	(41,966)	(57,315)
Proceeds from sale/maturity of short-term investments	63,800	22,245
Acquisition of businesses, net of cash acquired	(7,391)	(40,267)
Acquisition of and investments in client contracts	(7,244)	(3,277)
Net cash used in investing activities	(27,277)	(98,153)
Cash flows from financing activities:		
Proceeds from issuance of common stock	1,067	875
Repurchase of common stock	(6,503)	(1,738)
Payments on acquired equipment financing	(722)	(341)
Repurchase of convertible debt securities	(26,714)	
Excess tax benefit of stock-based compensation awards	145	236
Net cash used in financing activities	(32,727)	(968)
Net increase (decrease) in cash and cash equivalents	37,444	(3,433)
Cash and cash equivalents, beginning of period	83,886	123,416
Cash and cash equivalents, end of period	$ 121,330	$ 119,983

Supplemental disclosures of cash flow information:		
Net cash paid during the period for-		
Interest	$ 2,547	$ 3,269
Income taxes	9,175	8,404

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

CSG SYSTEMS INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. GENERAL

We have prepared the accompanying unaudited condensed consolidated financial statements as of September 30, 2009 and December 31, 2008, and for the third quarter and nine months ended September 30, 2009 and 2008, in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information, and pursuant to the instructions to Form 10-Q and the rules and regulations of the Securities and Exchange Commission (the SEC). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of our management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of our financial position and operating results have been included. The unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto, together with Management s Discussion and Analysis of Financial Condition and Results of Operations, contained in our Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC. The results of operations for the third quarter and nine months ended September 30, 2009 are not necessarily indicative of the expected results for the entire year ending December 31, 2009.

We have evaluated all subsequent events that have occurred through November 6, 2009, the date of this report, which is concurrent with the date we filed these financial statements in our Form 10-Q with the SEC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in Preparation of Condensed Consolidated Financial Statements. The preparation of the accompanying Condensed Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Accounting Pronouncements Adopted. In June 2009, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Codification (FASB ASC) 105, Generally Accepted Accounting Principles , which establishes the FASB ASC as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, we have updated references to generally accepted accounting principles in our financial statements issued for the period ended September 30, 2009. The adoption of FASB ASC 105 did not impact our financial position or results of operations.

Effective January 1, 2009, we adopted: (i) FASB ASC 470-20, Debt with Conversion and Other Options (formerly FASB Staff Position (FSP) No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) ; and (ii) FASB ASC 260-10, Earnings Per Share (formerly FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities). These new accounting pronouncements were required to be applied retrospectively for all periods presented. As a result, the accompanying Condensed Consolidated Balance Sheet as of December 31, 2008, the Condensed Consolidated Statements of Income for the third quarter of 2008 and the nine months ended September 30, 2008, and the Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2008, have been restated.

The new accounting pronouncement related to our convertible debt securities requires that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement), which would include our Convertible Debt Securities, be separated into their liability and equity components at initial recognition by: (i) recording the liability component at the fair value of a similar liability that does not have an associated equity component; and (ii) attributing the remaining proceeds from the issuance to the equity component. The new pronouncement also requires that the original issue discount (OID) on the liability component of instruments within its scope be amortized using the interest method over the expected life of a similar liability that does not have an associated equity component (considering the effects of prepayment features other than the conversion option).

The new accounting pronouncement related to participating securities provides guidance on the calculation of earnings per share for share-based payment awards with rights to dividends or dividend equivalents. Under the new accounting pronouncement s guidance, unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share (EPS) pursuant to the two-class method. Since the unvested restricted stock awards under our stock incentive plans, granted prior to August 2008, contain nonforfeitable rights to cash dividends, this new accounting pronouncement impacts how we calculate our basic and diluted EPS.

Upon adopting the new accounting pronouncement related to participating securities, basic EPS is computed by dividing net income available to common stockholders and participating securities (the numerators) by the respective weighted average number of shares outstanding during the period (the denominators) using the two-class method. Under the two-class method, undistributed earnings are allocated among each class of common stock and participating security prior to the calculation of EPS. Diluted EPS is calculated similarly, except that the calculation includes the effect of potentially dilutive stock options and non-participating restricted stock awards. As a result of the implementation of the new accounting pronouncement, we have adjusted our EPS data presented on the face of the accompanying Condensed Consolidated Income Statements retroactively to conform with the provisions in the new accounting pronouncement. See Note 4 for a reconciliation of the basic and diluted EPS numerators and denominators.

The adoption of the new accounting pronouncement related to our convertible debt securities had the following cumulative effects on our December 31, 2007 stockholders equity balances: (i) our accumulated earnings balance was reduced by $17.5 million; and (ii) our additional paid-in capital balance was increased by $40.7 million. The new accounting pronouncement related to participating securities impacts the manner in which basic and diluted EPS is calculated and thus did not have a cumulative effect on our accumulated earnings or additional paid-in capital balances. The effect of adopting these new accounting pronouncements on our Condensed Consolidated Financial Statements as of September 30, 2009, for the third quarter of 2009, for the nine months ended September 30, 2009, and for the prior periods which have been retrospectively adjusted, was as follows:

Condensed Consolidated Balance Sheet

As of September 30, 2009

	As Computed Under Prior Accounting	As Reported Under FASB ASC 470-20	Effect of Change
Current assets	$ 302,038	$ 302,038	$
Non-current assets	214,040	213,790	(250)
Total assets	$ 516,078	$ 515,828	$ (250)
Current liabilities	$ 104,181	$ 104,181	$
Non-current liabilities:			
Long-term debt, net of unamortized OID	170,300	155,390	(14,910)
Deferred income taxes	31,122	37,041	5,919
Other non-current liabilities	18,998	18,998	
Total non-current liabilities	220,420	211,429	(8,991)
Total liabilities	324,601	315,610	(8,991)
Stockholders equity:			
Additional paid-in capital	365,532	405,284	39,752
Accumulated earnings	501,829	470,818	(31,011)
Other	(675,884)	(675,884)	
Total stockholders equity	191,477	200,218	8,741

Total liabilities and stockholders equity	$ 516,078	$ 515,828	$ (250)

Table of Contents

Condensed Consolidated Balance Sheet

As of December 31, 2008

	As Originally Reported	As Reported Under FASB ASC 470-20	Effect of Change
Current assets	$ 287,928	$ 287,928	$
Non-current assets	197,286	196,843	(443)
Total assets	$ 485,214	$ 484,771	$ (443)
Current liabilities	$ 103,253	$ 103,253	$
Non-current liabilities:			
Long-term debt, net of unamortized OID	200,300	175,788	(24,512)
Deferred income taxes	11,190	20,338	9,148
Other non-current liabilities	20,705	20,705	
Total non-current liabilities	232,195	216,831	(15,364)
Total liabilities	335,448	320,084	(15,364)
Stockholders equity:			
Additional paid-in capital	359,977	400,626	40,649
Accumulated earnings	461,679	435,951	(25,728)
Other	(671,890)	(671,890)	
Total stockholders equity	149,766	164,687	14,921
Total liabilities and stockholders equity	$ 485,214	$ 484,771	$ (443)

Condensed Consolidated Statement of Income

For the Third Quarter of 2009

	As Computed Under Prior Accounting	As Reported Under FASB ASC 470-20 and FASB ASC 260-10	Effect of Change
Operating income	$ 17,307	$ 17,307	$
Other income (expense):			
Interest expense	(1,439)	(1,395)	44
Amortization of OID		(2,017)	(2,017)
Gain on repurchase of convertible debt securities			
Other	202	202	
	(1,237)	(3,210)	(1,973)

Income from continuing operations before income taxes	16,070	14,097	(1,973)
Income tax provision	(4,821)	(4,229)	592
Income from continuing operations	$ 11,249	$ 9,868	$ (1,381)
Basic earnings per common share	$ 0.34	$ 0.29	$ (0.05)
Diluted earnings per common share	$ 0.34	$ 0.29	$ (0.05)

Condensed Consolidated Statement of Income

For the Third Quarter of 2008

	As Originally Reported	As Reported Under FASB ASC 470-20 and FASB ASC 260-10	Effect of Change
Operating income	$ 21,131	$ 21,131	$
Other income (expense):			
Interest expense	(1,995)	(1,922)	73
Amortization of OID		(2,515)	(2,515)
Other	1,195	1,195	
	(800)	(3,242)	(2,442)
Income from continuing operations before income taxes	20,331	17,889	(2,442)
Income tax provision	(6,913)	(5,985)	928
Income from continuing operations	$ 13,418	$ 11,904	$ (1,514)
Basic earnings per common share	$ 0.40	$ 0.34	$ (0.06)
Diluted earnings per common share	$ 0.40	$ 0.34	$ (0.06)

Table of Contents

Condensed Consolidated Statement of Income

For the Nine Months Ended September 30, 2009

	As Computed Under Prior Accounting	As Reported Under FASB ASC 470-20 and FASB ASC 260-10	Effect of Change
Operating income	$ 58,473	$ 58,473	$
Other income (expense):			
Interest expense	(4,500)	(4,362)	138
Amortization of OID		(6,325)	(6,325)
Gain on repurchase of convertible debt securities	3,237	1,468	(1,769)
Other	1,040	1,040	
	(223)	(8,179)	(7,956)
Income from continuing operations before income taxes	58,250	50,294	(7,956)
Income tax provision	(19,572)	(16,898)	2,674
Income from continuing operations	$ 38,678	$ 33,396	$ (5,282)
Basic earnings per common share	$ 1.17	$ 0.97	$ (0.20)
Diluted earnings per common share	$ 1.16	$ 0.97	$ (0.19)

Condensed Consolidated Statement of Income

For the Nine Months Ended September 30, 2008

	As Originally Reported	As Reported Under FASB ASC 470-20 and FASB ASC 260-10	Effect of Change
Operating income	$ 66,281	$ 66,281	$
Other income (expense):			
Interest expense	(5,677)	(5,453)	224
Amortization of OID		(7,396)	(7,396)
Other	3,913	3,913	
	(1,764)	(8,936)	(7,172)
Income from continuing operations before income taxes	64,517	57,345	(7,172)
Income tax provision	(22,939)	(20,274)	2,665
Income from continuing operations	$ 41,578	$ 37,071	$ (4,507)

Basic earnings per common share	$	1.25	$	1.06	$	(0.19)
Diluted earnings per common share	$	1.24	$	1.06	$	(0.18)

Table of Contents

Condensed Consolidated Statement of Cash Flows

For the Nine Months Ended September 30, 2009

	As Computed Under Prior Accounting	As Reported Under FASB ASC 470-20	Effect of Change
Cash flows from operating activities:			
Net income	$ 40,149	$ 34,867	$ (5,282)
Adjusted to reconcile net income to net cash provided by operating activities:			
Amortization	10,601	10,463	(138)
Amortization of OID		6,325	6,325
Gain on repurchase of convertible debt securities	(3,237)	(1,468)	1,769
Deferred income taxes	19,718	17,044	(2,674)
Other adjustments	23,469	23,469	
Changes in operating assets and liabilities	6,748	6,748	
Net cash provided by operating activities	97,448	97,448	
Cash flows from investing activities	(27,277)	(27,277)	
Cash flows from financing activities	(32,727)	(32,727)	
Net increase in cash and cash equivalents	37,444	37,444	
Cash and cash equivalents, beginning of period	83,886	83,886	
Cash and cash equivalents, end of period	$ 121,330	$ 121,330	$

