

CSG SYSTEMS INTERNATIONAL INC
Form 10-Q
November 08, 2011
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

September 30, 2011 For the quarterly period ended September 30, 2011

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
(State or other jurisdiction of
incorporation or organization)

47-0783182
(I.R.S. Employer
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 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark 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

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

Shares of common stock outstanding at November 3, 2011: 33,895,246

Table of Contents

CSG SYSTEMS INTERNATIONAL, INC.

FORM 10-Q for the Quarter Ended September 30, 2011

INDEX

	Page No.
Part I - FINANCIAL INFORMATION	
Item 1. <u>Condensed Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010 (Unaudited)</u>	3
<u>Condensed Consolidated Statements of Income for the Quarter and Nine Months Ended September 30, 2011 and 2010 (Unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2011 and 2010 (Unaudited)</u>	5
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	28
Item 4. <u>Controls and Procedures</u>	29
Part II - OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	30
Item 1A. <u>Risk Factors</u>	30
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	37
Item 6. <u>Exhibits</u>	37
<u>Signatures</u>	38
<u>Index to Exhibits</u>	39

Table of Contents**CSG SYSTEMS INTERNATIONAL, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS - UNAUDITED****(in thousands, except share amounts)**

	September 30, 2011	December 31, 2010
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 124,160	\$ 197,858
Short-term investments	14,439	17,692
Total cash, cash equivalents and short-term investments	138,599	215,550
Trade accounts receivable-		
Billed, net of allowance of \$2,472 and \$1,837	157,276	155,005
Unbilled and other	36,205	30,803
Deferred income taxes	17,752	13,852
Income taxes receivable	12,214	9,043
Other current assets	18,532	17,241
Total current assets	380,578	441,494
Property and equipment, net of depreciation of \$109,879 and \$94,236	46,098	52,257
Software, net of amortization of \$53,726 and \$45,579	32,152	31,118
Goodwill	208,987	209,164
Client contracts, net of amortization of \$152,931 and \$133,218	102,920	116,328
Deferred income taxes	1,329	9,677
Other assets	15,430	19,660
Total assets	\$ 787,494	\$ 879,698
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Current maturities of long-term debt, net of unamortized original issue discount of zero and \$621	\$ 17,500	\$ 69,528
Client deposits	31,182	31,897
Trade accounts payable	27,140	25,381
Accrued employee compensation	32,941	53,372
Income taxes payable	2,192	2,028
Deferred revenue	42,447	56,184
Other current liabilities	20,021	32,019
Total current liabilities	173,423	270,409
Non-current liabilities:		
Long-term debt, net of unamortized original issue discount of \$31,435 and \$34,841	293,565	305,159
Deferred revenue	7,942	16,103
Income taxes payable	2,820	954
Deferred income taxes	26,227	33,247
Other non-current liabilities	17,958	16,748
Total non-current liabilities	348,512	372,211
Total liabilities	521,935	642,620

Edgar Filing: CSG SYSTEMS INTERNATIONAL INC - Form 10-Q

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; 34,079,251 and 34,120,789 shares outstanding	646	641
Additional paid-in capital	446,818	439,712
Treasury stock, at cost, 30,535,019 and 29,956,808 shares	(712,625)	(704,963)
Accumulated other comprehensive income (loss):		
Unrealized gain on short-term investments, net of tax	2	4
Unrecognized pension plan losses and prior service costs, net of tax	(893)	(897)
Unrecognized loss on change in fair value of interest rate swaps, net of tax	(713)	
Cumulative translation adjustments	(377)	868
Accumulated earnings	532,701	501,713
Total stockholders' equity	265,559	237,078
Total liabilities and stockholders' equity	\$ 787,494	\$ 879,698

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, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Revenues:				
Processing and related services	\$ 131,099	\$ 124,984	\$ 391,590	\$ 368,393
Software, maintenance and services	51,654	8,707	155,567	26,907
Total revenues	182,753	133,691	547,157	395,300
Cost of revenues (exclusive of depreciation, shown separately below):				
Processing and related services	62,167	61,675	184,228	197,604
Software, maintenance and services	30,821	6,120	90,400	18,000
Total cost of revenues	92,988	67,795	274,628	215,604
Other operating expenses:				
Research and development	27,921	19,113	84,479	56,615
Selling, general and administrative	31,011	19,396	96,876	52,608
Depreciation	6,404	4,865	18,924	16,578
Restructuring charges	1,662		3,008	214
Total operating expenses	159,986	111,169	477,915	341,619
Operating income	22,767	22,522	69,242	53,681
Other income (expense):				
Interest expense	(4,175)	(1,562)	(12,841)	(4,739)
Amortization of original issue discount	(1,158)	(1,462)	(4,027)	(5,447)
Interest and investment income, net	186	157	595	524
Loss on repurchase of convertible debt securities		(1,683)		(12,635)
Other, net	2,151	13	863	17
Total other	(2,996)	(4,537)	(15,410)	(22,280)
Income before income taxes	19,771	17,985	53,832	31,401
Income tax provision	(9,292)	(6,295)	(22,844)	(7,181)
Net income	\$ 10,479	\$ 11,690	\$ 30,988	\$ 24,220
Weighted-average shares outstanding - Basic:				
Common stock	32,765	32,365	32,747	32,573
Participating restricted stock	141	464	210	579
Total	32,906	32,829	32,957	33,152
Weighted-average shares outstanding - Diluted:				
Common stock	32,887	32,625	32,937	32,834
Participating restricted stock	141	464	210	579

Edgar Filing: CSG SYSTEMS INTERNATIONAL INC - Form 10-Q

Total	33,028	33,089	33,147	33,413
-------	--------	--------	--------	--------

Earnings per common share:

Basic	\$ 0.32	\$ 0.36	\$ 0.94	\$ 0.73
Diluted	\$ 0.32	\$ 0.35	\$ 0.93	\$ 0.72

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, 2011	September 30, 2010
Cash flows from operating activities:		
Net income	\$ 30,988	\$ 24,220
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation	18,924	16,578
Amortization	31,599	12,963
Amortization of original issue discount	4,027	5,447
Gain on short-term investments and other	(46)	(112)
Loss on repurchase of convertible debt securities		12,635
Deferred income taxes	1,637	(160)
Excess tax benefit of stock-based compensation awards	(824)	(1,138)
Stock-based employee compensation	9,684	9,300
Changes in operating assets and liabilities:		
Trade accounts and other receivables, net	(9,019)	(5,470)
Other current and non-current assets	574	(3,966)
Income taxes payable/receivable	(949)	(6,987)
Trade accounts payable and accrued liabilities	(31,096)	10,810
Deferred revenue	(26,365)	115
Net cash provided by operating activities	29,134	74,235
Cash flows from investing activities:		
Purchases of property and equipment	(19,615)	(9,858)
Purchases of short-term investments	(31,903)	(61,888)
Proceeds from sale/maturity of short-term investments	35,200	81,900
Purchase of foreign currency hedge		(5,673)
Acquisition of businesses, net of cash acquired		(3,264)
Acquisition of and investments in client contracts	(6,713)	(3,610)
Change in restricted cash for Intec Acquisition		(130,000)
Net cash used in investing activities	(23,031)	(132,393)
Cash flows from financing activities:		
Proceeds from issuance of common stock	1,158	1,046
Repurchase of common stock	(11,881)	(33,942)
Payments on acquired equipment financing	(1,357)	(837)
Proceeds from long-term debt		150,000
Payments of deferred financing costs	(205)	(6,541)
Payments on long-term debt	(67,649)	(148,846)
Excess tax benefit of stock-based compensation awards	824	1,138
Net cash used in financing activities	(79,110)	(37,982)
Effect of exchange rate fluctuations on cash	(691)	
Net decrease in cash and cash equivalents	(73,698)	(96,140)

Edgar Filing: CSG SYSTEMS INTERNATIONAL INC - Form 10-Q

Cash and cash equivalents, beginning of period	197,858	163,489
Cash and cash equivalents, end of period	\$ 124,160	\$ 67,349
Supplemental disclosures of cash flow information:		
Net cash paid during the period for-		
Interest	\$ 11,739	\$ 3,781
Income taxes	22,542	14,331

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, 2011 and December 31, 2010, and for the third quarter and nine months ended September 30, 2011 and 2010, 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 (the 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, 2010, filed with the SEC. The results of operations for the third quarter and nine months ended September 30, 2011 are not necessarily indicative of the expected results for the entire year ending December 31, 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in Preparation of Financial Statements. The preparation of the accompanying 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.

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 (the Balance Sheet or 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 2011 and 2010 was \$65.9 million and \$67.5 million, respectively, and for the nine months ended September 30, 2011 and 2010 was \$199.0 million and \$202.7 million, respectively.

Cash and Cash Equivalents. We consider all highly liquid investments with original maturities of three months or less at the date of the purchase to be cash equivalents. As of September 30, 2011, our cash equivalents consist primarily of institutional money market funds, commercial paper and time deposits held at major banks.

As of September 30, 2011, we had \$4.8 million of restricted cash that serves to collateralize outstanding letters of credit. This restricted cash is included in Cash and cash equivalents in the accompanying Balance Sheet.

Short-term Investments and Other Financial Instruments. Our financial instruments as of September 30, 2011 include cash and cash equivalents, short-term investments, accounts receivable, accounts payable, interest rate swaps, and debt. Because of their short maturities, the carrying amounts of cash equivalents, accounts receivable, and accounts payable approximate their fair value.

Certain of our short-term investments and cash equivalents are considered available-for-sale and are reported at fair value in our accompanying 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.

