

CSG SYSTEMS INTERNATIONAL INC
Form 10-Q
November 07, 2014

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from _____ to _____

Commission file number 0-27512

CSG SYSTEMS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware 47-0783182
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

9555 Maroon Circle

Englewood, Colorado 80112

(Address of principal executive offices, including zip code)

(303) 200-2000

(Registrant's telephone number, including area code)

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

YES 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, 2014: 34,329,434

CSG SYSTEMS INTERNATIONAL, INC.

FORM 10-Q for the Quarter Ended September 30, 2014

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CSG SYSTEMS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS - UNAUDITED

(in thousands, except per share amounts)

| | September 30, 2014 | December 31, 2013 |
|---|--------------------------|-------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$75,573 | \$82,686 |
| Short-term investments | 107,886 | 128,151 |
| Total cash, cash equivalents and short-term investments | 183,459 | 210,837 |
| Trade accounts receivable: | | |
| Billed, net of allowance of \$2,736 and \$2,359 | 191,024 | 178,511 |
| Unbilled | 39,513 | 38,365 |
| Deferred income taxes | 8,691 | 15,085 |
| Income taxes receivable | 6,633 | 3,815 |
| Other current assets | 30,514 | 28,762 |
| Total current assets | 459,834 | 475,375 |
| Non-current assets: | | |
| Property and equipment, net of depreciation of \$135,483 and \$129,522 | 36,762 | 35,061 |
| Software, net of amortization of \$85,209 and \$77,504 | 44,861 | 43,565 |
| Goodwill | 230,798 | 233,599 |
| Client contracts, net of amortization of \$85,451 and \$75,382 | 45,699 | 55,191 |
| Deferred income taxes | 9,654 | 7,447 |
| Income taxes receivable | 2,170 | 1,930 |
| Other assets | 17,606 | 16,812 |
| Total non-current assets | 387,550 | 393,605 |
| Total assets | \$847,384 | \$868,980 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current maturities of long-term debt | \$20,625 | \$15,000 |
| Client deposits | 32,952 | 30,431 |
| Trade accounts payable | 31,082 | 33,376 |
| Accrued employee compensation | 40,163 | 58,434 |
| Deferred revenue | 46,899 | 47,131 |
| Income taxes payable | 2,258 | 2,814 |
| Other current liabilities | 21,764 | 19,620 |
| Total current liabilities | 195,743 | 206,806 |
| Non-current liabilities: | | |
| Long-term debt, net of unamortized original issue discount of \$15,656 and \$19,950 | 237,469 | 250,050 |
| Deferred revenue | 9,270 | 9,221 |
| Income taxes payable | 1,613 | 1,909 |
| Deferred income taxes | 15,116 | 20,274 |
| Other non-current liabilities | 14,921 | 14,616 |

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| | | |
|--|-----------|-----------|
| Total non-current liabilities | 278,389 | 296,070 |
| Total liabilities | 474,132 | 502,876 |
| Stockholders' equity: | | |
| Preferred stock, par value \$.01 per share; 10,000 shares authorized; zero shares issued and outstanding | - | - |
| Common stock, par value \$.01 per share; 100,000 shares authorized; 34,527 and 33,745 shares outstanding | 667 | 658 |
| Additional paid-in capital | 483,193 | 473,190 |
| Treasury stock, at cost, 32,222 and 32,030 shares | (743,608) | (738,372) |
| Accumulated other comprehensive income (loss): | | |
| Unrealized gain on short-term investments, net of tax | 34 | 41 |
| Unrecognized loss on change in fair value of interest rate swap contracts, net of tax | - | (98) |
| Cumulative foreign currency translation adjustments | (4,511) | 1,674 |
| Accumulated earnings | 637,477 | 629,011 |
| Total stockholders' equity | 373,252 | 366,104 |
| Total liabilities and stockholders' equity | \$847,384 | \$868,980 |

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

CSG SYSTEMS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME - UNAUDITED

(in thousands, except per share amounts)