Condensed Consolidated Statement of Cash Flows

For the Nine Months Ended September 30, 2008

	As Originally Reported	As Reported Under FASB ASC 470-20	Effect of Change
Cash flows from operating activities:			
Net income	$ 41,901	$ 37,394	$ (4,507)
Adjusted to reconcile net income to net cash provided by operating activities:			
Amortization	13,692	13,468	(224)
Amortization of OID		7,396	7,396
Deferred income taxes	15,094	12,429	(2,665)
Other adjustments	19,516	19,516	
Changes in operating assets and liabilities	5,485	5,485	
Net cash provided by operating activities	95,688	95,688	
Cash flows from investing activities	(98,153)	(98,153)	
Cash flows from financing activities	(968)	(968)	
Net increase in cash and cash equivalents	(3,433)	(3,433)	
Cash and cash equivalents, beginning of period	123,416	123,416	
Cash and cash equivalents, end of period	$ 119,983	$ 119,983	$

Accounting Pronouncements Issued But Not Effective. In October 2009, the FASB issued Accounting Standards Update No. 2009-13 (formerly Emerging Issues Task Force (EITF) Issue No. 08-1, Revenue Arrangements with Multiple Deliverables), which was codified into FASB ASC 605, and replaces guidance in the former EITF Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables . This new guidance requires a vendor to allocate revenue to each unit of accounting in many arrangements involving multiple deliverables based upon the relative selling price of each deliverable. It also changes the level of evidence of standalone selling price required to separate deliverables by allowing a vendor to make its best estimate of the standalone selling price of deliverables when more objective evidence of selling price is not available. The guidance also prohibits the use of the residual method of allocating arrangement consideration to deliverables, but instead, requires the use of the relative selling price method where the vendor must determine a standalone selling price for all deliverables that meet the separation criteria. The guidance s scope is limited to multiple element arrangements, and does not apply to deliverables within the scope of the software revenue recognition rules of FASB ASC 985-605 or other authoritative literature that addresses both separation and allocation. The provisions of this new literature are effective for fiscal years beginning on or after June 15, 2010, and can be adopted prospectively to new or materially modified revenue arrangements entered into or materially modified after the effective date or retrospectively for all periods presented. We are currently evaluating when we will adopt this new guidance, as well as the impact that this new guidance will have on our consolidated results of operations and financial condition.

Postage. We pass through to our clients the cost of postage that is incurred on behalf of those clients, and typically require an advance payment on expected postage costs. These advance payments are included in client deposits in the accompanying Condensed Consolidated Balance Sheets and are classified as current liabilities regardless of the contract period. We net the cost of postage against the postage reimbursements, and include the net amount in processing and related services revenues. The cost of postage that has been shown net of the postage reimbursements from our clients for the third quarter of 2009 and 2008 was $66.1 million and $65.0 million, respectively, and for the nine months ended September 30, 2009 and 2008 was $198.4 million and $186.4 million.

Short-term Investments and Other Financial Instruments. Our financial instruments as of September 30, 2009 and December 31, 2008, include cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and long-term debt. Because of their short maturities, the carrying amounts of cash equivalents, accounts receivable, and accounts payable approximate their fair value.

Our short-term investments are considered available-for-sale and are reported at fair value in our accompanying Condensed Consolidated Balance Sheets, with unrealized gains and losses, net of the related income tax effect, excluded from earnings and reported in a separate component of stockholders equity. Realized and unrealized gains and losses were not material in any period presented.

Our short-term investments at September 30, 2009, and December 31, 2008, consisted of the following (in thousands):

	September 30, 2009	December 31, 2008
Commercial paper	$ 26,179	$ 7,794
Agency discount notes	5,999	46,537
Certificates of deposit	3,500	
Fixed rate corporate securities		3,000
Total	$ 35,678	$ 57,331

All short-term investments held by us as of September 30, 2009, have contractual maturities of less than one year from the time of acquisition. Proceeds from the sale/maturity of short-term investments for the nine months ended September 30, 2009 and 2008 were $63.8 million and $22.2 million, respectively.

The following table represents the fair value hierarchy based upon three levels of inputs, of which Levels 1 and 2 are considered observable and Level 3 is unobservable, for our cash equivalents and short-term investments measured at fair value (in thousands):

	Fair Value Measurements September 30, 2009			Fair Value Measurements December 31, 2008		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Money market funds	$ 84,525	$	$ 84,525	$ 40,938	$	$ 40,938
Commercial paper		40,327	40,327		31,383	31,383
Agency discount notes		5,999	5,999		53,737	53,737
Certificates of deposit		3,500	3,500			
Fixed rate corporate securities					3,000	3,000
Total	$ 84,525	$ 49,826	$ 134,351	$ 40,938	$ 88,120	$ 129,058

As of September 30, 2009, our long-term debt consists of our Convertible Debt Securities (see Note 7). We have chosen not to measure our Convertible Debt Securities at fair value, with changes recognized in earnings each reporting period. As of September 30, 2009 and December 31, 2008, the fair value of our Convertible Debt Securities, based upon quoted market prices or recent sales activity, was approximately $165 million and $173 million, respectively. The fair value of the contingent interest feature of our long-term debt, considered an embedded derivative, as of September 30, 2009 and December 31, 2008, was approximately $25,000 and $61,000, respectively.

Table of Contents

3. STOCKHOLDERS EQUITY AND EQUITY COMPENSATION PLANS

Stock Repurchase Program. We currently have a stock repurchase program, approved by our Board of Directors, authorizing us to repurchase our common stock from time-to-time as market and business conditions warrant (the Stock Repurchase Program). We did not repurchase any shares under our Stock Repurchase Program during the quarters ended September 30, 2009 and 2008. During the nine months ended September 30, 2009, we repurchased 250,000 shares of our common stock under the Stock Repurchase Program for $3.8 million (weighted-average price of $15.13 per share). We did not repurchase any shares under our Stock Repurchase Program during the nine months ended September 30, 2008. As of September 30, 2009, the total remaining number of shares available for repurchase under the Stock Repurchase Program totaled 5.7 million shares.

Stock Repurchases for Tax Withholdings. In addition to the above mentioned stock repurchases, a summary of shares repurchased from our employees and then cancelled during the third quarter and nine months ended September 30, 2009 and 2008 in connection with minimum tax withholding requirements resulting from the vesting of restricted stock under our stock incentive plans is as follows (in thousands):

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Shares repurchased	23	22	192	133
Total amount paid	$ 346	$ 377	$ 2,722	$ 1,738

Stock-Based Awards. A summary of our unvested restricted stock activity during the third quarter and nine months ended September 30, 2009, is as follows:

	Quarter Ended September 30, 2009		Nine Months Ended September 30, 2009	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Unvested awards, beginning	1,889,808	$ 16.46	1,614,569	$ 18.17
Awards granted	40,000	15.58	827,661	14.44
Awards forfeited/cancelled	(57,246)	15.62	(85,996)	16.64
Awards vested	(97,720)	22.12	(581,392)	19.23
Unvested awards, ending	1,774,842	$ 16.16	1,774,842	$ 16.16

Included in the awards granted during the nine months ended September 30, 2009, are performance-based awards for 105,000 restricted stock shares issued to members of executive management, which vest in equal installments over three years upon meeting either pre-established financial performance objectives or pre-established stock price objectives. The performance-based awards become fully vested upon a change in control, as defined, and the subsequent involuntary termination of employment.

All other restricted stock shares granted during the nine months ended September 30, 2009, are time-based awards, which generally vest annually over four years with no restrictions other than the passage of time. Certain shares of the restricted stock become fully vested upon a change in control, as defined, and the subsequent involuntary termination of employment.

We recorded stock-based compensation expense for the third quarter of 2009 and 2008 of $3.2 million and $3.0 million, respectively, and for the nine months ended September 30, 2009 and 2008 of $9.5 million and $8.6 million, respectively.

Table of Contents

4. EARNINGS PER COMMON SHARE

Basic and diluted EPS amounts are presented on the face of the accompanying Condensed Consolidated Statements of Income. The amounts attributed to both common stock and participating restricted stock used as the numerators in both the basic and diluted EPS calculations are as follows (in thousands):

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Income from continuing operations attributed to:				
Common stock	$ 9,578	$ 11,340	$ 32,284	$ 35,360
Participating restricted stock	290	564	1,112	1,711
Total	$ 9,868	$ 11,904	$ 33,396	$ 37,071
Discontinued operations, net of tax, attributed to:				
Common stock	$ 1,428	$ 308	$ 1,422	$ 308
Participating restricted stock	43	15	49	15
Total	$ 1,471	$ 323	$ 1,471	$ 323
Net income attributed to:				
Common stock	$ 11,006	$ 11,648	$ 33,706	$ 35,668
Participating restricted stock	333	579	1,161	1,726
Total	$ 11,339	$ 12,227	$ 34,867	$ 37,394

The weighted-average shares outstanding used in the basic and diluted EPS denominators related to common stock and participating restricted stock are as follows (in thousands):

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Weighted-average shares outstanding - Basic:				
Common stock	33,287	33,281	33,186	33,191
Participating restricted stock	1,008	1,656	1,143	1,606
Total	34,295	34,937	34,329	34,797
Weighted-average shares outstanding - Diluted:				
Common stock	33,419	33,324	33,269	33,221
Participating restricted stock	1,008	1,656	1,143	1,606
Total	34,427	34,980	34,412	34,827

The reconciliation of the basic and diluted EPS denominators related to the common shares is included in the following table (in thousands):

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Basic weighted-average common shares	33,287	33,281	33,186	33,191
Dilutive effect of common stock options	24	43	26	30
Dilutive effect of non-participating restricted stock	108		57	
Dilutive effect of Convertible Debt Securities				
Diluted weighted-average common shares	33,419	33,324	33,269	33,221

Potentially dilutive common shares related to stock options and non-participating unvested shares of restricted stock of 0.2 million for the third quarters of 2009 and 2008, respectively, and 0.2 million and 0.3 million for the nine months ended September 30, 2009 and 2008, respectively, were excluded from the computation of diluted EPS related to common shares as their effect was antidilutive.

Upon conversion, we will settle the $170.3 million principal amount of our Convertible Debt Securities in cash, and have the option to settle our conversion obligation, to the extent it exceeds the principal amount, in our common stock, cash or any combination of our common stock and cash. As a result, the Convertible Debt Securities have a

Table of Contents

dilutive effect only in those quarterly periods in which our average stock price exceeds the current effective conversion price of $26.77 per share. The current effective conversion price of $26.77 per share may be adjusted in the future for certain events, to include stock dividends, stock splits/reverse splits, the issuance of warrants to purchase our stock at a price below the then-current market price, cash dividends, and certain purchases by us of our common stock pursuant to a self-tender offer or exchange offer.

5. COMPREHENSIVE INCOME

The components of our comprehensive income were as follows (in thousands):

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net income	$ 11,339	$ 12,227	$ 34,867	$ 37,394
Other comprehensive income (loss), net of tax, if any:				
Change in unrecognized pension plan losses and prior service costs, net of tax		435		435
Unrealized loss on short-term investments	(26)	(72)	(219)	(88)
Comprehensive income	$ 11,313	$ 12,590	$ 34,648	$ 37,741

6. PRIOR YEAR ACQUISITIONS

Quaero Corporation. On December 31, 2008, we acquired Quaero Corporation (Quaero). Through September 30, 2009, we have made cash purchase price payments related to the Quaero acquisition of $15.1 million, with $2.8 million of this amount being paid in the first nine months of 2009. In addition to these cash purchase price payments, the Quaero merger agreement, as amended, includes provisions for contingent purchase price payments of up to $2.5 million through the end of 2010, contingent upon meeting various product integration milestones. As of September 30, 2009, the contingent purchase price payments have not been reflected in the Quaero purchase price due to the uncertainty of payment. The contingent payments will be recorded as additional purchase price if and when the events associated with the contingencies are resolved or the outcome of the contingencies are determinable beyond a reasonable doubt.