Table of Contents

All short-term investments held by us as of September 30, 2011, have contractual maturities of less than one year from the time of acquisition. Our short-term investments at September 30, 2011, and December 31, 2010, consisted entirely of commercial paper. Proceeds from the sale/maturity of short-term investments for the nine months ended September 30, 2011 and 2010 were \$35.2 million and \$81.9 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 financial assets and liabilities measured at fair value on a recurring basis (in thousands):

	September 30, 2011			December 31, 2010		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Money market funds (1)	\$ 47,132	\$	\$ 47,132	\$ 91,002	\$	\$ 91,002
Commercial paper (2)		25,917	25,917		26,590	26,590
Total	\$ 47,132	\$ 25,917	\$ 73,049	\$ 91,002	\$ 26,590	\$ 117,592
Liabilities:						
Interest rate swap contracts (3)		1,159	1,159			
Total	\$	\$ 1,159	\$ 1,159	\$	\$	\$

- (1) As of September 30, 2011 and December 31, 2010, all of the money market funds were classified on our Balance Sheet in cash equivalents.
- (2) As of September 30, 2011 and December 31, 2010, of the total commercial paper, \$11.5 million and \$8.9 million, respectively, were classified on our Balance Sheet in cash equivalents, and \$14.4 and \$17.7 million, respectively, were classified on our Balance Sheet in short-term investments.
- (3) As of September 30, 2011, the fair value of the interest rate swap contracts were classified on our Balance Sheet in other non-current liabilities.

Valuation inputs used to measure the fair values of our money market funds were derived from quoted market prices. The fair values of all other financial instruments are based upon pricing provided by third-party pricing services. These prices were derived from observable market inputs.

We have chosen not to measure our debt at fair value, with changes recognized in earnings each reporting period. As of September 30, 2011, the estimated fair value of our Credit Agreement long-term debt of \$192.5 million (carrying value including current maturities) was approximately \$206 million, and was estimated using a discounted cash flow methodology. As of September 30, 2011, the estimated fair value of our \$150 million (par value) convertible debt, based upon quoted market prices or recent sales activity, was approximately \$132 million.

Adoption of New Guidance on Revenue Recognition Related to Multiple-Deliverable Revenue Arrangements. On January 1, 2011, new guidance on revenue recognition related to multiple-deliverable revenue arrangements became effective. The new guidance changed the criteria for separating deliverables in multiple element revenue arrangements that do not fall within the scope of other authoritative accounting literature.

Our processing and related services revenues relate primarily to the outsourced, customer care and billing processing and related services we provide to our North American cable and direct broadcast satellite clients under long-term master processing agreements. Under those agreements, on a monthly basis, we provide multiple services, to include billing and processing services; credit management and collection services; and customer statement invoice printing and mailing services. Since there are essentially no processing and related services elements that are undelivered at the end of each month, other than the future months' repetition of those same services which will be billed for and recognized as revenues in those future months when the services are provided, the new guidance did not impact the manner in which we are recognizing our processing and related services revenues.

The revenue recognition for our software licenses, software maintenance services (also known as post-contract customer support), and our professional services that involve the implementation of the software licenses, fall within the scope of specific authoritative accounting literature and are not impacted by the new guidance on revenue recognition related to multiple-deliverable revenue arrangements.

Table of Contents

Accounting Pronouncements Issued But Not Yet Effective. In June 2011, new guidance was issued regarding the presentation of comprehensive income, requiring companies to present the components of net income and other comprehensive income either in one continuous statement or in two separate but consecutive statements and eliminating the option to report other comprehensive income and its components in the statement of stockholders' equity. The new guidance does not change the items that must be reported in other comprehensive income or when such items must be reclassified to net income. The new guidance is effective for interim and annual periods beginning after December 15, 2011. As this new guidance impacts presentation and disclosure only, it will have no effect on our consolidated financial position or results of operations.

In September 2011, new guidance was issued related to the testing of goodwill for impairment. The new guidance simplifies the assessment of goodwill impairment by giving companies the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before performing the two step impairment review process. The new guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. This new guidance is not expected to have a material impact on our consolidated financial position or results of operations.

3. PRIOR YEAR ACQUISITION

On November 30, 2010, we acquired U.K.-based Intec Telecom Systems PLC (Intec) for \$364.1 million, or \$255.2 million net of \$108.9 million of cash and cash equivalents Intec had on hand at the close of the transaction.

The application of the acquisition 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 of the assets acquired and liabilities assumed at the date of acquisition for Intec (in thousands):

Trade accounts receivable	\$ 63,276
Other current assets	6,179
Property and equipment	9,968
Acquired software	19,184
Acquired client contracts	77,979
Acquired other intangible assets	6,395
Goodwill	102,145
Net deferred income tax assets	36,238
Other non-current assets	2,552
 Total assets acquired	 323,916
 Trade accounts payable	 3,611
Accrued employee compensation	17,517
Deferred revenue	28,016
Other current liabilities	9,823
Non-current liabilities	9,711
 Total liabilities assumed	 68,678
 Net assets acquired (excluding acquired cash)	 \$ 255,238

The \$255.2 million of net assets acquired reflected above has not changed since December 31, 2010. However, we have made certain adjustments to our estimates of the fair value of various assets acquired and liabilities assumed, none of which required the revision of comparative information for periods presented in the accompanying Financial Statements since the effects are not material. In addition, we have made certain adjustments to our estimates of deferred income taxes. As a result of these changes, during 2011, the amount allocated to goodwill has increased by \$1.1 million.

Table of Contents

The above estimated fair values of assets acquired and liabilities assumed are still considered provisional, as we are waiting for additional information, primarily related to certain items within trade accounts receivable and deferred revenue, necessary to finalize those fair values, and to estimate the valuation allowances necessary for certain deferred income tax assets. Thus, the provisional measurements of fair value set forth above are subject to change. Such changes could be significant. We expect to finalize the fair values and valuation allowances and complete the purchase price allocation during the fourth quarter of 2011.

4. 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). During the nine months ended September 30, 2011 and 2010, we repurchased 0.6 million shares and 1.5 million shares of our common stock under the Stock Repurchase Program for \$7.7 million (weighted-average price of \$13.25 per share) and \$29.3 million (weighted-average price of \$19.56 per share), respectively. As of September 30, 2011, the total remaining number of shares available for repurchase under the Stock Repurchase Program totaled 3.6 million shares.

Stock Repurchases for Tax Withholdings. In addition to the above mentioned stock repurchases, during the nine months ended September 30, 2011 and 2010, we repurchased from our employees and then cancelled 0.2 million shares of common stock for \$4.2 million and 0.2 million shares of common stock for \$4.6 million, respectively, in connection with minimum tax withholding requirements resulting from the vesting of restricted common stock under our stock incentive plans.

Equity Compensation Plans. In May 2011, our stockholders approved the amended and restated 2005 Stock Incentive Plan, which included a 3,400,000 share increase in the number of shares that may be issued under the plan, from 12,400,000 shares to 15,800,000 shares. Additionally in May 2011, our stockholders approved the amended and restated 1996 Employee Stock Purchase Plan, which included a 750,000 share increase in the number of shares reserved for sales to our employees, from 958,043 shares to 1,708,043 shares.

Stock-Based Awards. A summary of our unvested restricted common stock activity during the third quarter and nine months ended September 30, 2011 is as follows:

	Quarter Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Shares	Weighted- Average Grant Date Fair Value	Shares	Weighted- Average Grant Date Fair Value
Unvested awards, beginning	1,843,724	\$ 18.04	1,803,971	\$ 17.19
Awards granted	44,523	13.20	722,073	18.87
Awards forfeited/cancelled	(23,675)	17.95	(63,743)	17.61
Awards vested	(65,652)	19.93	(663,381)	17.20
Unvested awards, ending	1,798,920	\$ 17.85	1,798,920	\$ 17.85

Included in the awards granted during the nine months ended September 30, 2011, are performance-based awards for 120,000 restricted common 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 common stock shares granted during the nine months ended September 30, 2011 are time-based awards, which vest annually over four years with no restrictions other than the passage of time. Certain shares of the restricted common 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 2011 and 2010 of \$3.2 million and \$3.1 million, respectively, and for the nine months ended September 30, 2011 and 2010 of \$9.7 million and \$9.3 million, respectively.

Table of Contents**5. EARNINGS PER COMMON SHARE**

Basic and diluted earnings per common share (EPS) amounts are presented on the face of the accompanying Condensed Consolidated Statements of Income (the Statements of Income). The amounts attributed to both common stock and participating restricted common 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,	
	2011	2010	2011	2010
Net Income attributed to:				
Common stock	\$ 10,434	\$ 11,525	\$ 30,791	\$ 23,797
Participating restricted common stock	45	165	197	423
Total	\$ 10,479	\$ 11,690	\$ 30,988	\$ 24,220

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Weighted-average shares outstanding Basic:				
Common stock	32,765	32,365	32,747	32,573
Participating restricted common stock	141	464	210	579
Total	32,906	32,829	32,957	33,152
Weighted-average shares outstanding Diluted:				
Common stock	32,887	32,625	32,937	32,834
Participating restricted common stock	141	464	210	579
Total	33,028	33,089	33,147	33,413

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,	
	2011	2010	2011	2010
Basic weighted-average common shares	32,765	32,365	32,747	32,573
Dilutive effect of common stock options	16	21	20	25
Dilutive effect of non-participating restricted common stock	106	239	170	236
Dilutive effect of 2010 Convertible Notes				
Diluted weighted-average common shares	32,887	32,625	32,937	32,834

Potentially dilutive common shares related to stock options and non-participating unvested shares of restricted common stock of 0.6 million and 0.1 million, respectively, for the third quarter of 2011 and 2010, and 0.2 million and 0.1 million for the nine months ended September 30, 2011 and 2010, respectively, were excluded from the computation of diluted EPS related to common shares as their effect was antidilutive.

Edgar Filing: CSG SYSTEMS INTERNATIONAL INC - Form 10-Q

The 2010 Convertible Notes have a dilutive effect only in those quarterly periods in which our average stock price exceeds the current effective conversion price of \$24.45 per share. The 2004 Convertible Debt Securities, which we fully extinguished in the third quarter of 2011, never had a dilutive effect on our EPS while they were outstanding.