| | Quarter Ended | | Nine Months Ended | |
|--|---------------|------------|-------------------|------------|
| | September | September | September | September |
| | 30, 2014 | 30, 2013 | 30, 2014 | 30, 2013 |
| Revenues: | | | | |
| Processing and related services | \$ 140,981 | \$ 133,294 | \$ 419,696 | \$ 399,112 |
| Software and services | 22,079 | 30,294 | 72,553 | 87,049 |
| Maintenance | 21,943 | 22,592 | 65,340 | 66,758 |
| Total revenues | 185,003 | 186,180 | 557,589 | 552,919 |
| Cost of revenues (exclusive of depreciation, shown separately below): | | | | |
| Processing and related services | 69,225 | 65,184 | 205,016 | 189,725 |
| Software and services | 17,508 | 19,942 | 60,699 | 63,887 |
| Maintenance | 7,737 | 9,772 | 24,541 | 29,398 |
| Total cost of revenues | 94,470 | 94,898 | 290,256 | 283,010 |
| Other operating expenses: | | | | |
| Research and development | 26,329 | 27,600 | 77,773 | 83,693 |
| Selling, general and administrative | 39,036 | 38,444 | 113,475 | 110,629 |
| Depreciation | 3,553 | 4,609 | 10,479 | 14,379 |
| Restructuring and reorganization charges | 7,784 | 76 | 9,041 | 939 |
| Total operating expenses | 171,172 | 165,627 | 501,024 | 492,650 |
| Operating income | 13,831 | 20,553 | 56,565 | 60,269 |
| Other income (expense): | | | | |
| Interest expense | (2,582) | (2,615) | (7,900) | (8,724) |
| Amortization of original issue discount | (1,460) | (1,351) | (4,294) | (3,975) |
| Interest and investment income, net | 169 | 174 | 607 | 517 |
| Other, net | 106 | (130) | (171) | 950 |
| Total other | (3,767) | (3,922) | (11,758) | (11,232) |
| Income before income taxes | 10,064 | 16,631 | 44,807 | 49,037 |
| Income tax provision | (4,831) | (1,331) | (20,480) | (6,767) |
| Net income | \$ 5,233 | \$ 15,300 | \$ 24,327 | \$ 42,270 |
| Weighted-average shares outstanding: | | | | |
| Basic | 32,604 | 32,084 | 32,514 | 32,114 |
| Diluted | 33,996 | 32,664 | 33,858 | 32,553 |
| Earnings per common share: | | | | |
| Basic | \$ 0.16 | \$ 0.48 | \$ 0.75 | \$ 1.32 |
| Diluted | 0.15 | 0.47 | 0.72 | 1.30 |
| Cash dividends declared per common share: | | | | |
| | \$ 0.1575 | \$ 0.1500 | \$ 0.4650 | \$ 0.3000 |

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

CSG SYSTEMS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME - UNAUDITED

(in thousands)

| | Quarter Ended | | Nine Months Ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2014 | September 30, 2013 | September 30, 2014 | September 30, 2013 |
| Net income | \$5,233 | \$ 15,300 | \$24,327 | \$ 42,270 |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustments | (10,260) | 6,359 | (6,185) | (3,330) |
| Unrealized holding gains (losses) on short-term investments arising during period | (17) | 81 | (7) | 25 |
| Defined benefit pension plan: | | | | |
| Net loss arising from period (net of tax effect of \$0, \$0, \$0, and \$(119)) | - | - | - | (183) |
| Amortization of net actuarial loss included in net periodic pension cost (net of tax effect of \$0, \$0, \$0, and \$28) | - | - | - | 43 |
| Partial settlement of pension plan liability (net of tax effect of \$0, \$0, \$0 and \$336) | - | - | - | 546 |
| Net change in defined benefit pension plan | - | - | - | 406 |
| Cash flow hedges: | | | | |
| Unrealized gains on change in fair value of interest rate swap contracts (net of tax effect of \$0, \$199, \$110, and \$549) | - | 313 | 195 | 865 |
| Reclassification adjustment for losses included in net income (net of tax effect of \$0, \$(101), \$(55), and \$(280)) | - | (160) | (97) | (442) |
| Net change in cash flow hedges | - | 153 | 98 | 423 |
| Other comprehensive income (loss), net of tax | (10,277) | 6,593 | (6,094) | (2,476) |
| Total comprehensive income (loss), net of tax | \$(5,044) | \$ 21,893 | \$18,233 | \$ 39,794 |

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

CSG SYSTEMS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(in thousands)