The application of the purchase method of accounting for business combinations requires the use of significant estimates and assumptions in the determination of the fair value of assets acquired and liabilities assumed. The following table summarizes the estimated fair values (in thousands) of the assets acquired and liabilities assumed in the acquisition of Quaero, and the estimated lives of the Quaero acquired intangible assets. Amortization expense related to these acquired intangible assets is recognized based upon the pattern in which the economic benefits of the acquired intangible assets are expected to be received.

	Amount	Weighted-Average Estimated Lives (years)
Current assets (includes cash and cash equivalents of zero)	$ 3,180	
Fixed assets	873	
Acquired customer relationships	2,600	15
Acquired other intangible assets	800	2 to 5
Goodwill	8,950	
Other non-current assets	69	
Total assets acquired	16,472	
Current liabilities	(1,387)	

Net assets acquired	$ 15,085

The Quaero goodwill amount represents the excess of the cost of the acquired entity over the net amount assigned to assets acquired and liabilities assumed, and has been assigned to a separate reporting unit within our reportable segment. The Quaero goodwill and acquired intangible assets are deductible for income tax purposes.

The results of Quaero s operations are included in our accompanying Condensed Consolidated Statements of Income for the period subsequent to the acquisition date.

We are in the process of obtaining certain information that we believe is necessary to finalize the working capital adjustment provision in the Quaero merger agreement, and thus the Quaero purchase accounting. As of September 30, 2009, we are not expecting the working capital adjustment for Quaero to be material and are not expecting significant changes to our preliminary Quaero purchase price allocation.

Prairie Interactive Messaging, Inc. In 2007, we acquired Prairie Voice Services, Inc., which we subsequently renamed CSG Interactive Messaging, Inc., for a total cash purchase price of $47.7 million to date. As of September 30, 2009, there remains approximately $3 million of contingent purchase price that is eligible for payment upon the achievement of certain operating criteria in 2009. This contingent purchase price has not been recorded as contingent purchase price payment as of September 30, 2009 because of the uncertainty of payment at that time, and will be recorded as additional purchase price if and when the events associated with the remaining contingencies are resolved or the outcomes of the contingencies are determinable beyond a reasonable doubt.

7. DEBT

Convertible Debt Securities. The Convertible Debt Securities are convertible into our common stock, under the specified conditions and settlement terms outlined below, at an initial conversion rate of 37.3552 shares per $1,000 par value of Convertible Debt Securities, which is equal to an effective conversion price of $26.77 per share. The Bond Indenture includes anti-dilution provisions for the holders such that the conversion rate (and thus, the effective conversion price) can be adjusted in the future for certain events, to include stock dividends, stock splits/reverse splits, the issuance of warrants to purchase our stock at a price below the then-current market price, cash dividends, and certain purchases by us of our common stock pursuant to a self-tender offer or exchange offer.

Holders of the Convertible Debt Securities can convert their securities: (i) at any time the price of our common stock trades over $34.80 per share (130% of the $26.77 effective conversion price) for a specified period of time; (ii) at any time the trading price of the Convertible Debt Securities fall below 98% of the average conversion value for the Convertible Debt Securities for a specified period of time; (iii) upon us exercising our right to redeem the Convertible Debt Securities at any time after June 20, 2011; (iv) at any time upon the occurrence of specified corporate transactions, to include a change in control (as defined in the Bond Indenture); and (v) if a certain level of dividends are declared, or a certain number of shares of our common stock are repurchased under a self-tender offer by us. As of September 30, 2009, none of the contingent conversion features have been achieved, and thus, the Convertible Debt Securities are not convertible by the holders.

Upon conversion of the Convertible Debt Securities, we will settle our conversion obligation as follows: (i) we will pay cash for 100% of the $170.3 million par value of the Convertible Debt Securities; and (ii) to the extent our conversion obligation exceeds the par value, we will satisfy the remaining conversion obligation in our common stock, cash or any combination of our common stock and cash. As of September 30, 2009, our conversion obligation did not exceed the par value of the Convertible Debt Securities.

We did not repurchase any of our Convertible Debt Securities during the quarter ended September 30, 2009. During the nine months ended September 30, 2009, we repurchased $30.0 million (par value) of our Convertible Debt Securities for $26.7 million in the open public market, and recognized a gain on the repurchase of $1.5 million, after the write-off of a proportional amount of deferred financing costs. This debt has been considered extinguished for accounting purposes.

As discussed in Note 2, effective January 1, 2009, we adopted the provisions of FASB ASC 470-20. FASB ASC 470-20 required us to refer back to the original issuance of our Convertible Debt Securities in June 2004 and record a $67.6 million OID, which was the amount of the total proceeds of $230 million that was attributable to the

Table of Contents

convertible equity component of the Convertible Debt Securities. A corresponding amount assigned to the OID was recorded to stockholders equity (additional paid-in capital), net of deferred financing costs attributed to the equity component and net of income taxes. The OID is being amortized to book interest expense through June 15, 2011, which is the first date that the Convertible Debt Securities can be put back to us by the holders for cash. As of September 30, 2009 and December 31, 2008, after the retrospective application of the new accounting principle, the liability and equity components of the Convertible Debt Securities were as follows:

	September 30, 2009	December 31, 2008
Liability component:		
Principal amount	$ 170,300	$ 200,300
Unamortized OID	(14,910)	(24,512)
Net carrying amount	$ 155,390	$ 175,788
Equity component (included within additional paid-in capital)	$ 39,752	$ 40,649

The effective interest rate of the liability component for all periods presented is 8.0%, and the amount of interest expense recognized for the Convertible Debt Securities is as follows (in thousands):

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Coupon interest (at 2.5%)	$ 1,064	$ 1,438	$ 3,392	$ 4,313
Amortization of OID	2,017	2,515	6,325	7,396
Total	$ 3,081	$ 3,953	$ 9,717	$ 11,709

2004 Revolving Credit Facility. Our five-year, $100 million senior secured revolving credit facility with a syndicate of U.S. financial institutions expired in September 2009. We are currently evaluating our options for a new revolving credit facility.

8. LONG-LIVED ASSETS

Goodwill. The changes in the carrying amount of goodwill for the nine months ended September 30, 2009 were as follows (in thousands):

January 1, 2009, balance	$ 103,971
Adjustments related to prior acquisitions	832
September 30, 2009, balance	$ 104,803

Other Intangible Assets. Our intangible assets subject to ongoing amortization consist primarily of client contracts and software. As of September 30, 2009 and December 31, 2008, the carrying values of these assets were as follows (in thousands):

	September 30, 2009			December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount

Client contracts	$ 155,039	$	(120,076)	$ 34,963	$ 146,919	$	(112,675)	$ 34,244
Software	51,062		(39,171)	11,891	46,220		(36,385)	9,835
Total	$ 206,101	$	(159,247)	$ 46,854	$ 193,139	$	(149,060)	$ 44,079

Table of Contents

The total amortization expense related to intangible assets for the third quarter of 2009 and 2008 was $3.2 million and $2.8 million, respectively, and for the nine months ended September 30, 2009 and 2008, was $9.9 million and $12.8 million, respectively. Based on the September 30, 2009 net carrying value of our intangible assets, the estimated total amortization expense for each of the five succeeding fiscal years ending December 31 are: 2009 $13.7 million; 2010 $13.9 million; 2011 $12.2 million; 2012 $9.1 million; and 2013 $3.8 million.

9. COMMITMENTS, GUARANTEES AND CONTINGENCIES

Warranties. We generally warrant that our solutions and related offerings will conform to published specifications, or to specifications provided in an individual client arrangement, as applicable. The typical warranty period is 90 days from delivery of the solution or offering. For certain service offerings we provide a limited warranty for the duration of the services provided. We generally warrant that services will be performed in a professional and workmanlike manner. The typical remedy for breach of warranty is to correct or replace any defective deliverable, and if not possible or practical, we will accept the return of the defective deliverable and refund the amount paid under the client arrangement that is allocable to the defective deliverable. Our contracts also generally contain limitation of damages provisions in an effort to reduce our exposure to monetary damages arising from breach of warranty claims. Historically, we have incurred minimal warranty costs, and as a result, do not maintain a warranty reserve.

Product and Services Indemnifications. Our arrangements with our clients generally include an indemnification provision that will indemnify and defend a client in actions brought against the client that claim our solutions infringe upon a copyright, trade secret, or valid patent. Historically, we have not incurred any significant costs related to such indemnification claims, and as a result, do not maintain a reserve for such exposure.

Claims for Company Non-performance. Our arrangements with our clients typically cap our liability for breach to a specified amount of the direct damages incurred by the client resulting from the breach. From time-to-time, these arrangements may also include provisions for possible liquidated damages or other financial remedies for our non-performance, or in the case of certain of our outsourced customer care and billing solutions, provisions for damages related to service level performance requirements. The service level performance requirements typically relate to system availability and timeliness of service delivery. As of September 30, 2009, we believe we have adequate reserves, based on our historical experience, to cover any reasonably anticipated exposure as a result of our nonperformance for any past or current arrangements with our clients. The amount of the reserve maintained for this purpose is not material.

Indemnifications Related to Sold Businesses. In conjunction with the sale of the GSS business in December 2005, we provided certain indemnifications to the buyer of this business which are considered routine in nature (such as employee, tax, or litigation matters that occurred while these businesses were under our ownership). Under the provisions of this indemnification agreement, payment by us is conditioned on the other party making a claim pursuant to the procedures in the indemnification agreement, and we are typically allowed to challenge the other party s claims. In addition, certain of our obligations under this indemnification agreement are limited in terms of time and/or amounts, and in some cases, we may have recourse against a third party if we are required to make certain indemnification payments.

We estimated the fair value of these indemnifications at $2.8 million as of the closing date for the sale of the GSS business. Since the sale of the GSS business, we have made an indemnification payment of $0.1 million, and as of September 30, 2009, the indemnification liability was $2.3 million and related principally to indemnifications related to income tax matters. It is not possible to predict the maximum potential amount of future payments we may be required to make under this indemnification agreement due to the conditional nature of our obligations and the unique facts and circumstances associated with each indemnification provision. We believe that if we were required to make payments in excess of the indemnification liability we have recorded, the resulting loss would not have a material effect on our financial condition or results of operations. If any amounts required to be paid by us would differ from the amounts initially recorded as indemnification liabilities as of the closing dates for the sale of the GSS business, the difference would be reflected in the discontinued operations section of our Consolidated Statements of Income.

Table of Contents

Indemnifications Related to Officers and the Board of Directors. We have agreed to indemnify certain of our officers and members of our Board of Directors if they are named or threatened to be named as a party to any proceeding by reason of the fact that they acted in such capacity. We maintain directors and officers (D&O) insurance coverage to protect against such losses. We have not historically incurred any losses related to these types of indemnifications, and are not aware of any pending or threatened actions or claims against any officer or member of our Board of Directors. As a result, we have not recorded any liabilities related to such indemnifications as of September 30, 2009. In addition, as a result of the insurance policy coverage, we believe these indemnification agreements are not significant to our results of operations.

Legal Proceedings. From time-to-time, we are involved in litigation relating to claims arising out of our operations in the normal course of business. We are not presently a party to any material pending or threatened legal proceedings.

Table of Contents

Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The information contained in this Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the Condensed Consolidated Financial Statements and Notes thereto (our Financial Statements) included in this Form 10-Q and the audited consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2008 (our 2008 10-K).