Table of Contents**6. COMPREHENSIVE INCOME**

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

	Quarter Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net income	\$ 10,479	\$ 11,690	\$ 30,988	\$ 24,220
Other comprehensive income (loss), net of tax, if any:				
Unrealized gain (loss) on short-term investments	(3)	6	(2)	(3)
Change in unrecognized pension plan losses and prior service costs			4	22
Unrealized loss on change in fair value of interest rate swap	(293)		(713)	
Foreign currency translation adjustments	(7,563)		(1,245)	
Comprehensive income	\$ 2,620	\$ 11,696	\$ 29,032	\$ 24,239

7. DEBT

Our long-term debt, as of September 30, 2011 and December 31, 2010, was as follows (in thousands):

	September 30, 2011	December 31, 2010
<i>Credit Agreement:</i>		
Term loan, mandatory principal payments during term, with remaining principal balance due December 2015, interest at adjusted LIBOR plus 3.75% (combined rate of 4.10% at September 30, 2011 and 4.06% at December 31, 2010)	\$ 192,500	\$ 200,000
\$100 million revolving loan facility, due December 2015, interest at adjusted LIBOR plus applicable margin (combined rate of 4.06% at December 31, 2010)		35,000
<i>Convertible Debt Securities:</i>		
2010 Convertible Notes – senior subordinated convertible notes; due March 1, 2017; cash interest at 3.0%; net of unamortized OID of \$31,435 and \$34,841, respectively	118,565	115,159
2004 Convertible Debt Securities – senior subordinated convertible contingent debt securities; due June 15, 2024; cash interest at 2.5%; net of unamortized OID of zero and \$621, respectively		24,528
	311,065	374,687
Current portion of long-term debt, net	(17,500)	(69,528)
Total long-term debt, net	\$ 293,565	\$ 305,159

Credit Agreement. In January 2011, we repaid the \$35 million outstanding balance of our \$100 million revolving loan facility (Revolver). During the nine months ended September 30, 2011, we made \$7.5 million mandatory repayments on the Term Loan.

As of September 30, 2011, we were in compliance with the financial ratios and other covenants related to the Credit Agreement. As of September 30, 2011, we had no borrowings outstanding on our Revolver and had the entire \$100 million available to us.

2010 Convertible Notes. As of September 30, 2011, and as it relates to our 2010 Convertible Notes, none of the contingent conversion features have been achieved, and thus, the 2010 Convertible Notes are not convertible by the holders.

Table of Contents

Upon conversion of the 2010 Convertible Notes, we will settle our conversion obligation as follows: (i) we will pay cash for 100% of the par value of the 2010 Convertible Notes that are converted; and (ii) to the extent the value of 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, 2011, the value of our conversion obligation did not exceed the par value of the 2010 Convertible Notes.

2004 Convertible Debt Securities. In June 2011, holders of \$24.1 million par value of our 2004 Convertible Debt Securities exercised their put option and we paid the par value and accrued interest to extinguish these securities in June 2011. In June 2011, we exercised our option to call the remaining \$1.0 million par value of our 2004 Convertible Debt Securities, and extinguished the debt in July 2011. As a result of the extinguishment of the 2004 Convertible Debt Securities in 2011, approximately \$6 million of deferred tax liabilities became payable as of June 30, 2011, of which \$4.4 million was paid as of September 30, 2011.

8. DERIVATIVES

Interest Rate Swap Contracts. In May 2011, we entered into three interest rate swap contracts with the objective of managing our exposure to fluctuations in interest rate movements, thereby eliminating the variability of cash flows on certain portions of the interest payments related to the Term Loan component of our Credit Agreement.

A summary of the three interest rate swap contracts is as follows (dollars in thousands):

	Beginning of Term	End of Term	Weighted-Average Notional Amount Over Term	Fixed Rate
2011 Swap	May 16, 2011	March 13, 2012	\$ 118,000	0.451%
2012 Swap	March 13, 2012	March 13, 2013	78,000	1.085%
2013 Swap	March 13, 2013	March 13, 2014	51,000	2.181%

We have designated our interest rate swap contracts as cash flow hedges. Swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty over the lives of the contracts in exchange for us making fixed-rate payments to the counterparty over the lives of the contracts without exchange of the underlying notional amount.

As of September 30, 2011, the fair value of the interest rate swap contracts, reflected in other non-current liabilities in our Balance Sheet, was \$1.2 million, with the loss, net of tax, reflected as a reduction in other comprehensive income.

Changes in the fair value of these interest rate swap contracts, designated as hedging instruments of the variability of cash flows associated with floating-rate, long-term debt obligations, are reported in accumulated other comprehensive income (AOCI) in the stockholders' equity section of our Balance Sheet. These amounts subsequently are reclassified into interest expense as a yield adjustment of the hedged debt obligation in the same period in which the related interest on the floating-rate debt obligations affects earnings. The amount of losses reclassified from AOCI to income/loss (effective portions) for the nine months ended September 30, 2011 were not material. The estimated net losses on the interest rate swap contracts that will be reclassified into earnings within the next twelve months are not expected to be material. Our interest rate swap contracts qualify as effective relationships, and as a result, hedge ineffectiveness was not material during the quarter and nine months ended September 30, 2011.

We are exposed to credit-related losses in the event of non-performance by the counterparty to the interest rate swap contracts. The counterparty to the interest rate swap contracts is a major institution with investment grade credit ratings. We evaluated the counterparty credit risk before entering into the interest rate swap contracts and will continue to closely monitor the financial markets and the risk that the counterparty will default on its obligations. This credit risk is generally limited to the unrealized gains in such contracts, should the counterparty fail to perform as contracted.

We do not use derivative financial instruments for speculative purposes.

Table of Contents**9. LONG-LIVED ASSETS**

Goodwill. The changes in the carrying amount of goodwill for the nine months ended September 30, 2011, were as follows (in thousands):

January 1, 2011 balance	\$ 209,164
Adjustments related to prior acquisitions	1,005
Effects of changes in foreign currency exchange rates	(1,182)
September 30, 2011 balance	\$ 208,987

The adjustments related to prior acquisitions are almost entirely due to the Intec Acquisition discussed in Note 3, and are related to adjustments to our estimates of deferred income taxes and the fair values of various assets and liabilities assumed.

Other Intangible Assets. Our intangible assets subject to ongoing amortization consist primarily of client contracts and software. As of September 30, 2011 and December 31, 2010, the carrying values of these assets were as follows (in thousands):

	September 30, 2011			December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Client contracts	\$ 255,851	\$ (152,931)	\$ 102,920	\$ 249,546	\$ (133,218)	\$ 116,328
Software	85,878	(53,726)	32,152	76,697	(45,579)	31,118
Total	\$ 341,729	\$ (206,657)	\$ 135,072	\$ 326,243	\$ (178,797)	\$ 147,446

The total amortization expense related to intangible assets for the third quarter of 2011 and 2010 was \$9.6 million and \$4.5 million, respectively, and \$29.3 million and \$12.4 million for the nine months ended September 30, 2011 and 2010, respectively. Based on the September 30, 2011 net carrying value of our intangible assets, the estimated total amortization expense for each of the five succeeding fiscal years ending December 31 are: 2011 \$38.8 million; 2012 \$37.0 million; 2013 \$27.9 million; 2014 \$18.1 million; and 2015 \$11.5 million.

10. 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 products and/or services 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, 2011, 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.

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, 2011. 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 unaudited 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, 2010 (our 2010 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.

Company Overview

Our Company. We are a leading provider of Business Support Systems (BSS) solutions to clients in several complex and highly competitive industries. Our solutions coordinate and manage many aspects of a service provider's customer interactions, from the initial activation of customer accounts, to the support of various service activities, and through the presentment, collection, and accounts receivables management of monthly customer statements. While our heritage is in serving the North American communications markets, through acquisition and organic growth, we have broadened and enhanced our solutions to extend our business both globally and to a growing number of other industries including communications, financial services, healthcare, utilities, entertainment, and content distribution.

Prior to 2011, our business was focused on the North American market, with approximately 85% of our revenues coming from the cable and direct broadcast satellite (DBS) markets and the remaining 15% from a variety of other verticals. However, on November 30, 2010, we completed our acquisition of U.K.-based Intec Telecom Systems PLC (Intec) (the Intec Acquisition). Intec is a recognized global BSS leader for retail billing, mediation, and wholesale business management, serving the majority of the world's top 100 communications service providers. As a result, we expect the percentage of our revenues coming from the cable and DBS markets to be approximately 60%.

With the Intec Acquisition, we believe we are well-positioned to: (i) evolve our offerings; (ii) expand the markets we serve; and (iii) reach greater economic scale.

We are a S&P SmallCap 600 company.

Management Overview of Quarterly Results

Third Quarter Highlights. A summary of our results of operations for the third quarter of 2011, when compared to the third quarter of 2010, is as follows (in thousands, except per share amounts and percentages):

	Quarter Ended	
	September 30, 2011	September 30, 2010
Revenues	\$ 182,753	\$ 133,691
Operating Results:		
Operating income	\$ 22,767	\$ 22,522
Operating income margin	12.5%	16.8%
Diluted EPS	\$ 0.32	\$ 0.35

Table of Contents

	Quarter Ended	
	September 30, 2011	September 30, 2010
Supplemental Data:		
Cable and DBS customer accounts (end of period)	48,730	48,750
Data center transition expenses	\$	\$ 1,825
Intec Acquisition Costs		2,601
Restructuring charges	1,662	
Stock-based compensation	3,155	3,116
Amortization of acquired intangible assets	5,731	1,159
Amortization of OID	1,158	1,462
Loss on repurchase of convertible debt securities		1,683

Revenues. Our revenues for the third quarter of 2011 were \$182.8 million. This represents a 37% increase from revenues of \$133.7 million for the same period in 2010, with the increase almost entirely attributed to the additional revenues generated as a result of the Intec Acquisition.

Operating Results. Operating income for the third quarter of 2011 was \$22.8 million, or a 12.5% operating income margin percentage, compared to \$22.5 million, or a 16.8% operating income margin percentage, for the third quarter of 2010. The lower operating income margin reflects the lower margin profile of Intec's global software and services business, to include \$4.8 million, or 2.6 percentage points, of amortization of acquired intangible assets related to the Intec Acquisition.

Diluted EPS. Diluted EPS for the third quarter of 2011 was \$0.32 per diluted share, which compares to \$0.35 per diluted share for the third quarter of 2010. Diluted EPS for the third quarter of 2011, when compared to diluted EPS for the third quarter of 2010 was impacted by the following items:

\$4.8 million of amortization of acquired intangible assets related to the Intec Acquisition, which negatively impacted diluted EPS by \$0.08 per diluted share;

restructuring charges of \$1.7 million, which negatively impacted diluted EPS by \$0.03 per diluted share; and

an effective income tax rate of 47% for the third quarter of 2011, compared to 35% for the third quarter of 2010.

Additionally, diluted EPS for the third quarter of 2010 was impacted by the following items, for which there were no comparable amounts in the third quarter of 2011:

data center transition expenses of \$1.8 million, which negatively impacted diluted EPS by \$0.04 per diluted share;

Intec acquisition-related charges of \$2.6 million, which negatively impacted diluted EPS by \$0.05 per diluted share; and

the loss on the repurchase of convertible debt securities of \$1.7 million, which negatively impacted GAAP EPS by \$0.03 per diluted share.

Cash and Cash Flows. As of September 30, 2011, we had cash, cash equivalents and short-term investments of \$138.6 million, as compared to \$134.4 million as of June 30, 2011. Our cash flows from operating activities for the third quarter of 2011 were \$30.3 million compared to \$18.5 million for the third quarter of 2010. See the Liquidity section for further discussion of our cash flows.

Table of Contents**Significant Client Relationships**

Client Concentration. A large percentage of our historical revenues have been generated from our four largest clients, which are Comcast Corporation (Comcast), DISH Network Corporation (DISH), Time Warner, Inc. (Time Warner), and Charter Communications, Inc. (Charter). Revenues from these clients represented the following percentages of our total revenues for the indicated periods:

	Quarter Ended		
	September 30, 2011	June 30, 2011	September 30, 2010
Comcast	20%	18%	24%
DISH	12%	12%	19%
Time Warner	10%	11%	13%
Charter	<10%	<10%	11%

The decrease in revenue percentages generated from these four clients beginning in 2011 is due to the larger global revenue base that we now have as a result of the Intec Acquisition.

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

	As of		
	September 30, 2011	June 30, 2011	December 31, 2010
Comcast	22%	22%	20%
DISH	13%	12%	15%
Time Warner	<10%	11%	<10%
Charter	<10%	<10%	<10%

See our 2010 10-K for additional discussion of our business relationships with the above mentioned significant clients.

DISH. On January 15, 2011, we entered into a contract extension with DISH to extend our relationship for processing and related services, and for print and mail services, through December 31, 2017. As a result of this new agreement, in February 2011 we began invoicing DISH for processing and related services on a per-customer-account basis, to include volume-based tiered pricing, rather than a monthly fixed fee. The expected annual fees that we will generate under the new agreement will decrease in exchange for the extended term of the contract and DISH's migration to the ACP platform. During the initial years under the new agreement, annual revenues generated could be approximately 10% to 15% less than those generated in 2010, depending on the level of products and services that DISH decides to purchase from us.

Additionally, the terms of the previous DISH agreement required certain advance deposits and allowed for invoicing of monthly fees in advance of such services. Upon execution of the new agreement, DISH was allowed to apply certain of those advance payments to its first quarter of 2011 invoices and the invoicing of monthly services reverted back to our normal practice of invoicing one month in arrears. As a result, our cash flows from operating activities for the nine months ended September 30, 2011 was negatively impacted by approximately \$20 million as the advance payments and invoicing terms were brought in-line with the new agreement.

See our 2010 10-K for additional details of the key terms of the DISH agreement. The new DISH agreement, with confidential information redacted, is included in the exhibits to our periodic filings with the SEC.

Risk of Client Concentration. Although the Intec Acquisition has reduced the percentage of our total revenues generated from these clients, we expect to continue to generate a significant percentage of our future 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. 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.

Table of Contents**Stock-Based Compensation Expense**

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

	Quarter Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Cost of processing and related services	\$ 671	\$ 791	\$ 2,040	\$ 2,340
Cost of software, maintenance and services	102	209	487	622
Research and development	410	378	1,273	1,234
Selling, general and administrative	1,972	1,738	5,884	5,104
Total stock-based compensation expense	\$ 3,155	\$ 3,116	\$ 9,684	\$ 9,300

Amortization of Acquired Intangible Assets

Amortization of acquired intangible assets is included in the following captions in the accompanying Statements of Income (in thousands):

	Quarter Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Cost of processing and related services	\$ 826	\$ 657	\$ 2,477	\$ 1,970
Cost of software, maintenance and services	4,903	498	14,624	1,438
Selling, general and administrative	2	4	9	78
Total amortization of acquired intangible assets	\$ 5,731	\$ 1,159	\$ 17,110	\$ 3,486

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 position 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 our 2010 10-K.

Results of Operations

Total Revenues. Total revenues for the: (i) third quarter of 2011 increased 37% to \$182.8 million, from \$133.7 million for the third quarter of 2010; and (ii) nine months ended September 30, 2011 increased 38% to \$547.2 million, from \$395.3 million for the nine months ended September 30, 2010. These increases can almost entirely be attributed to the additional revenues generated as a result of the Intec Acquisition.

Table of Contents

We use the location of the client as the basis of attributing revenues to individual countries. Revenues by geographic regions for the third quarter and nine months ended September 30, 2011 and 2010 were as follows (in thousands):

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Americas (principally the U.S.)	\$ 155,304	\$ 133,691	\$ 467,830	\$ 395,300
Europe, Middle East and Africa (principally Europe)	19,151		56,271	
Asia Pacific	8,298		23,056	
Total revenues	\$ 182,753	\$ 133,691	\$ 547,157	\$ 395,300

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 2011 increased 5% to \$131.1 million, from \$125.0 million for the third quarter of 2010; and (ii) for the nine months ended September 30, 2011 increased 6% to \$391.6 million from \$368.4 million for the nine months ended September 30, 2010. The increases in processing and related services revenues between periods can be attributed primarily to the inclusion of Intec's managed services revenues.

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

Processing and related services revenues for the third quarter of 2011 includes the full quarter impact of the DISH contract extension, discussed in further detail in the Significant Client Relationships section of this 10-Q and our 2010 10-K.

Amortization of our client contracts intangible assets related to investments in client contracts (reflected as a reduction of processing and related services revenues) for the: (i) third quarter of 2011 and 2010 was \$1.9 million and \$1.6 million, respectively; and (ii) nine months ended September 30, 2011 and 2010 was \$5.6 million and \$4.9 million, respectively.

Total customer accounts processed on our ACP solution as of September 30, 2011 were 48.7 million, compared to 48.8 million as of September 30, 2010, and 48.9 million as of June 30, 2011.

Software, Maintenance and Services Revenues. Software, maintenance and services revenues for the: (i) third quarter of 2011 were \$51.7 million compared to \$8.7 million for the third quarter of 2010; and (ii) nine months ended September 30, 2011 were \$155.6 million compared to \$26.9 million for the nine months ended September 30, 2010, with the increases between periods entirely attributed to the revenues from the Intec Acquisition.

Total Expenses. Our operating expenses for the: (i) third quarter of 2011 were \$160.0 million, up 44% when compared to \$111.2 million for the third quarter of 2010; and (ii) nine months ended September 30, 2011 were \$477.9 million, up 40% when compared to \$341.6 million for the nine months ended September 30, 2010. The increases in total expenses between periods can be attributed to the Intec Acquisition, which was partially offset by \$1.8 million quarterly and \$20.1 million year-to-date decreases in our data center transition expenses, due to completion of our data center migration in the third quarter of 2010. See the Data Center Transition section in our 2010 10-K for a discussion of this project.

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

Cost of Revenues. See our 2010 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 2011 was \$62.2 million, a slight increase when compared to \$61.7 million for the third quarter of 2010; and (ii) nine months ended September 30, 2011 decreased 7% to \$184.2 million from \$197.6 million for the nine months ended September 30, 2010. Total processing and related services cost as a percentage of our

Edgar Filing: CSG SYSTEMS INTERNATIONAL INC - Form 10-Q

processing and related services revenues for the: (i) third quarter of 2011 and 2010 was 47.4% and 49.3%, respectively; and (ii) nine months ended September 30, 2011 and 2010 was 47.0% and 53.6%, respectively.

Table of Contents

Processing and related services cost, and processing and related services cost as a percentage of our processing and related services revenues were impacted in the third quarter and nine months ended September 30, 2010 by our data center transition expenses, which had the following effect (in thousands, except percentages):

	Quarter Ended September 30,				Nine Months Ended September 30,			
	2011		2010		2011		2010	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Cost of processing and related services revenues, all other	\$ 62,167	47.4%	\$ 59,850	47.9%	\$ 184,228	47.0%	\$ 179,476	48.7%
Data center transition expenses			1,825	1.4			18,128	4.9
Cost of processing and related services revenues	\$ 62,167	47.4%	\$ 61,675	49.3%	\$ 184,228	47.0%	\$ 197,604	53.6%

Absent the impact of the data center transition expenses, processing and related services cost as a percentage of our processing and related services revenues would have decreased 0.5 percentage points and 1.7 percentage points, respectively, between the quarters and nine months ended September 30, 2011 and September 2010. These decreases are due to the operational and financial benefits that we began to experience during the second quarter of 2010, following the substantial completion of our migration efforts to our new data center location.