Forward-Looking Statements

This report contains a number of forward-looking statements relative to our future plans and our expectations concerning our business and the industries we serve. These forward-looking statements are based on assumptions about a number of important factors, and involve risks and uncertainties that could cause actual results to differ materially from estimates contained in the forward-looking statements. Some of the risks that are foreseen by management are outlined within Part II Item 1A., Risk Factors . Item 1A. constitutes an integral part of this report, and readers are strongly encouraged to review this section closely in conjunction with MD&A.

Restatement of Prior Year Financial Statements Due to the Adoption of New Accounting Pronouncements

Effective January 1, 2009, we adopted two new accounting pronouncements: (i) Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 470-20, Debt with Conversion and Other Options (formerly FASB Staff Position (FSP) No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) ; and (ii) FASB ASC 260-10, Earnings Per Share (formerly FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities). FASB ASC 470-20 changed the manner in which we account for our Convertible Debt Securities. As a result, we have recorded additional non-cash interest expense in the third quarter and nine months ended September 30, 2009, of $2.0 million and $6.3 million, respectively. FASB ASC 260-10 changed the manner in which we treat share-based payment awards with rights to dividends or dividend equivalents in our calculation of basic and diluted EPS.

Both accounting pronouncements were required to be adopted retrospectively. As a result, we have restated our Condensed Consolidated Balance Sheet as of December 31, 2008, our Condensed Consolidated Statements of Income for the quarter and nine months ended September 30, 2008, and our Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2008, which includes additional non-cash interest expense of $2.5 million for the quarter and $7.4 million for the nine months ended September 30, 2008, as a result of the adoption of FASB ASC 470-20.

See Note 2 to our Financial Statements for further discussion of our adoption of FASB ASC 470-20 and FASB ASC 260-10.

Management Overview of Quarterly Results

Our Company. We are a leading provider of software- and services-based customer interaction management solutions that help our clients build commerce by better engaging and transacting with their customers. Our solutions enable our clients to build new offerings, to engage customers on those offerings, and to deliver them through effective and profitable customer transactions. Our clients maximize the value and minimize the costs associated with their customer interactions by using our solutions to conduct key business processes such as targeting prospective customers, rolling out and offering new solutions quickly, efficiently managing order processing, streamlining operations, managing field workforces, improving customer satisfaction, integrating actionable customer intelligence, developing marketing strategies, printing and mailing monthly statements, and electronically transacting with customers. Our solutions provide clients with favorable results through improved operating efficiencies, decreased churn rates, accelerated marketing effectiveness, lower overall costs, and increased profitability.

Our proven technology is based on more than 25 years of expertise in serving clients in several complex and highly competitive industries. These clients typically handle a high volume of recurring transactions and complex customer relationships through a growing set of touch points, ranging from call centers, on-line Internet access, emails, text messages, interactive messaging, service technicians, and monthly statements. Our solutions and services are at work behind the scenes of systems that support customer interactions of some of the largest and most innovative service providers in North America. Our heritage is in providing outsourced customer interaction management solutions to the cable and direct broadcast satellite (DBS) companies, which represent approximately 87% of both our third quarter 2009 and 2008 revenues. Building upon those years of experience, we have broadened and enhanced our solutions to now serve an increasing number of other industries such as financial services, utilities, telecommunications, healthcare, and home security.

Our solutions are delivered and supported by an experienced and dedicated workforce of more than 2,000 employees. We are a S&P SmallCap 600 company.

Market Concentration. The North American communications industry has experienced significant consolidation over the last few years, resulting in a large percentage of the market being served by a fewer number of service providers with greater size and scale. Consistent with this market concentration, a large percentage of our revenues are generated from a limited number of clients, with approximately two-thirds of our revenues being generated from our four largest clients, which are Comcast Corporation (Comcast), DISH Network Corporation (DISH), Time Warner Cable Inc. (Time Warner), and Charter Communications (Charter).

General Market Conditions. Over the past year, the U.S. has experienced a significant economic downturn and difficulties within the financial and credit markets. The timing, duration, and degree of an economic turnaround are uncertain and thus, these adverse economic conditions may continue into the foreseeable future. Possible adverse impacts to companies during these times include a reduction in revenues, decreasing profits and cash flows, distressed or default debt conditions, and/or difficulties in obtaining necessary operating capital.

All companies are likely to be impacted by the current economic conditions to some degree, including CSG, our clients, and/or key vendors in our supply chain. Some possible near-term negative consequences of the current economic environment to our business include tightening of client spending and/or extended sales cycles which could materially lower our revenues related to our clients discretionary spending for such things as special project work, marketing activities, new product sales, and software and professional services projects.

We believe that our recurring revenue and predictable cash flow, our sufficient sources of liquidity, and our stable capital structure lessen the risk of a significant negative impact to our business as a result of the current economic conditions. Also, our business model has certain economic advantages to our clients since it generally requires a lower initial capital investment, thus, allowing clients to utilize our advanced, integrated product offerings on a pay-as-you-grow basis. Additionally, we believe our key clients have business models that have historically performed well, as compared to other industries, in down economic conditions. However, there can be no assurances regarding the performance of our business, and the potential impact to our clients and key vendors, resulting from the current economic conditions.

Third Quarter Highlights. A summary of our results of operations and other key performance metrics for the third quarter of 2009 is as follows:

- Our revenues for the third quarter of 2009 were $124.5 million, up 5.6% when compared to $118.0 million for the same period in 2008. Of this increase, nearly three-fourths can be attributed to organic sources, resulting primarily from increasing the penetration of our products and services within our existing client base, with the remaining portion related to the year-over-year impact of the Quaero Corporation (Quaero) acquisition on December 31, 2008.

- Our operating expenses for the third quarter of 2009 were $107.2 million, up 10.7% when compared to $96.8 million for the same period in 2008.

  - Of this increase, approximately one-half can be attributed to our data center transition efforts. During the third quarter of 2009, we incurred $5.2 million of expense related to our efforts to transition our data center services from First Data Corporation (FDC) to Infocrossing LLC (Infocrossing), a Wipro Limited company (Data Center Transition Expenses), which are discussed in further detail below.

Table of Contents

Approximately one-third of the increase in operating expenses can be attributed to the year-over-year impact of the Quaero business.

Operating income for the third quarter of 2009 was $17.3 million (13.9% operating margin percentage), compared to $21.1 million (17.9% operating margin percentage) for the same period in 2008. The decrease in operating income margin between years can be attributed to the impact of the Data Center Transition Expenses, which had a negative impact of 4.1% on our operating margin percentage.

Operating income for the third quarter of 2009 includes non-cash charges related to depreciation, amortization of intangible assets, and stock-based compensation expense totaling $11.9 million (pretax impact), or $0.24 per diluted share impact, as compared to non-cash charges for the third quarter of 2008 of $10.3 million (pretax impact), or $0.20 per diluted share.

Our diluted earnings per common share from continuing operations for the third quarter of 2009 was $0.29 per diluted share. This compares to $0.34 per diluted share for the third quarter of 2008, with the year-over-year decrease reflective of the lower operating income discussed above.

We continue to generate strong cash flows from operations. As of September 30, 2009, we had cash, cash equivalents, and short-term investments of $157.0 million, as compared to $132.9 million as of June 30, 2009 and $141.2 million as of December 31, 2008. Cash flows from operating activities for the third quarter of 2009 were $37.9 million, compared to $27.6 million for the third quarter of 2008, and $43.6 for the second quarter of 2009. See the Liquidity section below for further discussion.

During the quarter, we converted approximately 500,000 new customer accounts onto our systems, bringing the total number of customer accounts processed as of September 30, 2009, to 46.1 million.

Significant Client Relationships

Client Concentration. Approximately two-thirds of our total revenues are generated from our four largest clients, which include Comcast, DISH, Time Warner, and Charter. Revenues from these clients represented the following percentages of our total revenues for the indicated periods:

	Quarter Ended		
	September 30, 2009	**June 30, 2009**	**September 30, 2008**
Comcast	25%	24%	26%
DISH	18%	19%	18%
Time Warner	13%	13%	14%
Charter	9%	9%	8%

The percentages of net billed accounts receivable balances attributable to our largest clients for the indicated periods were as follows:

	As of		
	September 30, 2009	**December 31, 2008**	**September 30, 2008**
Comcast	29%	30%	30%
DISH	19%	17%	20%
Time Warner	11%	14%	11%
Charter	10%	10%	10%

In the near term, we expect to continue to generate a large percentage of our total revenues from our four largest clients mentioned above. There are inherent risks whenever a large percentage of total revenues are concentrated with a limited number of clients. One such risk is that, should a significant client: (i) terminate or fail to renew its contract with us, in whole or in part, for any reason; (ii) significantly reduce the number of customer accounts processed on our solutions, the price paid for our services, or the scope of services that we provide; or (iii) experience significant financial or operating difficulties, it could have a material adverse effect on our financial condition and results of operations (including possible impairment or significant acceleration of the amortization of intangible assets).

DISH. Our processing agreement with DISH runs through December 31, 2009. We are currently engaged in discussions with DISH regarding contract renewal options. While there can be no assurances that we will enter into a renewal agreement with DISH, the complex nature of customer care and billing services are such that we believe our on-going service and support of DISH will continue beyond the end of 2009. The DISH processing agreement and related material amendments are included in the exhibits to our periodic filings with the SEC.

Charter. On February 17, 2009, we entered into a new processing agreement with Charter to expand the use of our solutions supporting Charter s national video, high-speed data, and telephony footprint through December 31, 2014. Our previous contract with Charter went through December 31, 2012. The new processing agreement contains minimum financial commitments over the life of the agreement. Prior to this new agreement, we provided print and mail solutions to 100% of Charter s residential customers and customer interaction management solutions to approximately 60% of Charter s residential customers. Under the new processing agreement, Charter plans to convert its remaining residential customers to our customer interaction management solutions. We began converting these remaining residential customer accounts to our Advanced Convergent Platform (ACP) during the third quarter of 2009.

On March 27, 2009, Charter filed its pre-arranged bankruptcy and restructuring plan (the Plan) with the U.S. Bankruptcy Court. Subsequently, the U.S. Bankruptcy Court approved Charter s request, subject to certain terms and conditions, to pay trade creditors, including us, in full for pre- and post-petition invoices payable in the ordinary course of business. On October 15, 2009, the U.S. Bankruptcy Court announced that it would confirm the Plan and issue a confirmation order within the next several weeks. Charter has stated that it expects to emerge from Chapter 11 shortly thereafter.

At this time, Charter has paid all of our pre-bankruptcy receivables, and remains current on their post-bankruptcy receivables. In addition, Charter has publically indicated that it has sufficient liquidity to continue to operate its business without disruption. Based on this information, we have determined that no reserves are necessary at this time related to: (i) our outstanding Charter receivables; or (ii) possible claims of preferential payments.

Going forward, we are positioned to be a key partner in helping Charter achieve its operational goals under the terms of our agreement. However, as discussed in Part II Section 1A. Risk Factors below, companies involved in bankruptcy proceedings pose greater financial risks to us, and therefore, there can be no assurances as to the outcome of any bankruptcy case until the terms are finalized by the U.S. Bankruptcy Court.

Data Center Transition

We currently utilize FDC to provide the data center computing environment for the delivery of most of our customer care and billing services and related solutions under a contract that runs through June 30, 2010. FDC has provided these data center services to us since the inception of our company in 1994. In December 2008, we entered into an agreement with Infocrossing to transition these outsourced data center services from FDC to Infocrossing prior to the expiration of the FDC contract term. The term of the Infocrossing agreement is five years beginning on the date of full conversion of our computing environment from FDC to Infocrossing.