Cost of Software, Maintenance and Services. The cost of software, maintenance and services for the: (i) third quarter of 2011 increased to \$30.8 million, from \$6.1 million for the third quarter of 2010; and (ii) nine months ended September 30, 2011 increased to \$90.4 million, from \$18.0 million for the nine months ended September 30, 2010. These increases can be entirely attributed to the Intec Acquisition, and includes the amortization expense related to the acquired Intec intangible assets, which had the following impact on the cost of software, maintenance and services (in thousands, except percentages):

	Quarter Ended September 30,				Nine Months Ended September 30,			
	2011		2010		2011		2010	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Cost of software, maintenance and services revenues, all other	\$ 26,272	50.9%	\$ 6,120	70.3%	\$ 76,838	49.4%	\$ 18,000	66.9%
Amortization expense related to acquired Intec intangible assets	4,549	8.8			13,562	8.7		
Cost of software, maintenance and services revenues	\$ 30,821	59.7%	\$ 6,120	70.3%	\$ 90,400	58.1%	\$ 18,000	66.9%

Total cost of software, maintenance and services as a percentage of our software, maintenance and services revenues for the: (i) third quarter of 2011 and 2010 was 59.7% and 70.3%, respectively; and (ii) nine months ended September 30, 2011 and 2010 was 58.1% and 66.9%, respectively. Consistent with our results for the three quarters of 2011 and as a result of the Intec Acquisition, we expect revenues from software, maintenance and services to be a larger percentage of our total revenues in 2011 than we have historically experienced. 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, maintenance and services as a percentage of our software, maintenance and services revenues may occur between periods.

R&D Expense. R&D expense for the: (i) third quarter of 2011 increased 46% to \$27.9 million, from \$19.1 million for the third quarter of 2010; and (ii) nine months ended September 30, 2011 increase 49% to \$84.5 million, from \$56.6 million for the nine months ended September 30, 2010, with the increases mainly attributed to the addition of Intec R&D activities. As a percentage of total revenues, R&D expense increased to 15.3% for the third quarter of 2011 compared to 14.3% for the third quarter of 2010. We did not capitalize any internal software development

costs during the nine months ended September 30, 2011 and 2010.

Our R&D efforts are focused on the continued evolution of our solutions that enable service providers worldwide to provide a more personalized customer experience while turning transactions into revenues. This includes the continued investment in our BSS solutions aimed at improving a providers' time-to-market, flexibility, scalability, and total cost of ownership. These efforts include the integration of the recently acquired Intec products into the CSG solution suite. We expect that our R&D investment activities in the near-term will be relatively consistent with this past quarter, with the level of R&D spend highly dependent upon the opportunities that we see in our markets.

Table of Contents

Selling, General and Administrative (SG&A) Expense. SG&A expense for the: (i) third quarter of 2011 increased 60% to \$31.0 million, from \$19.4 million for the third quarter of 2010; and (ii) nine months ended September 30, 2011 increased 84% to \$96.9 million, from \$52.6 million for the nine months ended September 30, 2010, with these increases primarily the result of the impact of the Intec SG&A functions. As anticipated, our SG&A costs as a percentage of total revenues increased over our historical levels to 17.0% for the third quarter of 2011, compared to 14.5% for the third quarter of 2010. As is typical with many global software companies, Intec's SG&A expenses as a percentage of total revenues are greater than CSG's historical levels as a domestic outsourced processing company.

Depreciation Expense. Depreciation expense for the: (i) third quarter of 2011 increased 32% to \$6.4 million, from \$4.9 million for the third quarter of 2010; and (ii) nine months ended September 30, 2011 increased 14% to \$18.9 million, from \$16.6 million for the nine months ended September 30, 2010. These increases in depreciation expense are primarily attributed to the additional depreciation expense as a result of the Intec Acquisition, and the additional capital expenditures we have made over the last year.

Restructuring Charges. Beginning in the second quarter of 2011, we implemented various cost reduction and efficiency initiatives that resulted in restructuring charges of \$1.7 million for the third quarter of 2011 and \$3.0 million for the nine months ended September 30, 2011. These initiatives were primarily in the following three areas:

We lowered our resources in account services to better leverage our enhanced and expanded professional services talent across the global organization.

We reduced our resources in certain development areas to ensure we are focusing a greater portion of our efforts on our next generation solutions like ACP, Singleview, and Wholesale Billing and Mediation.

We consolidated our print facilities from four to three locations as we continue to take advantage of the advancements made in print technologies and the capabilities of our staff. The efficiencies and added speed resulting from our previous investments have allowed us to significantly increase our production throughput.

We anticipate that these actions will result in cost savings of approximately \$7 million annually, with approximately one-half of this benefit to be realized during the second half of 2011, and the full year run rate savings to be experienced in early 2012.

Operating Income. Operating income and operating income margin for the: (i) third quarter of 2011 was \$22.8 million, or 12.5% of total revenues, compared to \$22.5 million, or 16.8% of total revenues for the third quarter of 2010; and (ii) nine months ended September 30, 2011 was \$69.2 million, or 12.7% of total revenues, compared to \$53.7 million, or 13.6% of total revenues for the nine months ended September 30, 2010. Operating income and operating income margin for the third quarter and nine months ended September 30, 2010 were significantly impacted by the data center transition expenses and Intec Acquisition costs, which had the following effect on our operating income and operating income margins (in thousands, except percentages):

	Quarter Ended September 30, 2011		2010		Nine Months Ended September 30, 2011		2010	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Operating income, all other	\$ 22,767	12.5%	\$ 26,948	20.2%	\$ 69,242	12.7%	\$ 76,424	19.3%
Data center transition expenses			(1,825)	(1.4)			(20,142)	(5.1)
Intec Acquisition costs			(2,601)	(2.0)			(2,601)	(0.6)
Operating income	\$ 22,767	12.5%	\$ 22,522	16.8%	\$ 69,242	12.7%	\$ 53,681	13.6%

Absent the impact of the data center transition expenses and the Intec Acquisition costs, operating income margin decreased by 7.7 percentage points and 6.6 percentage points, respectively, between the quarters and nine months ended September 30, 2011 and September 30, 2010. These decreases reflect: (i) the full quarterly impact of the lower margin profile of our expanded software and services business from the Intec Acquisition (to include approximately \$5 million and \$14 million, respectively, for the quarter and nine months ended September 30, 2011, of acquired Intec intangible asset amortization); and (ii) the impact of the seven-year contract extension with DISH.

Table of Contents

Interest Expense. Interest expense for the: (i) third quarter of 2011 increased \$2.6 million, to \$4.2 million, compared to \$1.6 million for the third quarter of 2010; and (ii) nine months ended September 30, 2011 increased \$8.1 million to \$12.8 million, compared to \$4.7 million for the nine months ended September 30, 2010. These increases are due to the interest expense related to the Credit Agreement, which was entered into during the fourth quarter of 2010 in conjunction with the Intec Acquisition.

Loss on Repurchase of Convertible Debt Securities. During the third quarter of 2010, we repurchased \$23.2 million (par value) of our 2004 Convertible Debt Securities for a total purchase price of \$23.9 million. As a result of this transaction, we recognized a non-cash loss on the repurchase of \$1.7 million (pretax impact), or \$0.03 per diluted share. During the nine months ended September 30, 2010, we repurchased a total of \$143.1 million (par value) of our 2004 Convertible Debt Securities for a total purchase price of \$148.9 million. As a result of this transaction, we recognized a non-cash loss on the repurchase of \$12.6 million (pretax impact), or \$0.24 per diluted share.

Income Tax Provision. The effective income tax rates for the quarter and nine months ended September 30, 2011 and 2010 were as follows:

Quarter Ended		Nine Months Ended	
September 30,		September 30,	
2011 (1)	2010 (2)	2011 (1)	2010 (2)
47%	35%	42%	23%

- (1) During the first and second quarters of 2011, we recorded effective income tax rates of 37% and 43%, respectively. As a result of our most recent revised revenues and profit level forecasts for 2011, we now anticipate generating greater losses in certain foreign entities for the year. Under current accounting rules, we cannot take a tax benefit for those losses at this time, which has the effect of increasing our effective income tax rate for the year. As a result, we recorded an effective income tax rate of 47% for the third quarter, bringing the effective income tax rate to 42% for the first nine months of 2011. We may continue to see additional volatility in our income tax rate as we transform our company to a global service provider.
- (2) The low effective income tax rate for the nine months ended September 30, 2010 is the result of the completion of an IRS examination of our 2006, 2007 and 2008 Federal income tax returns during the second quarter of 2010. Under current accounting rules, we were required to establish a liability for unrecognized income tax benefits (i.e., income tax reserves) related to the uncertainty in the realization of certain tax credits and incentives over the last several years. The realization uncertainty was due to the complexity of the income tax regulations associated with the tax credits and incentives, and the judgments and estimates involved in calculating the tax credits and incentives claimed. The completion of the IRS examination essentially validated our calculation methodology and assumptions utilized in determining our credit and incentive amounts. Therefore, favorable adjustments to our income tax reserves of approximately \$4 million, or \$0.13 per diluted share for the nine months ended September 30, 2010, were necessary in accordance with our accounting policies.

Liquidity**Cash and Liquidity**

As of September 30, 2011, our principal sources of liquidity for operating purposes included cash, cash equivalents and short-term investments of \$138.6 million, compared to \$134.4 million as of June 30, 2011, and \$215.6 million as of December 31, 2010. The \$77.0 million year-to-date decrease from December 31, 2010 to September 30, 2011 reflects: (i) our repayment of \$42.5 million of borrowings under our Credit Agreement; and (ii) our payment of \$25.1 million related to our 2004 convertible debt securities. We generally invest our excess cash balances in low-risk, short-term investments to limit our exposure to market and credit risks.

As part of our Credit Agreement, we have a five-year, \$100 million senior secured revolving loan facility (Revolver) with a syndicate of financial institutions that expires in December 2015 (See Note 7 to the Financial Statements). As of September 30, 2011, there were no borrowings outstanding on the Revolver. The Credit Agreement contains customary affirmative covenants and financial covenants. As of September 30, 2011, and the date of this filing, we believe that we are in compliance with the provisions of the Credit Agreement.

Table of Contents

Our cash, cash equivalents, and short-term investment balances as of the end of the indicated periods were located in the following geographical regions (in thousands):

	September 30, 2011	December 31, 2010
Americas (principally the U.S.)	\$ 107,258	\$ 153,674
Europe, Middle East and Africa (principally Europe)	24,305	58,595
Asia Pacific	7,036	3,281
Total cash, equivalents and short-term investments	\$ 138,599	\$ 215,550

We generally have ready access to substantially all of our cash, cash equivalents, and short-term investment balances, but may face limitations on moving cash out of certain foreign jurisdictions due to currency controls. As of September 30, 2011, we had approximately \$5 million of cash restricted as to use to collateralize outstanding letters of credit.

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 2010 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 (Used in) Operating Activities Quarter Totals
Cash Flows from Operating Activities:			
2010:			
March 31	\$ 27,376	\$ 3,948	\$ 31,324
June 30	25,052	(641)	24,411
September 30	27,305	(8,805)	18,500
December 31	32,529	14,545	47,074
Total	\$ 112,262	\$ 9,047	\$ 121,309
2011:			
March 31 (1)	\$ 39,687	\$ (41,576)	\$ (1,889)
June 30 (2)	21,753	(21,040)	713
September 30 (3)	34,549	(4,239)	30,310
Total	\$ 95,989	\$ (66,855)	\$ 29,134

- (1) The large decrease in operating assets and liabilities for the first quarter of 2011 relates primarily to: (i) the change of the monthly invoice timing for DISH that had a negative \$20 million impact, as discussed above; and (ii) the timing of payments for several items specific to

Edgar Filing: CSG SYSTEMS INTERNATIONAL INC - Form 10-Q

the first quarter, including the approximately \$8 million of Intec acquisition-related expenses and the 2010 employee incentive performance bonuses, both of which were accrued expenses as of December 31, 2010.

- (2) As a result of the payment of our 2004 Convertible Debt Securities, discussed in Note 7 to the Financial Statements, \$6 million of deferred income tax liabilities associated with the debt became payable and were reclassified to current income taxes payable as of June 30, 2011. Although this was neutral to our overall cash flows from operating activities, it provided a negative impact to our operations portion of cash flows from operating activities and a benefit to our changes in operating assets and liabilities. Additionally, the changes in operating assets and liabilities for the second quarter of 2011 were negatively impacted by the increase in accounts receivable in addition to decreases in deferred revenue and accrued liabilities.

Table of Contents

(3) During the third quarter of 2011, we paid \$4.4 million of the deferred tax liabilities discussed in Note 2 above, thus negatively impacting the changes in operating assets and liabilities by this amount.

Our cash flows from operating activities for the nine months ended September 30, 2011 of \$29.1 million was unusually low for us, and was caused mainly by the \$32 million of one-time, nonrecurring items highlighted in Note 1 and 3 in the table above, and fluctuations in quarter-end working capital items. We expect that we will continue to see some quarter end variability in our working capital items in future quarters, however, over longer periods of time, we do not expect this to be a factor in our ability to continue to generate strong cash flows, as illustrated by the table above.

We expect cash flows from operating activities to continue to be a strong metric for us going forward. Based on our current forecasts, we expect to generate approximately \$65 million in cash flows from operating activities for 2011, which assumes no significant changes in working capital from now until the end of the year.

Significant fluctuations in the balances of key operating assets and liabilities between September 30, 2011 and December 31, 2010, 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.

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
2010:				
March 31	\$ 109,456	\$ (2,289)	\$ 107,167	51
June 30	102,523	(2,130)	100,393	51
September 30	115,674	(2,355)	113,319	50
December 31	156,842	(1,837)	155,005	48
2011:				
March 31	150,592	(1,958)	148,634	53
June 30	168,977	(2,541)	166,436	59
September 30	159,748	(2,472)	157,276	61

The increase in gross and net accounts receivable in the fourth quarter of 2010 over historical levels is due to the Intec Acquisition. The other 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.

As a result of the Intec Acquisition, a greater percentage of our accounts receivable balance beginning with the quarter ended December 31, 2010, relates to clients outside the U.S. As expected, this greater diversity in the geographic composition of our client base is impacting our DBO (when compared to our historical experience prior to the Intec Acquisition) as longer billing cycles (i.e., billing terms and cash collection cycles) are an inherent characteristic of international software and professional services transactions. For example, our ability to bill (i.e., send an invoice) and collect arrangement fees may be dependent upon, among other things: (i) the completion of various client administrative matters, local country billing protocols and processes (including local cultural differences), and/or non-client administrative matters; (ii) us meeting certain contractual invoicing milestones; or (iii) the overall project status in certain situations in which we act as a subcontractor to another vendor on a project.

Accrued Employee Compensation

Accrued employee compensation decreased \$20.5 million, from \$53.4 million as of December 30, 2010, to \$32.9 million as of September 30, 2011. This decrease is primarily due to: (i) the payment of the 2010 employee incentive performance bonuses in March 2011 that were accrued as of December 31, 2010, offset to a certain degree by the accrual for the 2011 employee incentive

Table of Contents

performance bonuses, however, at a significantly lower level than in 2010; and (ii) the timing of payment of employee wages and other benefits.

Other Current Liabilities

Other current liabilities decreased \$12.0 million, from \$32.0 million as of December 31, 2010, to \$20.0 million as of September 30, 2011. This decrease can be mainly attributed to the payment of approximately \$8 million of various Intec acquisition-related expenses that were accrued as of December 31, 2010.

Deferred Revenue

Total deferred revenue (current and non-current) decreased \$21.9 million, from \$72.3 million as of December 31, 2010, to \$50.4 million as of September 30, 2011. This decrease can be primarily attributed to the change in monthly invoice timing for DISH, to bring the advance payments and invoicing terms in-line with the terms of their contract renewal, which was executed in January 2011. This change in the DISH invoice timing had a negative (\$20) million impact to our cash flows from operating activities.

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.

Purchases/Sales of Short-term Investments. During the nine months ended September 30, 2011 and 2010, we purchased \$31.9 million and \$61.9 million, respectively, and sold (or had mature) \$35.2 million and \$81.9 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, 2011 and 2010, for property and equipment, and investments in client contracts were as follows (in thousands):

	Nine Months Ended September 30,	
	2011	2010
Property and equipment	\$ 19,615	\$ 9,858
Client contracts	6,713	3,610

The property and equipment expenditures during the first nine months 2011 consisted principally of investments in: (i) computer hardware, software, and related equipment; (ii) statement production equipment; and (iii) facilities and internal infrastructure items.

The investments in client contracts for the first nine months 2011 and 2010 relate to client incentive payments (\$1.5 million and \$1.6 million, respectively) and the deferral of costs related to conversion/set-up services provided under long-term processing contracts (\$5.2 million and \$2.0 million, respectively).

Cash Flows From Financing Activities

Our financing activities typically consist of activities with our common stock and our long-term debt.

Repurchase of Common Stock. During the first nine months of 2011 and 2010, we repurchased 0.6 million and 1.5 million shares of our common stock under the guidelines of our Stock Repurchase Program for \$7.7 million and \$29.3 million, respectively. In addition, outside of our Stock Repurchase Program, during the first nine months of 2011 and 2010, we repurchased from our employees and then cancelled approximately 217,000 shares and 228,000 shares of our common stock for \$4.2 million and \$4.6 million, respectively, in connection with minimum tax withholding requirements resulting from the vesting of restricted common stock under our stock incentive plans.

Table of Contents

Long-term debt. During the first nine months of 2011, we: (i) repaid the \$35 million outstanding balance of the Revolver; (ii) paid \$25.1 million of 2004 Convertible Debt Securities, primarily as a result of the holders exercising their put option; and (iii) made \$7.5 million of mandatory repayments on the Term Loan.

In the first quarter of 2010, we completed an offering of our 2010 Convertible Notes. We used a portion of the \$145 million net proceeds from the offering to repurchase \$119.9 million (par value) of our 2004 Convertible Debt Securities for \$125.0 million. In connection with the issuance of the convertible notes, we paid deferred financing costs of \$5.0 million. In the third quarter of 2010, we repurchased an additional \$23.2 million (par value) of our 2004 Convertible Debt Securities for \$23.9 million.

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, 2011, we had cash, cash equivalents, and short-term investments of \$138.6 million. Of the approximately \$124 million of cash and cash equivalents as of September 30, 2011, 79%, 8%, and 4%, respectively, were denominated in U.S Dollars, Euros, and Pounds Sterling, and approximately \$5 million was restricted as to use to collateralize outstanding letters of credit.

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 Loan Facility. We have a five-year, \$100 million senior secured revolving loan facility with a syndicate of financial institutions that expires in December 2015. As of the date of this filing, we have \$100 million of the revolving loan facility available to us.

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 under our Stock Repurchase Program. During the third quarter of 2011, we repurchased 0.6 million shares of our common stock for \$7.7 million (\$13.25 per share). During the first quarter of 2010, and in conjunction with the issuance of our 2010 Convertible Notes, we repurchased 1.5 million shares of our common stock for \$29.3 million (\$19.56 per share). As of September 30, 2011, we have 3.6 million shares authorized for repurchase remaining under our Stock Repurchase Program. Our Credit Agreement places certain limitations on our ability to repurchase our common stock. We continue to evaluate the best use of our capital going forward, which from time-to-time, may include additional share repurchases as market and business conditions warrant.

Acquisitions. We have made six acquisitions in the last six years. The most recent acquisition, and the only acquisition in 2010, was the Intec Acquisition on November 30, 2010 where we paid cash related to the transaction of approximately \$378 million (or \$269 million, net of cash acquired).

Capital Expenditures. In the nine months ended September 30, 2011, we spent \$19.6 million on capital expenditures. At this time, we expect our 2011 capital expenditures to be approximately \$25 million, which consist principally of: (i) hardware and software infrastructure to support our clients' expanding business needs around the world; (ii) statement production equipment to continue to offer enhanced functionalities to our U.S. clients; and (iii) internal use systems to support the integration of Intec.

Edgar Filing: CSG SYSTEMS INTERNATIONAL INC - Form 10-Q

Investments in Client Contracts. In the past, we have provided incentives to new or existing U.S. processing 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, 2011, we made client incentive payments of \$1.5 million. In addition, during the nine months ended September 30, 2011, we capitalized costs related to the deferral of conversion/set-up

Table of Contents

services revenue of \$5.2 million. As of September 30, 2011, we did not have any material commitments for investments in client contracts which are payable by us only upon the successful conversion of certain additional customer accounts to our processing solutions.