We began our transition efforts to the new Infocrossing data center in the first quarter of 2009, and expect to complete the transition project in the first half of 2010. We are tracking the costs attributable to our decision to change data center service providers in the Data Center Transition Expenses line item in our Condensed Consolidated Statement of Income. We consider these costs to be unique and infrequent in nature. These costs relate primarily to our efforts to setup, replicate, transition, and operate the computing environment at Infocrossing, while maintaining and operating the computing environment at the FDC data center. The network and computing

Table of Contents

environment will be transitioned from FDC to Infocrossing in various planned stages over the project period, requiring us to incur certain costs to operate two separate data centers. This staged and replicated data center approach was designed to mitigate the risk of disruption to our clients during the transition period, but does result in certain cost inefficiencies during the transition period due to such things as redundant data processing costs, accelerated and redundant hardware- and software-related purchases, and costs incurred to maintain communications and data integrity between the two data center locations.

During the third quarter and nine months ended September 30, 2009, we incurred $5.2 million and $9.2 million, respectively, of Data Center Transition Expenses, or approximately $0.10, and $0.18 per diluted share negative impact, respectively. These costs include such things as the following: (i) equipment- and software-related costs (to include depreciation expense of $0.9 million); (ii) data communications and data processing costs; and (iii) labor and third-party consulting fees for the transition team. Additionally, during the nine months ended September 30, 2009, we spent approximately $14 million on capital expenditures related to network and computer equipment needed to set up and replicate the computing environment at the new Infocrossing data center location.

For the full year 2009, we estimate that the Data Center Transition Expenses will be approximately $15 million to $16 million, or approximately $0.30 per diluted share negative impact, and are expected to have a negative impact of approximately $8 million on our 2009 cash flows from operations. Additionally, we expect our 2009 capital expenditures related to the data center transition to be approximately $20 million. These amounts are based on the best available estimates at this time and may fluctuate up or down as we continue to execute on our transition plan.

The Infocrossing agreement is included in the exhibits to our periodic filings with the SEC.

Stock-Based Compensation Expense

Stock-based compensation expense is included in the following captions in the accompanying Condensed Consolidated Statements of Income (in thousands):

	Quarter Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Cost of processing and related services	$ 917	$ 897	$ 2,748	$ 2,572
Cost of software, maintenance and services	233	136	675	464
Research and development	415	436	1,242	1,222
Selling, general and administrative	1,670	1,571	4,808	4,350
Total stock-based compensation expense	$ 3,235	$ 3,040	$ 9,473	$ 8,608

Critical Accounting Policies

The preparation of our Financial Statements in conformity with accounting principles generally accepted in the U.S. requires us to select appropriate accounting policies, and to make judgments and estimates affecting the application of those accounting policies. In applying our accounting policies, different business conditions or the use of different assumptions may result in materially different amounts reported in our Financial Statements.

We have identified the most critical accounting policies that affect our financial condition and the results of our operations. Those critical accounting policies were determined by considering the accounting policies that involve the most complex or subjective decisions or assessments. The most critical accounting policies identified relate to: (i) revenue recognition; (ii) allowance for doubtful accounts receivable; (iii) impairment assessments of goodwill and other long-lived assets; (iv) income taxes; and (v) business combinations and asset purchases. These critical accounting policies, as well as our other significant accounting policies, are discussed in greater detail in our 2008 10-K.

Table of Contents

Results of Operations

Total Revenues. Total revenues for the: (i) third quarter of 2009 increased 5.6% to $124.5 million, from $118.0 million for the third quarter of 2008; and (ii) nine months ended September 30, 2009 increased 7.0% to $372.9 million, from $348.4 million for the nine months ended September 30, 2008.

Approximately three-fourths of the third quarter increase in revenues can be attributed to organic growth factors, with the remaining portion attributed to the timing of the Quaero acquisition.

Approximately 40% of the year-to-date increase in revenues can be attributed to organic growth factors, with the remaining portion attributed to the year-over-year impact of the timing of our 2008 acquisitions: DataProse, Inc. (DataProse) on April 30, 2008 and Quaero (collectively, the Acquired Businesses).

The components of total revenues are discussed in more detail below.

Processing and related services revenues. Processing and related services revenues for the: (i) third quarter of 2009 increased 5.1% to $116.3 million, from $110.6 million for the third quarter of 2008; and (ii) nine months ended September 30, 2009 increased 6.7% to $345.9 million, from $324.1 million for the nine months ended September 30, 2008.

The quarterly increase in processing and related services revenues can be almost entirely attributed to organic growth resulting from: (i) increased utilization of new and existing products by our clients, to include such things as color print and various ancillary customer care solutions, and (ii) conversions of customer accounts onto our solutions.

Approximately one-half of the year-to-date increase in processing and related services revenues between periods relates to the year-over-year impact of the Acquired Businesses, with the remaining portion attributed to organic growth.

Additional information related to processing and related services revenues is as follows:

Amortization of our client contracts intangible assets (reflected as a reduction of processing and related services revenues) for the: (i) third quarter of 2009 and 2008 was $1.0 million; and (ii) nine months ended September 30, 2009 and 2008 was $3.0 million and $8.2 million, respectively. The decrease in amortization expense between periods is due to the change in the useful life of the Comcast client contract intangible asset as a result of the extension of the contractual arrangement with Comcast, effective July 1, 2008.

Total customer accounts processed on our solutions as of September 30, 2009, were 46.1 million, compared to 45.4 million as of September 30, 2008 and June 30, 2009. During the third quarter of 2009, we converted 0.5 million customer accounts onto our solutions. Additionally, we converted 0.7 million customer accounts subsequent to September 30, 2009, and we expect to convert approximately 2 million additional customer accounts onto our solutions through the first half of 2010 as a result of the new Charter agreement, discussed above, and other various clients deciding to consolidate their business operations onto our solutions.

Software, Maintenance and Services Revenues. Software, maintenance and services revenues for the: (i) third quarter of 2009 increased 11.9% to $8.3 million, from $7.4 million for the third quarter of 2008; and (ii) nine months ended September 30, 2009 increased 11.0% to $27.1 million, from $24.4 million for the nine months ended September 30, 2008.

The quarterly increase in software, maintenance and services revenues can be attributed to the revenues generated from the Quaero business (as a portion of Quaero s revenues fall within the professional services revenues classification).

The increase between the nine months ended September 30, 2009 and September 30, 2008 is due to the additional revenues generated in 2009 from the Quaero acquisition. This increase is partially offset by lower professional services in other areas of our business, as a result of the timing and type of work our professional services team have been engaged in (e.g., set-up/implementation efforts which require the fees be deferred upfront and recognized over the life of the services agreement).

Cost of Revenues. See our 2008 10-K for a description of the types of costs that are included in the individual line items for cost of revenues.

Cost of Processing and Related Services. The cost of processing and related services for the: (i) third quarter of 2009 decreased 1.0% to $57.9 million, from $58.5 million for the third quarter of 2008; and (ii) nine months ended September 30, 2009 increased 4.7% to $175.3 million, from $167.5 million for the nine months ended September 30, 2008. The year-to-date increase in cost of processing and related services can be attributed to the impact of the Acquired Businesses (as all of DataProse costs of revenues and a portion of Quaero s cost of revenues fall within this expense classification).

Total processing and related services cost of revenues as a percentage of our processing and related services revenues for the: (i) third quarter of 2009 and 2008 was 49.8% and 52.9%, respectively; and (ii) nine months ended September 30, 2009 was 50.7% and 51.7%, respectively. The decreases in processing related services cost of revenues as a percentage of our processing and related services revenues is attributed to the change in mix of these revenues and expenses between periods.

Cost of Software, Maintenance and Services. The cost of software, maintenance and services for the: (i) third quarter of 2009 increased 47.8% to $6.6 million, from $4.4 million for the third quarter of 2008; and (ii) nine months ended September 30, 2009 increased 35.2% to $19.5 million, from $14.4 million for the nine months ended September 30, 2008. These increases are almost entirely attributed to increases in employee-related costs as a result of the Quaero acquisition.

Total cost of software, maintenance and services as a percentage of our software, maintenance and services revenues for the: (i) third quarter of 2009 and 2008 was 79.4% and 60.1%, respectively; and (ii) nine months ended September 30, 2009 was 72.1% and 59.2%, respectively. Variability in quarterly revenues and operating results are inherent characteristics of companies that sell software licenses, and perform professional services. Our quarterly revenues for software licenses and professional services may fluctuate, depending on various factors, including the timing of executed contracts and revenue recognition, and the delivery of solutions. However, the costs associated with software and professional services revenues are not subject to the same degree of variability (e.g., these costs are generally fixed in nature within a relatively short period of time), and thus, fluctuations in our cost of software and maintenance, professional services as a percentage of our software, maintenance and services revenues will likely occur between periods.

R&D Expense. R&D expense for the: (i) third quarter of 2009 increased 6.2% to $17.8 million, from $16.8 million for the third quarter of 2008; and (ii) nine months ended September 30, 2009 increased 5.7% to $52.5 million, from $49.7 million for the nine months ended September 30, 2008. As a percentage of total revenues, R&D expense was 14.3% for the third quarter of 2009, relatively consistent with the 14.2% for the third quarter of 2008. We did not capitalize any internal software development costs during the third quarter or nine months ended September 30, 2009 and 2008.

During 2009, our R&D efforts have been focused on the continued evolution of our solutions, both functionally and architecturally, in response to market demands that our solutions have certain functional features and capabilities, as well as architectural flexibilities (such as service oriented architecture, or SOA). This evolution will result in the modularization of certain functionality that historically has been tightly integrated within our solution suite, which will allow us to respond more quickly to required changes to our solutions and provide greater interoperability with other computer systems. Although our primary value proposition to our clients will continue to be the breadth and depth of our integrated solutions, these R&D efforts will also allow us to separate certain product components so as to allow such components to be marketed on a stand-alone basis where a specific client requirement and/or business need dictates, including the use of certain solutions across non-CSG customer care and billing solutions. Additionally, we have focused our R&D efforts on the integration of our recently acquired technologies such as interactive messaging and customer intelligence with ACP, our core outsourced information processing product, as well as creating an integrated suite of customer interaction management solutions that also include e-care and printing/mailing capabilities, which are portable to new verticals such as financial services, utilities, healthcare, and home security.

At this time, we expect our future R&D efforts to continue to focus on similar tasks as noted above. Additionally, we expect that the percentage of our total revenues invested in R&D to be relatively consistent with the most recent quarters, with the level of our R&D spend highly dependent upon the opportunities that we see in our markets.

Selling, General and Administrative (SG&A) Expense. SG&A expense for the: (i) third quarter of 2009 increased 18.6% to $15.1 million, from $12.7 million for the third quarter of 2008; and (ii) nine months ended September 30, 2009 increased 14.3% to $43.9 million, from $38.4 million for the nine months ended September 30, 2008. These increases in SG&A expense reflect the impact of the sales and marketing costs of the Acquired Businesses. As a percentage of total revenues, SG&A expense was 12.1% for the third quarter of 2009, compared to 10.8% for the third quarter of 2008. For the second quarter of 2009, SG&A expense as a percentage of total revenues was 12.0%.

Data Center Transition Expenses. As discussed above, during the first quarter of 2009, we began transitioning our outsourced data center services from FDC to Infocrossing, and as a result, have incurred $5.2 million and $9.2 million of expense during the quarter and nine months ended September 30, 2009, which includes $0.9 million of depreciation expense related to these efforts, which is included in the Data Center Transition Expenses line item in the Condensed Consolidated Statements of Income.

Depreciation Expense. Depreciation expense for the: (i) third quarter of 2009 increased 4.8% to $4.7 million, from $4.5 million for the third quarter of 2008; and (ii) nine months ended September 30, 2009 increased 14.1% to $13.8 million, from $12.1 million for the nine months ended September 30, 2008. The increase in depreciation expense is reflective of the increased capital expenditures we have made, to include our investments in color print technologies and the acquired property and equipment from our acquisition activities. Depreciation expense for all property and equipment, with the exception of the depreciation expense that is included as part of the Data Center Transition Expenses, is reflected separately in the aggregate and is not included in the cost of revenues or the other components of operating expenses.