Long-Term Debt. As of September 30, 2011, our long-term debt consisted of: (i) 2010 Convertible Notes with a par value of \$150.0 million; and (ii) Credit Agreement term loan borrowings of \$192.5 million. In the nine months ended September 30, 2011, we made payments of: (i) \$25.1 million to fully extinguish our 2004 Convertible Debt Securities at par value; (ii) \$7.5 million related to mandatory amortization payments on the Credit Agreement term loan; and (iii) \$35.0 million to pay off the December 31, 2010 balance on the Credit Agreement revolving loan facility.

During 2010 and 2009, we voluntarily repurchased a total of \$175.2 million (par value) of our 2004 Convertible Debt Securities for \$177.7 million. As a result of these repurchases, beginning in 2014, we will have to pay cash of approximately \$30 million ratably over five years related to the deferred income tax liabilities associated with the repurchased securities. As a result of the extinguishment of the remaining 2004 Convertible Debt Securities in 2011, approximately \$6 million of deferred tax liabilities became payable, of which \$4.4 million was paid as of September 30, 2011.

During the next twelve months, there are no scheduled conversion triggers on our 2010 Convertible Notes. As a result, at this time, we expect our required debt service cash outlay during the next twelve months related to the 2010 Convertible Notes to be limited to interest payments of \$4.5 million.

Under the Credit Agreement term loan, we will make mandatory annual amortization payments (payable quarterly) equal to \$10 million, \$20 million, \$30 million, \$40 million, and \$50 million, respectively, in 2011, 2012, 2013, 2014, and 2015, with the remaining principal balance due at the maturity date. Under certain circumstances, mandatory prepayments are required (e.g., as a result of defined excess cash flow, asset sale or casualty proceeds, or proceeds of debt issuances). We have the right to voluntarily prepay any of the borrowings under the Credit Agreement without significant penalty.

Refer to Note 6 to our 2010 Form 10-K Financial Statements for further details of our long-term debt.

In summary, we expect to continue to make material investments in client contracts, capital equipment, and R&D, and we expect to continue to evaluate the possibility of early debt repayments 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, cash equivalents and short-term investments balances and our revolving loan facility, together with cash expected to be generated in the future from our current 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 which may be available to us if deemed appropriate.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the potential loss arising from adverse changes in market rates and prices. As of September 30, 2011, we are exposed to various market risks, including changes in interest rates, foreign currency exchange rates, and fluctuations and changes in the market value of our cash equivalents and 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. The interest rate on our convertible debt is fixed, and thus, as it relates to our convertible debt borrowings, we are not exposed to changes in interest rates.

The interest rates under the Credit Agreement are based upon an adjusted LIBOR rate plus an applicable margin, or an alternate base rate plus an applicable margin. Refer to Note 6 to our 2010 Form 10-K Financial Statements for further details of our long-term debt.

In May 2011, we entered into three interest rate swap contracts with the objective of managing our exposure to fluctuations in interest rate movements, thereby eliminating the variability of cash flows on certain portions of the interest payments related to the Term Loan component of our Credit Agreement. See Note 8 to our Financial Statements for further details on the interest rate swap contracts.

As a result of entering into the interest rate swaps, as of September 30, 2011, we were exposed to fluctuations in interest rate movements on \$75 million of our Term Loan.

A hypothetical adverse change of 10% in the September 30, 2011 adjusted LIBOR rate would not have had a material impact upon our results of operations.

Market Risk Related to Cash Equivalents and Short-term Investments. Our cash and cash equivalents as of September 30, 2011 and December 31, 2010 were \$124.2 million and \$197.9 million, respectively. Certain of our cash balances are swept into overnight money market accounts on a daily basis, and at times, any excess funds are invested in low-risk, somewhat longer term, cash equivalent instruments and short-term investments. Our cash equivalents are invested primarily in institutional money market funds, commercial paper, and time deposits held at major banks. 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, 2011 and December 31, 2010 were \$14.4 million and \$17.7 million, respectively. Currently, we utilize short-term investments as a means to invest our excess cash only in the U.S. The day-to-day management of our 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.

Foreign Currency Exchange Rate Risk.

As the result of the Intec Acquisition on November 30, 2010, we are exposed to the impact of the changes in foreign currency exchange rates.

Due to foreign operations around the world, our balance sheet and income statement are exposed to foreign currency exchange risk due to the fluctuations in the value of currencies in which we conduct business. While we attempt to maximize natural hedges by incurring expenses in the same currency in which we contract revenue, the related expenses for that revenue could be in one or more differing currencies than the revenue stream.

We generate approximately 80% of our revenues in U.S. dollars. We expect that, in the foreseeable future, the percentage of our total revenues denominated in currencies other than the U.S. dollar may grow.

Table of Contents

As of September 30, 2011 and December 31, 2010, the carrying amounts of our monetary assets and monetary liabilities on the books of our non-U.S. subsidiaries in currencies denominated in a currency other than the functional currency of those non-U.S. subsidiaries are as follows (in thousands, in U.S. dollar equivalents):

	September 30, 2011		December 31, 2010	
	Monetary Liabilities	Monetary Assets	Monetary Liabilities	Monetary Assets
Pounds sterling	\$	\$ 925	\$	\$ 481
Euro	(20)	5,553	(41)	5,607
U.S. Dollar	(125)	18,057	(472)	19,061
New Zealand Dollar		40		488
Other	(17)	408	(13)	345
Totals	\$ (162)	\$ 24,983	\$ (526)	\$ 25,982

A hypothetical adverse change of 10% in the September 30, 2011 exchange rates would not have had a material impact upon our results of operations.

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. As we continue to integrate the Intec business, we may make changes that could materially affect our internal control over financial reporting.

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 rapidly changing and evolving markets throughout the world addressing the complex needs of communication service providers, financial institutions, healthcare providers and many others, and new risk factors will likely emerge. Further, as we enter new market sectors such as healthcare and financial services, as well as new geographic markets, we are subject to new regulatory requirements that increase the risk of non-compliance and the potential for economic harm to us and our clients. 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 Position and Results of Operations.

Over the past decade, the worldwide communications industry has experienced significant consolidation, 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, we historically have had approximately two-thirds of our revenues generated from four clients that each individually accounted for approximately 10% or more of our total revenues. As a result of the additional revenues from the Intec Acquisition, for the current quarter, we had three clients, Comcast, DISH, and Time Warner that individually generated over 10% of our total revenues. This resulted in approximately 40% of our total revenues coming from these three clients. See the Significant Client Relationships section of MD&A in our 2010 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 a significant client could: (i) undergo a formalized process to evaluate alternative providers for services we provide; (ii) terminate or fail to renew their contracts with us, in whole or in part for any reason; (iii) 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 (iv) experience significant financial or operating difficulties. Any such development could have a material adverse effect on our financial position and results of operations and/or trading price of our common stock.

Our industry is highly competitive, and while we recently have succeeded in gaining customers at the expense of competitors and entered into a long term renewal with our second largest customer, there is no guarantee that this success will continue. It is possible that a competitor could increase its footprint and share of customers processed at our expense or a provider could develop their own internal solutions. While our clients may incur some costs in switching to our competitors or their own internally-developed solutions, they may do so for a variety of reasons, including: (i) price; (ii) if we do not provide satisfactory solutions; or (iii) if we do not maintain favorable relationships.

Table of Contents

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.

Our recent acquisition of Intec provides us with many opportunities and challenges. Intec represents an approximate 40% increase in revenue, adds approximately 1,500 employees, and gives us operations in 24 countries where we did not previously have operations. Integrating this many people, processes, and operations presents new risks to the business that must be managed carefully. If not, it could have a material impact on operations and cause results to differ significantly from expectations.

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; (iv) being bound by client or vendor contracts with unfavorable terms; and (v) 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) costs incurred to exit current or acquired contracts or activities; (d) costs incurred to service any acquisition debt; and (e) 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.

Variability of Our Quarterly Revenues and Our Failure to Meet Revenue and Earnings Expectations Would Negatively Affect the Market Price for Our Common Stock.

Variability in quarterly revenues and operating results are inherent characteristics of the software and professional services industries. Common causes of a failure to meet revenue and operating expectations in these industries include, among others:

The inability to close and/or recognize revenue on one or more material transactions that may have been anticipated by management in any particular period;

The inability to renew timely one or more material software maintenance agreements, or renewing such agreements at lower rates than anticipated; and

The inability to complete timely and successfully an implementation project and meet client expectations, due to factors discussed in greater detail below.

We expect software license, software maintenance services, and professional services revenues to become an increasingly larger percentage of our total revenues in the future. As our total revenues grow, so too does the risk associated with meeting financial expectations for revenues derived from our software licenses, software maintenance services, and professional services offerings. As a result, there is a proportionately increased likelihood that we may fail to meet revenue and earnings expectations of the investment community. Should we fail to meet analyst expectations, by even a relatively small amount, it would most likely have a disproportionately negative impact upon the market price of our common stock.

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 processing services 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 arrangement with 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.

Table of Contents

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.

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 the negative effects of a disruption to our Networks or Systems. Further, our property and business interruption insurance may not adequately compensate us for losses that we incur as a result of such interruptions. 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. An information breach in our Systems or Networks and loss of confidential information such as credit card numbers and related information could have a longer and more significant impact on our business operations than a hardware-related failure. The loss of confidential information could result in losing the customers' confidence, as well as imposition of fines and damages. Any of these events could have both an immediate, negative impact upon our financial position and our short-term revenue and profit expectations, as well as our long-term ability to attract and retain new clients.

The Occurrence or Perception of a Security Breach or Disclosure of Confidential Personally Identifiable Information Could Harm Our Business.

In providing processing services to our customers, we process, transmit, and store confidential and personally identifiable information, including social security numbers and financial and health information. Our treatment of such information is subject to contractual restrictions and federal, state, and foreign data privacy laws and regulations. We have implemented measures to protect against unauthorized access to such information, and comply with these laws and regulations. These measures include standard industry practices such as periodic security reviews of our systems by independent parties, network firewalls, procedural controls, intrusion detection systems and antivirus applications. Because of the inherent risks and complexities involved in protecting this information, these measures may fail to adequately protect this information. Any failure on our part to protect the privacy of personally identifiable information or comply with data privacy laws and regulations may subject us to contractual liability and damages, loss of business, damages from individual claimants, fines, penalties, criminal prosecution, and unfavorable publicity. Even the mere perception of a security breach or inadvertent disclosure of personally identifiable information could inhibit market acceptance of our solutions. In addition, third party vendors that we engage to perform services for us may unintentionally release personally identifiable information or otherwise fail to comply with applicable laws and regulations. The occurrence of any of these events could have an adverse effect on our business, financial position, 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; (ii) the integration of the Intec assets and its widely distributed, complex worldwide operations; and (iii) the integration of other acquired technologies such as rating, wholesale billing, customer intelligence with ACP, as well as creating an integrated suite of customer care and billing solutions, which are portable to new verticals such as utilities, healthcare, home security, financial services, and

Table of Contents

content distribution. 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 solution, 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, or results in incorrect customer or vendor billing calculations we perform on behalf of our clients, increases proportionately with the frequency and complexity of changes to our solutions and new delivery models. 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.

Our International Operations Subject Us to Additional Risks.

We currently conduct a portion of our business outside the United States. We are subject to certain risks associated with operating internationally including the following items:

Difficulties with product development meeting local requirements;

Fluctuations in foreign currency exchange rates for which a natural or purchased hedge does not exist or is ineffective;

Difficulties in staffing and managing foreign operations;

Longer sales cycles for new contracts;

Longer collection cycles for client billings or accounts receivable, as well as heightened client collection risks, especially in countries with highly inflationary economies and/or with restrictions on the movement of cash out of the country;

Trade barriers;

Difficulties in complying with varied legal and regulatory requirements across jurisdictions;

Reduced protection for intellectual property rights in some countries;

Inability to recover value added taxes and/or goods and services taxes in foreign jurisdictions;

Political instability and threats of terrorism; and

A potential adverse impact to our overall effective income tax rate resulting from, among other things:

Operations in foreign countries with higher tax rates than the United States;

The inability to utilize certain foreign tax credits; and

The inability to utilize some or all of losses generated in one or more foreign countries.

One or more of these factors could have a material adverse effect on our international operations, which could adversely impact our results of operations and financial position.

Our Use of Open Source Software May Subject Us to Certain Intellectual Property-Related Claims or Require Us to Re-Engineer Our Software, Which Could Harm Our Business.

We use open source software in connection with our solutions, processes, and technology. Companies that use or incorporate open source software into their products have, from time to time, faced claims challenging their use, ownership and/or licensing rights associated with that open source software. As a result, we could be subject to suits by parties claiming certain rights to what we believe to be open source software. Some open source software licenses require users who distribute open source software as part of their software to publicly disclose all or part of the source code in their software

Table of Contents

and make any derivative works of the open source code available on unfavorable terms or at no cost. In addition to risks related to license requirements, use of open source software can lead to greater risks than use of third party commercial software, as open source licensors generally do not provide warranties, support, or controls with respect to origin of the software. While we take measures to protect our use of open source software in our solutions, open source license terms may be ambiguous, and many of the risks associated with usage of open source software cannot be eliminated. If we were found to have inappropriately used open source software, we may be required to release our proprietary source code, re-engineer our software, discontinue the sale of certain solutions in the event re-engineering cannot be accomplished on a timely basis, or take other remedial action that may divert resources away from our development efforts, any of which could adversely affect our business, financial position, and results of operations.

The Current Macroeconomic Environment Could Adversely Impact Our Business.

Over the past few years, major economies where we operate have experienced significant economic stress 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. The 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 downturn 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 Position 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 position and results of operations. Likewise, a large percentage of revenues derived from the Intec business have been derived from wholesale billing, retail billing and mediation products which are typically associated with large implementation projects. A sudden downward shift in demand for these products or for our professional services engagements for these products could have a material adverse effect on our financial position and results of operations.

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

Our continued growth plans include the implementation of new solutions, as well as converting both new and existing clients to our solutions. 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. In addition, the complexity of the implementation work increases when the arrangement includes additional vendors participating in the overall project, including, but not limited to, prime and subcontractor relationships with our company. 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 Dependent Upon the Economic and Market Condition of the Global Communications Industry.

Since the majority of our clients operate within this industry sector, the economic state of this industry directly impacts our business. The global communications industry has undergone significant fluctuations in growth rates and capital investment cycles in the past decade. Current economic indices suggest a slow stabilization of the industry, but it is impossible to predict whether this stabilization will persist or be subject to future instability. In addition, consolidation amongst providers continues as service providers look for ways to expand their markets and increase their revenues.

Table of Contents

Continued consolidation, a significant retrenchment in investment by communications providers, or even a material slowing in growth (whether caused by economic, competitive or consolidation factors) could cause delays or cancellations of sales and services currently included in our forecasts. This could cause us to either fall short of revenue expectations or have a cost model that is misaligned with revenues, either or both of which could have a material adverse effect on operations and financial results.

More specific, approximately 60% of our future revenues are expected to be generated from our North American cable and DBS operations. These clients operate in a highly competitive environment. Competitors range from traditional wireline and wireless providers to new entrants like new content aggregators such as Hulu, YouTube, and Netflix. Should these competitors 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. In addition, demand for spectrum, network bandwidth and content continues to increase and any changes in the regulatory environment could have a significant impact to not only our clients' businesses, but in our ability to help our clients be successful.

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.

Failure to Protect Our Intellectual Property Rights or Claims by Others That We Infringe Their Intellectual Property Rights Could Substantially Harm Our Business, Financial Position and Results of Operations.

We rely on a combination of trade secret, copyright, trademark, and patent laws in the United States and similar laws in other countries, and non-disclosure, confidentiality, and other types of contractual arrangements to establish, maintain, and enforce our intellectual property rights in our solutions. Despite these measures, any of our intellectual property rights could be challenged, invalidated, circumvented, or misappropriated. Further, our contractual arrangements may not effectively prevent disclosure of our confidential information or provide an adequate remedy in the event of unauthorized disclosure of our confidential information. Others may independently discover trade secrets and proprietary information, and in such cases we could not assert any trade secret rights against such parties. Costly and time consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position. In addition, the laws of certain countries do not protect proprietary rights to the same extent as the laws of the United States. Therefore, in certain jurisdictions, we may be unable to protect our proprietary technology adequately against unauthorized third party copying or use, which could adversely affect our competitive position.

Although we hold a limited number of patents and patent applications on some of our newer solutions, we do not rely upon patents as a primary means of protecting our rights in our intellectual property. In any event, there can be no assurance that our patent applications will be approved, that any issued patents will adequately protect our intellectual property, or that such patents will not be challenged by third parties. Also, much of our business and many of our solutions rely on key technologies developed or licensed by third parties, and we may not be able to obtain or continue to obtain licenses and technologies from these third parties at all or on reasonable terms.

Finally, third parties may claim that we, our customers, licensees or other parties indemnified by us are infringing upon their intellectual property rights. Even if we believe that such claims are without merit, they can be time consuming and costly to defend and distract management's and technical staff's attention and resources. Claims of intellectual property infringement also might require us to redesign affected solutions, enter into costly settlement or license agreements or pay costly damage awards, or face a temporary or permanent injunction prohibiting us from marketing or selling certain of our solutions. Even if we have an agreement to indemnify us against such costs, the indemnifying party may be unable to uphold its contractual obligations. If we cannot or do not license the infringed technology on reasonable pricing terms or at all, or substitute similar

Table of Contents

technology from another source, our business, financial position, and results of operations could be adversely impacted. Our failure to adequately establish, maintain, and protect our intellectual property rights could have a material adverse impact on our business, financial position, and results of operations.

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 risk of collection 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 our ability to collect 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 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 increased during economic downturns and with expanded global operations, that we may incur material restructuring charges in the future.

Substantial Impairment of Goodwill and Other Long-lived Assets in the Future May Be Possible.

As a result of various acquisitions and the growth of our company over the last several years, we have approximately \$209 million of goodwill, and \$181 million of long-lived assets other than goodwill (principally, property and equipment, software, and client contracts). These long-lived assets are subject to ongoing assessment of possible impairment summarized as follows:

Goodwill is required to be tested for impairment on an annual basis. We have elected to do our annual test for possible impairment as of July 31 of each year. In addition to this annual requirement, goodwill is required to be evaluated for possible impairment on a periodic basis (e.g., quarterly) if events occur or circumstances change that could indicate a possible impairment may have occurred.

Long-lived assets other than goodwill are required to be evaluated for possible impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable.

We utilize our market capitalization and/or cash flow models as the primary basis to estimate the fair value amounts used in our goodwill and other long-lived asset impairment valuations. If an impairment was to be recorded in the future, it would likely materially impact our results of operations in the period such impairment is recognized, but such an impairment charge would be a non-cash expense, and therefore would have no impact on our cash flows, or on the financial position of our company.

Table of Contents***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, professional services, 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, professional services, 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. This risk is heightened with a widely dispersed customer base and employee populations. 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.

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 2011 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 ¹	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
July 1 - July 31	5,116	\$ 18.60		4,204,096
August 1 - August 31	236,561	13.40	231,711	3,972,385
September 1 - September 30	347,329	13.15	346,500	3,625,885
Total	589,006	\$ 13.30	578,211	

¹ 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 4. (Removed and Reserved)

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 8, 2011

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
10.21D*	Eighth Amendment to the Restated and Amended CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.21E*	Ninth Amendment to the Restated and Amended CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.23H*	Fifteenth Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Dish Network L.L.C.
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
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

* Portions of the exhibit have been omitted pursuant to an application for confidential treatment, and the omitted portions have been filed separately with the Commission.

** XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.