Operating Income. Operating income and operating income margin for the: (i) third quarter of 2009 was $17.3 million, or 13.9% of total revenues, compared to $21.1 million, or 17.9% of total revenues for the third quarter of 2008; and (ii) nine months ended September 30, 2009 was $58.5 million, or 15.7% of total revenues, compared to $66.3 million, or 19.0% of total revenues for the nine months ended September 30, 2008. The decrease in operating income and the operating income margin between years can be attributed to the Data Center Transition Expenses, which had a negative impact of 4.1% and 2.5%, respectively, on our operating margin percentage for the quarter and nine months ended September 30, 2009.

At this time, we expect our operating income margin to trend down during the fourth quarter of 2009, with our full year 2009 operating margin percentage expected to be approximately 15%. This operating margin percentage is negatively impacted by approximately three percentage points as a result of the estimated $15 million to $16 million of Data Center Transition Expenses expected to be incurred in 2009.

Total non-cash charges related to depreciation, amortization of intangible assets, and stock-based compensation expense included in the determination of operating income for the: (i) third quarter of 2009 and 2008 were $11.9 million and $10.3 million, respectively; and (ii) nine months ended September 30, 2009 and 2008 were $34.0 million and $33.5 million, respectively.

Interest Expense. Interest expense for the: (i) third quarter of 2009 decreased 27.4% to $1.4 million, from $1.9 million for the third quarter of 2008; and (ii) nine months ended September 30, 2009 decreased 20.0% to $4.4 million from $5.5 million for the nine months ended September 30, 2008. These decreases are attributed to a lower debt balance in 2009, as a result of the repurchases we have made of our Convertible Debt Securities during the first and second quarter of 2009 and the fourth quarter of 2008 (see Note 7).

Amortization of Original Issue Discount. The amortization of original issue discount relates to our Convertible Debt Securities. See Notes 2 and 7 to our Financial Statements for a discussion of our adoption of FASB ASC 470-20, Debt with Conversion and Other Options , effective January 1, 2009, and the corresponding retrospective impact of such adoption on our interest expense.

Interest and Investment Income, net. Interest and investment income, net for the: (i) third quarter of 2009 decreased 82.0% to $0.2 million, from $1.2 million for the third quarter of 2008; and (ii) nine months ended September 30, 2009 decreased 73.0% to $1.1 million from $3.9 million for the nine months ended September 30, 2008. These decreases are due to an overall decrease in the rate of return realized on investments between periods due to a deterioration in the interest rate environment.

Income Tax Provision. The effective income tax rates for the: (i) third quarter of 2009 and 2008 were 30% and 33%, respectively; and (ii) nine months ended September 30, 2009 and 2008 were 34% and 35%, respectively. The lower effective income tax rate for the third quarter of 2009 is due to the recognition of certain income tax benefits and adjustments to certain tax reserves during the quarter, realized in conjunction with the filing of our 2008 tax return and the closing of certain tax years. This lower rate provided a $0.03 per share benefit to our earnings per share for the quarter. At this time, we estimate that our overall effective income tax rate for the full year 2009 will be approximately 34%.

Table of Contents

Liquidity

Cash and Liquidity

As of September 30, 2009, our principal sources of liquidity included cash, cash equivalents, and short-term investments of $157.0 million, compared to $141.2 million as of December 31, 2008. We generally invest our excess cash balances in low-risk, short-term investments to limit our exposure to market risks. We have ready access to essentially all of our cash, cash equivalents, and short-term investment balances.

Cash Flows From Operating Activities

We calculate our cash flows from operating activities in accordance with GAAP, beginning with net income, adding back the impact of non-cash items (e.g., depreciation, amortization, amortization of OID, deferred income taxes, stock-based compensation, etc.), and then factoring in the impact of changes in operating assets and liabilities. See our 2008 10-K for a description of the primary uses and sources of our cash flows from operating activities.

Our net cash flows from operating activities, broken out between operations and changes in operating assets and liabilities, for the indicated periods are as follows (in thousands):

	Operations	Changes in Operating Assets and Liabilities	Net Cash Provided by Operating Activities Quarter Totals
Cash Flows from Operating Activities:			
2008:			
March 31	$ 31,538	$ (10,686)	$ 20,852
June 30	28,225	19,052	47,277
September 30	30,440	(2,881)	27,559
December 31	24,558	(5,599)	18,959
2009:			
March 31	$ 30,449	$ (14,436)	$ 16,013
June 30	29,658	13,895	43,553
September 30	30,593	7,289	37,882

We believe the above table illustrates our ability to consistently generate strong quarterly and annual cash flows, and the importance of managing our working capital items. As the table above illustrates, the operations portion of our cash flows from operating activities remains relatively consistent between periods. The variations in our net cash provided by operating activities are almost entirely related to the changes in our operating assets and liabilities (related mostly to normal fluctuations in timing at quarter-end for such things as client payments and changes in accrued expenses), and generally over longer periods of time, do not significantly impact our cash flows from operating activities.

Significant fluctuations in the balances of key operating assets and liabilities between September 30, 2009, and December 31, 2008, that impacted our cash flows from operating activities, are as follows:

Billed Trade Accounts Receivable

Management of our billed accounts receivable is one of the primary factors in maintaining strong quarterly cash flows from operating activities. Our billed trade accounts receivable balance includes billings for several non-revenue items (primarily postage, sales tax, and deferred revenue items). As a result, we evaluate our performance in collecting our accounts receivable through our calculation of days billings outstanding (DBO) rather than a typical days sales outstanding (DSO) calculation. DBO is calculated based on the billings for the period (including non-revenue items) divided by the average monthly net trade accounts receivable balance for the period.

Table of Contents

Our gross and net billed trade accounts receivable and related allowance for doubtful accounts receivable (Allowance) as of the end of the indicated quarterly periods, and the related DBOs for the quarters then ended, are as follows (in thousands, except DBOs):

Quarter Ended	Gross	Allowance	Net Billed	DBOs
2008:				
March 31	$ 126,062	$ (1,476)	$ 124,586	59
June 30	107,226	(1,557)	105,669	59
September 30	109,490	(1,594)	107,896	55
December 31	123,277	(2,999)	120,278	56
2009:				
March 31	133,041	(2,831)	130,210	58
June 30	112,612	(2,148)	110,464	58
September 30	114,403	(2,079)	112,324	54

The changes in our gross and net billed trade accounts receivable shown in the table above reflect the normal fluctuations in the timing of client payments made at quarter-end, evidenced by our consistent DBO metric over the past several quarters.

Income Taxes Receivable/Payable

As of September 30, 2009, we had current income taxes receivable of $4.4 million, as compared to current income taxes payable of $4.3 million as of December 31, 2008. This $8.7 million change is a result of us paying our remaining estimated 2008 current income taxes liability in the first quarter of 2009, and our year-to-date estimated income tax payments related to the 2009 tax year exceeding our year-to-date estimated 2009 current income tax expense.

Non-current Deferred Income Tax Liabilities

Non-current deferred income tax liabilities increased $16.7 million, from $20.3 million as of December 31, 2008, to $37.0 million as of September 30, 2009, primarily as a result of: (i) the timing differences for depreciable and amortizable assets; (ii) the utilization of net operating loss (NOL) carryforwards; and (iii) the increase in deferred tax liabilities related to our Convertible Debt Securities.

Cash Flows From Investing Activities

Our typical investing activities consist of purchases/sales of short-term investments, purchases of property and equipment, and investments in client contracts, which are discussed below. During the nine months ended September 30, 2009, our cash flows from investing activities also included cash payments related to our prior year acquisition activities, discussed in further detail in Note 6 to our Financial Statements.

Purchases/Sales of Short-term Investments. During the nine months ended September 30, 2009 and 2008, we purchased $42.0 million and $57.3 million, respectively, and sold (or had mature) $63.8 million and $22.2 million, respectively, of short-term investments. We continually evaluate the appropriate mix of our investment of excess cash balances between cash equivalents and short-term investments in order to maximize our investment returns and will likely purchase and sell additional short-term investments in the future.

Property and Equipment/Client Contracts. Our capital expenditures for the nine months ended September 30, 2009 and 2008, for property and equipment, and investments in client contracts were as follows (in thousands):

	Nine Months Ended September 30,	
	2009	2008
Property and equipment	$ 34,476	$ 19,539
Client contracts	7,244	3,277

Of the $34.5 million spent on capital expenditures during the nine months ended September 30, 2009, approximately $14 million was related to our data center transition efforts. The remaining expenditures consisted principally of: (i) investments in new color print technologies; and (ii) computer hardware, software, and related equipment.

The investments in client contracts for the first nine months of 2009 and 2008 relate to client incentive payments ($3.1 million and $1.8 million, respectively) and the deferral of costs related to conversion/set-up services provided under long-term processing contracts ($4.1 million and $1.5 million, respectively).

Cash Flows From Financing Activities

Our financing activities typically consist of activities with our common stock and our Convertible Debt Securities.

Repurchase of Common Stock. During the first nine months of 2009 we repurchased 250,000 shares of our common stock under the guidelines of our Stock Repurchase Program for $3.8 million. We made no comparable share repurchases during the first nine months of 2008. In addition, outside of our Stock Repurchase Program, during the first nine months of 2009 and 2008, we repurchased from our employees and then cancelled approximately 192,000 shares and 133,000 shares of our common stock for $2.7 million and $1.7 million, respectively, in connection with minimum tax withholding requirements resulting from the vesting of restricted stock under our stock incentive plans.

Repurchase of Convertible Debt Securities. During the first nine months of 2009, we repurchased $30.0 million (par value) of our Convertible Debt Securities for $26.7 million. We made no comparable debt repurchases during the first nine months of 2008.

Capital Resources

The following are the key items to consider in assessing our sources and uses of capital resources:

Current Sources of Capital Resources.

- Cash, Cash Equivalents and Short-term Investments. As of September 30, 2009, we had cash, cash equivalents, and short-term investments of $157.0 million.

- Operating Cash Flows. As described in the Liquidity section above, we believe we have the ability to consistently generate strong cash flows to fund our operating activities.

- Revolving Credit Facility. Our five-year, $100 million senior secured revolving credit facility with a syndicate of U.S. financial institutions expired in September 2009. We are currently evaluating our options for a new revolving credit facility. We historically have not relied on our revolving credit facility as a critical source of liquidity.

Uses of Capital Resources. Below are the key items to consider in assessing our uses of capital resources:

- Common Stock Repurchases. We have made significant repurchases of our common stock in the past. During the nine months ended September 30, 2009, we repurchased 250,000 shares of our common stock for $3.8 million (weighted-average price of $15.13 per share). As of September 30, 2009, we have remaining 5.7 million shares authorized for repurchase under our Stock Repurchase Program, but have made no commitments to repurchase those shares in the future.

- Acquisitions. We have made five acquisitions in the last three years. Besides the cash paid at the date the acquisition closes, some acquisitions included the payment of additional cash related to contingent purchase price payments. As discussed in Note 6 to our Financial Statements, in the future, we could potentially be paying up to $3.0 million in contingent purchase price payments related to 2009 in connection with the Prairie Interactive Messaging, Inc. acquisition, and up to $2.5 million in contingent purchase price payments related to 2009 and 2010 in connection with the Quaero Corporation acquisition.

Table of Contents

Capital Expenditures. During the nine months ended September 30, 2009, we spent $34.5 million on capital expenditures. At this time, we expect our 2009 capital expenditures to be approximately $40 - $45 million, with approximately $20 million related to our data center transition efforts, as discussed earlier. The remainder of our expected capital expenditures will consist principally of hardware and software infrastructure to support our clients expanding business needs, and statement production equipment to continue to offer enhanced functionalities to our clients.

Investments in Client Contracts. In the past, we have provided incentives to new or existing clients to convert their customer accounts to, or retain their customer s accounts on, our customer care and billing solutions. During the nine months ended September 30, 2009, we provided client incentives of $3.2 million. As of September 30, 2009, we have made commitments for investments in client contracts which are payable by us only upon the successful conversion of certain additional customers to our processing solutions.

Long-Term Debt. Our Convertible Debt Securities are callable by us for cash, on or after June 20, 2011, at a redemption price equal to 100% of the par value of the Convertible Debt Securities, plus accrued interest. The Convertible Debt Securities can be put back to us by the holders for cash at June 15, 2011, 2016 and 2021, or upon a change of control, as defined in the Convertible Debt Securities bond indenture, at a repurchase price equal to 100% of the par value of the Convertible Debt Securities, plus any accrued interest. The Convertible Debt Securities are also convertible under specified conditions. Upon conversion of the Convertible Debt Securities, we will settle our conversion obligation as follows: (i) we will pay cash for 100% of the $170.3 million par value of the Convertible Debt Securities; and (ii) to the extent our conversion obligation exceeds the par value, we will satisfy the remaining conversion obligation in our common stock, cash or any combination of our common stock and cash. During the next twelve months, there are no call or put options available, and we do not expect the occurrence of any conversion triggers. As a result, in the near-term and based upon the September 30, 2009 par value, we expect our required debt service cash outlay related to the Convertible Debt Securities to be limited to annual interest payments of $4.3 million.

We did not repurchase any of our Convertible Debt Securities during the third quarter of 2009. As noted above, during the nine months ended September 30, 2009, we voluntarily repurchased $30.0 million (par value) of our Convertible Debt Securities for $26.7 million. This represents a weighted-average price of approximately 88% of par value for the bonds we repurchased, and represents a pre-tax yield to us of approximately 8.5%, assuming these bonds were to be retired at the first put or call date in June 2011. We will continue to track and evaluate the trading activity and valuations around our Convertible Debt Securities for possible future buying opportunities.

In summary, we expect to continue to make material investments in client contracts, capital equipment, and R&D. We expect to continue to evaluate the possibility of debt and equity repurchases in the future. In addition, as part of our growth strategy, we are continually evaluating potential business and/or asset acquisitions, and investments in market share expansion with our existing and potential new clients. We believe that our current cash and short-term investments balance, together with cash expected to be generated from future operating activities, will be sufficient to meet our anticipated cash requirements for at least the next 12 months. We also believe we could obtain additional capital through other debt sources, to include the possibility of entering into a revolving credit facility, which may be available to us if deemed appropriate.

Ratio of Earnings to Fixed Charges

The ratio of earnings to fixed charges is computed by dividing fixed charges into earnings. Earnings is defined as income before income taxes, plus fixed charges. Fixed charges consist of interest expense (including the amortization of original issue discount and deferred financing costs) and the estimated interest component of rental expense. Our consolidated ratio of earnings to fixed charges for the nine months ended September 30, 2009 was 4.67:1.00. See Exhibit 12.10 to this document for information regarding the calculation of our ratio of earnings to fixed charges.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

As discussed in our 2008 10-K, we are exposed to market risks related to changes in interest rates, and fluctuations and changes in the market value of our short-term investments. We have not historically entered into derivatives or other financial instruments for trading or speculative purposes.

Interest Rate Risk

Market Risk Related to Long-Term Debt. We are exposed to interest rate risk related to long-term debt from our Convertible Debt Securities.

The interest rate on the Convertible Debt Securities is fixed, and thus, as it relates to our borrowings under the Convertible Debt Securities, we are not exposed to changes in interest rates. Commencing on June 15, 2011, in any six-month interest period where the average trading price of the Convertible Debt Securities immediately preceding that six-month interest period equals 120% or more of the principal amount of the Convertible Debt Securities, we will pay contingent interest equal to 0.25% of that average trading price.

Market Risk Related to Cash Equivalents and Short-term Investments. Our cash and cash equivalents as of September 30, 2009, and December 31, 2008 were $121.3 million and $83.9 million, respectively. Our cash balances are typically swept into overnight money market accounts on a daily basis, and excess funds are invested in low-risk, somewhat longer term, cash equivalent instruments and short-term investments. We have minimal market risk for our cash and cash equivalents due to the relatively short maturities of the instruments.

Our short-term investments as of September 30, 2009 and December 31, 2008 were $35.7 million and $57.3 million, respectively. The day-to-day management of our cash equivalents and short-term investments is performed by a large financial institution in the U.S., using strict and formal investment guidelines approved by our Board of Directors. Under these guidelines, short-term investments are limited to certain acceptable investments with: (i) a maximum maturity, (ii) a maximum concentration and diversification; and (iii) a minimum acceptable credit quality. At this time, we believe we have minimal liquidity risk associated with the short-term investments included in our portfolio.

We do not utilize any derivative financial instruments for purposes of managing our market risks related to interest rate risk.

Item 4. ***Controls and Procedures***

(a) Disclosure Controls and Procedures

As required by Rule 13a-15(b), our management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), conducted an evaluation as of the end of the period covered by this report of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e). Based on that evaluation, the CEO and CFO concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) Internal Control Over Financial Reporting

As required by Rule 13a-15(d), our management, including the CEO and CFO, also conducted an evaluation of our internal control over financial reporting, as defined by Rule 13a-15(f), to determine whether any changes occurred during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, the CEO and CFO concluded that there has been no such change during the quarter covered by this report.

Table of Contents

CSG SYSTEMS INTERNATIONAL, INC.

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

From time-to-time, we are involved in litigation relating to claims arising out of our operations in the normal course of business. We are not presently a party to any material pending or threatened legal proceedings.

Item 1A. *Risk Factors*

We or our representatives from time-to-time may make or may have made certain forward-looking statements, whether orally or in writing, including without limitation, any such statements made or to be made in MD&A contained in our various SEC filings or orally in conferences or teleconferences. We wish to ensure that such statements are accompanied by meaningful cautionary statements, so as to ensure, to the fullest extent possible, the protections of the safe harbor established in the Private Securities Litigation Reform Act of 1995.

Accordingly, the forward-looking statements are qualified in their entirety by reference to and are accompanied by the following meaningful cautionary statements identifying certain important risk factors that could cause actual results to differ materially from those in such forward-looking statements. This list of risk factors is likely not exhaustive. We operate in a rapidly changing and evolving market involving the North American communications industry (e.g., bundled multi-channel video, Internet, voice and IP-based services), and new risk factors will likely emerge. Further, as we enter new markets such as healthcare and financial services, we are subject to new regulatory requirements that increase the risk of non-compliance and the potential for economic harm to us and our customers. Management cannot predict all of the important risk factors, nor can it assess the impact, if any, of such risk factors on our business or the extent to which any risk factor, or combination of risk factors, may cause actual results to differ materially from those in any forward-looking statements. Accordingly, there can be no assurance that forward-looking statements will be accurate indicators of future actual results, and it is likely that actual results will differ from results projected in forward-looking statements and that such differences may be material.

We Derive a Significant Portion of Our Revenues From a Limited Number of Clients, and the Loss of the Business of a Significant Client Could Have a Material Adverse Effect on Our Financial Condition and Results of Operations.

The North American communications industry has experienced significant consolidation over the last several years, resulting in a large percentage of the market being served by a limited number of service providers with greater size and scale. Consistent with this market concentration, a large percentage of our revenues are generated from a limited number of clients, with approximately two-thirds of our revenues being generated from our four largest clients, which are (in order of size) Comcast, DISH, Time Warner, and Charter. See the Significant Client Relationships section of MD&A in our 2008 10-K for key renewal dates and a brief summary of our business relationship with these clients.

There are inherent risks whenever a large percentage of total revenues are concentrated with a limited number of clients. One such risk is that, should a significant client: (i) terminate or fail to renew their contracts with us, in whole or in part for any reason; (ii) significantly reduce the number of customer accounts processed on our solutions, the price paid for our services, or the scope of services that we provide; or (iii) experience significant financial or operating difficulties, it could have a material adverse effect on our financial condition and results of operations (including possible impairment or significant acceleration of the amortization of intangible assets).

Our industry is highly competitive, and the possibility that a major client may move all or a portion of its customers to a competitor has increased. While our clients may incur some costs in switching to our competitors, they may do so for a variety of reasons, including: (i) for reasons associated with price; (ii) if we do not provide satisfactory solutions; or (iii) if we do not maintain favorable relationships.

The Delivery of Our Solutions is Dependent on a Variety of Computing Environments and Communications Networks Which May Not Be Available or May Be Subject to Security Attacks.

Our solutions are generally delivered through a variety of computing environments operated by us, which we will collectively refer to herein as Systems. We provide such computing environments through both outsourced arrangements, such as our current data processing arrangements with FDC and Infocrossing, as well as internally operating numerous distributed servers in geographically dispersed environments. The end users are connected to our Systems through a variety of public and private communications networks, which we will collectively refer to herein as Networks. Our solutions are generally considered to be mission critical customer management systems by our clients. As a result, our clients are highly dependent upon the high availability and uncompromised security of our Networks and Systems to conduct their business operations.

Our Networks and Systems are subject to the risk of an extended interruption or outage due to many factors such as: (i) planned changes to our Systems and Networks for such things as scheduled maintenance and technology upgrades, or migrations to other technologies, service providers, or physical location of hardware; (ii) human and machine error; (iii) acts of nature; and (iv) intentional, unauthorized attacks from computer hackers. As noted above, we began the transition of our data center services currently provided by FDC to Infocrossing during 2009, and expect to complete the final transition of such services in the first half of 2010. Because of the magnitude of the Systems and Networks that will be impacted by this transition, the above risks of an extended interruption or outage will be significantly heightened during this period.

In addition, we continue to expand our use of the Internet with our product offerings thereby permitting, for example, our clients customers to use the Internet to review account balances, order services or execute similar account management functions. Allowing access to our Networks and Systems via the Internet has the potential to increase their vulnerability to unauthorized access and corruption, as well as increasing the dependency of our Systems reliability on the availability and performance of the Internet and end users infrastructure they obtain through other third party providers.

The method, manner, cause and timing of an extended interruption or outage in our Networks or Systems are impossible to predict. As a result, there can be no assurances that our Networks and Systems will not fail, or that our business continuity plans will adequately mitigate all damages incurred as a consequence. Should our Networks or Systems: (i) experience an extended interruption or outage, (ii) have their security breached, or (iii) have their data lost, corrupted or otherwise compromised, it would impede our ability to meet product and service delivery obligations, and likely have an immediate impact to the business operations of our clients. This would most likely result in an immediate loss to us of revenue or increase in expense, as well as damaging our reputation. Any of these events could have both an immediate, negative impact upon our financial condition and our short-term revenue and profit expectations, as well as our long-term ability to attract and retain new clients.

The Current Macroeconomic Environment Could Adversely Impact Our Business.

Over the past year, the U.S. has experienced a significant economic downturn and difficulties within the financial and credit markets. The timing, duration, and degree of an economic turnaround are uncertain and thus, these adverse economic conditions may continue into the foreseeable future. Possible adverse impacts to companies during these times include a reduction in revenues, decreasing profits and cash flows, distressed or default debt conditions, and/or difficulties in obtaining necessary operating capital. All companies are likely to be impacted by the current economic conditions to a certain degree, including CSG, our clients, and/or key vendors in our supply chain. There can be no assurances regarding the performance of our business, and the potential impact to our clients and key vendors, resulting from the current economic conditions.

A Reduction in Demand for Our Key Customer Care and Billing Solutions Could Have a Material Adverse Effect on Our Financial Condition and Results of Operations.

Historically, a substantial percentage of our total revenues have been generated from our core outsourced processing product, ACP, and related solutions. These solutions are expected to continue to provide a large percentage of our total revenues in the foreseeable future. Any significant reduction in demand for ACP and related solutions could have a material adverse effect on our financial condition and results of operations.

We May Not Be Able to Respond to Rapid Technological Changes.

The market for customer interaction management solutions, such as customer care and billing solutions, is characterized by rapid changes in technology and is highly competitive with respect to the need for timely product innovations and new product introductions. As a result, we believe that our future success in sustaining and growing our revenues depends upon: (i) our ability to continuously adapt, modify, maintain, and operate our solutions to address the increasingly complex and evolving needs of our clients, without sacrificing the reliability or quality of the solutions; and (ii) the integration of our recently acquired technologies such as interactive messaging and customer intelligence with ACP, as well as creating an integrated suite of customer interaction management solutions that also include e-care and printing/mailing capabilities, which are portable to new verticals such as financial services, utilities, healthcare, and home security. In addition, the market is demanding that our solutions have greater architectural flexibility and interoperability, and that we are able to meet the demands for technological advancements to our solutions at a greater pace. Attempts to meet these demands subjects our R&D efforts to greater risks.

As a result, substantial R&D will be required to maintain the competitiveness of our solutions in the market. Technical problems may arise in developing, maintaining and operating our solutions as the complexities are increased. Development projects can be lengthy and costly, and may be subject to changing requirements, programming difficulties, a shortage of qualified personnel, and/or unforeseen factors which can result in delays. In addition, we may be responsible for the implementation of new solutions and/or the migration of clients to new solutions, and depending upon the specific one, we may also be responsible for operations of the solution.

There is an inherent risk in the successful development, implementation, migration, and operations of our solutions as the technological complexities, and the pace at which we must deliver these solutions to market, continue to increase. The risk of making an error that causes significant operational disruption to a client increases proportionately with the frequency and complexity of changes to our solutions. There can be no assurance: (i) of continued market acceptance of our solutions; (ii) that we will be successful in the development of enhancements or new solutions that respond to technological advances or changing client needs at the pace the market demands; or (iii) that we will be successful in supporting the implementation, migration and/or operations of enhancements or new solutions.

We May Not Be Able to Efficiently and Effectively Implement New Solutions or Convert Clients on to Our Solutions.

Our continued growth plans include the implementation of new solutions, as well as converting both new and existing clients to our solutions. In particular, during the third quarter of 2009, we began the process of converting over three million new customer accounts onto our ACP platform, which represents an approximate eight percent increase over the recent level of customer accounts processed on our solutions. We anticipate the completion of these conversions in the first half of 2010.

Such implementations or conversions, whether they involve new solutions or new customers, have become increasingly more difficult because of the sophistication, complexity and interdependencies of the various computing and network environments impacted, combined with the increasing complexity of the underlying business processes. For these reasons, there is a risk that we may experience delays or unexpected costs associated with a particular implementation or conversion, and our inability to complete implementation or conversion projects in an efficient and effective manner could have a material adverse effect on our results of operations.

Our Business is Highly Dependent on the North American Cable and DBS Industries.

We have historically generated a significant portion of our revenues by providing solutions to clients in the North American cable and DBS industries. A decrease in the number of customers served by our clients, an adverse change in the economic condition of these industries, and/or changing consumer demand for services could have a material adverse effect on our results of operations. Additionally, a significant portion of our historical growth has come from our support of clients expansion into new lines of business, such as HSD and VoIP. There can be no assurance that our current and potential clients will be successful in expanding into new segments of the converging North American communications industry. Even if major forays into new markets by our current or potential clients are successful, we may be unable to meet the special billing and customer interaction management needs of those markets.

Our clients operate in a highly competitive environment. Traditional wireline and wireless telephone service providers, and others, will continue their aggressive pursuit of providing convergent services, including residential video, a market historically dominated by our clients. Should these alternative service providers be successful in their video strategies, it could threaten our clients market share, and thus our source of revenues, as generally speaking these companies do not use our core solutions and there can be no assurance that new entrants will become our clients.

Further Consolidation of the North American Cable and DBS Industries May Have a Material Adverse Effect on Our Results of Operations.

The North American cable and DBS industries may continue to be subject to significant ownership changes. One facet of these changes is that consolidation by and among our core client base, the cable and DBS providers, as well as new entrants such as the traditional wireline and wireless carriers, will decrease the potential number of buyers for our solutions. Should these consolidations result in a concentration of customer accounts being owned by companies with whom we do not have a relationship, or with whom competitors are entrenched, we could be subject to the risk that subscribers will be moved off of our solutions and onto a competitor s system, thereby having a material adverse effect on our results of operations. Furthermore, movement of our clients customers from our solutions to a competitor s system as a result of regionalization strategies by our clients could have a material adverse affect on our operations. Finally, as the result of the consolidations, our current and potential clients may choose to use their size and scale to exercise more severe pressure on pricing negotiations.

We Face Significant Competition in Our Industry.

The market for our solutions is highly competitive. We directly compete with both independent providers and in-house solutions developed by existing and potential clients. In addition, some independent providers are entering into strategic alliances with other independent providers, resulting in either new competitors, or competitors with greater resources. Many of our current and potential competitors have significantly greater financial, marketing, technical, and other competitive resources than our company, many with significant and well-established domestic and international operations. There can be no assurance that we will be able to compete successfully with our existing competitors or with new competitors.

Client Bankruptcies Could Adversely Affect Our Business.

In the past, certain of our clients have filed for bankruptcy protection. As a result of the current economic conditions and the additional financial stress this may place on companies, the risk of client bankruptcies is significantly heightened. Companies involved in bankruptcy proceedings pose greater financial risks to us, consisting principally of the following: (i) a financial loss related to possible claims of preferential payments for certain amounts paid to us prior to the bankruptcy filing date, as well as increased collectibility risk for accounts receivable, particularly those accounts receivable that relate to periods prior to the bankruptcy filing date; and/or (ii) the possibility of a contract being unilaterally rejected as part of the bankruptcy proceedings, or a client in bankruptcy may attempt to renegotiate more favorable terms as a result of their deteriorated financial condition, thus, negatively impacting our rights to future revenues subsequent to the bankruptcy filing. We consider these risks in assessing our revenue recognition and the collectibility of accounts receivable related to our clients that have filed for bankruptcy protection, and for those clients that are seriously threatened with a possible bankruptcy filing. We establish accounting reserves for our estimated exposure on these items which can materially impact the results of our operations in the period such reserves are established. There can be no assurance that our accounting reserves related to this exposure will be adequate. Should any of the factors considered in determining the adequacy of the overall reserves change adversely, an adjustment to the accounting reserves may be necessary. Because of the potential significance of this exposure, such an adjustment could be material.

We May Incur Additional Material Restructuring Charges in the Future.

In the past, we have recorded restructuring charges related to involuntary employee terminations, various facility abandonments, and various other restructuring activities. We continually evaluate ways to reduce our operating expenses through new restructuring opportunities, including more effective utilization of our assets, workforce and operating facilities. As a result, there is a risk, which is inherently greater during economic downturns, that we may incur additional material restructuring charges in the future.

Failure to Attract and Retain Our Key Management and Other Highly Skilled Personnel Could Have a Material Adverse Effect on Our Business.

Our future success depends in large part on the continued service of our key management, sales, product development, and operational personnel. We believe that our future success also depends on our ability to attract and retain highly skilled technical, managerial, operational, and marketing personnel, including, in particular, personnel in the areas of R&D and technical support. Competition for qualified personnel at times can be intense, particularly in the areas of R&D, conversions, software implementations, and technical support. For these reasons, we may not be successful in attracting and retaining the personnel we require, which could have a material adverse effect on our ability to meet our commitments and new product delivery objectives.

We May Not Be Successful in the Integration of Our Acquisitions.

As part of our growth strategy, we seek to acquire assets, technology, and businesses which will provide the technology and technical personnel to expedite our product development efforts, provide complementary solutions, or provide access to new markets and clients.

Acquisitions involve a number of risks and difficulties, including: (i) expansion into new markets and business ventures; (ii) the requirement to understand local business practices; (iii) the diversion of management s attention to the assimilation of acquired operations and personnel; and (iv) potential adverse effects on a company s operating results for various reasons, including, but not limited to, the following items: (a) the inability to achieve financial targets; (b) the inability to achieve certain operating goals and synergies; (c) charges related to purchased in-process R&D projects; (d) costs incurred to exit current or acquired contracts or activities; (e) costs incurred to service any acquisition debt; and (f) the amortization or impairment of intangible assets.

Due to the multiple risks and difficulties associated with any acquisition, there can be no assurance that we will be successful in achieving our expected strategic, operating, and financial goals for any such acquisition.

Failure to Protect Our Proprietary Intellectual Property Rights Could Have a Material Adverse Effect on Our Financial Condition and Results of Operations.

We rely on a combination of trade secret and copyright laws, nondisclosure agreements, and other contractual and technical measures to protect our proprietary rights in our solutions. We also hold a limited number of patents on some of our newer solutions, but do not rely upon patents as a primary means of protecting our rights in our intellectual property. There can be no assurance that these provisions will be adequate to protect our proprietary rights. Although we believe that our intellectual property rights do not infringe upon the proprietary rights of third parties, there can be no assurance that third parties will not assert infringement claims against us or our clients.

We continually assess whether there are any risks to our intellectual property rights. Should these risks be improperly assessed or if for any reason should our right to develop, produce and distribute our solutions be successfully challenged or be significantly curtailed, it could have a material adverse effect on our financial condition and results of operations.

Table of Contents

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

The following table presents information with respect to purchases of company common stock made during the third quarter of 2009 by CSG Systems International, Inc. or any affiliated purchaser of CSG Systems International, Inc., as defined in Rule 10b-18(a)(3) under the Exchange Act.

Period	Total Number of Shares Purchased[2]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plan or Programs[1]
July 1 July 31	6,354	$ 14.08		5,704,096
August 1 August 31	12,992	15.96		5,704,096
September 1 September 30	3,163	15.40		5,704,096
Total	22,509	$ 15.35		

1 Our Board of Directors have authorized us to repurchase up to 35 million shares of our common stock under the Stock Repurchase Program. The Stock Repurchase Program does not have an expiration date.

2 The total number of shares purchased that are not part of the Stock Repurchase Program represents shares purchased and cancelled in connection with stock incentive plans.

Item 3. Defaults Upon Senior Securities

None

Item 5. ***Other Information***

None

Item 6. ***Exhibits***

The Exhibits filed or incorporated by reference herewith are as specified in the Exhibit Index.

Table of Contents

SIGNATURES

Pursuant to the requirements 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.

Dated: November 6, 2009

CSG SYSTEMS INTERNATIONAL, INC.

/s/ Peter E. Kalan
Peter E. Kalan
Chief Executive Officer and President
(Principal Executive Officer)

/s/ Randy R. Wiese
Randy R. Wiese
Executive Vice President, Chief Financial Officer, and Chief Accounting Officer
(Principal Financial Officer and Principal Accounting Officer)

Table of Contents

CSG SYSTEMS INTERNATIONAL, INC.

INDEX TO EXHIBITS

Exhibit Number	Description
12.10	Statement regarding computation of Ratio of Earnings to Fixed Charges
31.01	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.02	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.01	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002