| | Nine Months Ended | |
|--|-------------------|-----------|
| | September | September |
| | 30, 2014 | 30, 2013 |
| Cash flows from operating activities: | | |
| Net income | \$24,327 | \$42,270 |
| Adjustments to reconcile net income to net cash provided by operating activities- | | |
| Depreciation | 10,479 | 14,379 |
| Amortization | 25,207 | 28,413 |
| Amortization of original issue discount | 4,294 | 3,975 |
| Loss on short-term investments and other | 973 | 1,264 |
| Gain on disposition of business operations | (222) | - |
| Deferred income taxes | (25) | 1,083 |
| Excess tax benefit of stock-based compensation awards | (2,044) | (619) |
| Stock-based employee compensation | 12,250 | 11,497 |
| Changes in operating assets and liabilities, net of acquired amounts: | | |
| Trade accounts receivable, net | (15,559) | 75 |
| Other current and non-current assets | (5,866) | (4,641) |
| Income taxes payable/receivable | (1,825) | 1,359 |
| Trade accounts payable and accrued liabilities | (16,369) | (15,724) |
| Deferred revenue | 286 | 3,251 |
| Net cash provided by operating activities | 35,906 | 86,582 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (21,406) | (18,986) |
| Purchases of short-term investments | (126,982) | (129,259) |
| Proceeds from sale/maturity of short-term investments | 146,417 | 62,720 |
| Acquisition of and investments in client contracts | (4,235) | (5,349) |
| Proceeds from the disposition of business operations | 1,130 | 1,734 |
| Net cash used in investing activities | (5,076) | (89,140) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock | 1,053 | 1,283 |
| Payment of cash dividends | (15,461) | (9,630) |
| Repurchase of common stock | (11,456) | (15,124) |
| Payments on acquired asset financing | (1,097) | (1,894) |
| Payments on long-term debt | (11,250) | (11,250) |
| Excess tax benefit of stock-based compensation awards | 2,044 | 619 |
| Net cash used in financing activities | (36,167) | (35,996) |
| Effect of exchange rate fluctuations on cash | (1,776) | (2,457) |
| Net decrease in cash and cash equivalents | (7,113) | (41,011) |

| | | |
|--|----------|----------|
| Cash and cash equivalents, beginning of period | 82,686 | 133,747 |
| Cash and cash equivalents, end of period | \$75,573 | \$92,736 |

Supplemental disclosures of cash flow information:

Cash paid during the period for-

| | | |
|--------------|---------|---------|
| Interest | \$7,331 | \$8,247 |
| Income taxes | 21,718 | 3,554 |

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

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, 2014 and December 31, 2013, and for the third quarters and nine months ended September 30, 2014 and 2013, in accordance with accounting principles generally accepted in the United States of America (“U.S.”) (“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 (“MD&A”), contained in our Annual Report on Form 10-K for the year ended December 31, 2013 (our “2013 10-K”), filed with the SEC. The results of operations for the quarter and nine months ended September 30, 2014 are not necessarily indicative of the expected results for the entire year ending December 31, 2014.

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 our Financial Statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Reclassifications. Maintenance revenues, as well as the cost of maintenance revenues, previously included in software, maintenance and service revenues and software, maintenance and services costs of revenues, respectively, have been presented separately in our Condensed Consolidated Statements of Income (“Income Statements” or “Income Statement”) for the quarter and nine months ended September 30, 2013. In addition, certain other 2013 amounts have been reclassified to conform to the 2014 presentation.

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, 2014 and December 31, 2013, our cash equivalents consist primarily of institutional money market funds, commercial paper, and time deposits held at major banks.

As of September 30, 2014 and December 31, 2013, we had \$4.8 million and \$4.5 million, respectively, of restricted cash that serves to collateralize outstanding letters of credit. This restricted cash is included in cash and cash equivalents in our Condensed Consolidated Balance Sheets (“Balance Sheets” or “Balance Sheet”).

Short-term Investments and Other Financial Instruments. Our financial instruments as of September 30, 2014 and December 31, 2013 include cash and cash equivalents, short-term investments, accounts receivable, accounts payable,

an interest rate swap contract, and debt. Because of their short maturities, the carrying amounts of cash equivalents, accounts receivable, and accounts payable approximate their fair value.

Our short-term investments and certain of our cash equivalents are considered “available-for-sale” and are reported at fair value in our 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.

Primarily all short-term investments held by us as of September 30, 2014 and December 31, 2013 have contractual maturities of less than two years from the time of acquisition. Our short-term investments as of September 30, 2014 and December 31, 2013 consisted almost entirely of fixed income securities. Proceeds from the sale/maturity of short-term investments for the nine months ended September 30, 2014 and 2013 were \$146.4 million and \$62.7 million, respectively.

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

| | September 30, 2014 | | | December 31, 2013 | | |
|---------------------------------|--------------------|------------------|------------------|-------------------|------------------|------------------|
| | Level 1 | Level 2 | Total | Level 1 | Level 2 | Total |
| Assets: | | | | | | |
| Cash equivalents: | | | | | | |
| Money market funds | \$9,810 | \$— | \$9,810 | \$13,761 | \$— | \$13,761 |
| Commercial paper | — | 13,248 | 13,248 | — | 19,629 | 19,629 |
| Short-term investments: | | | | | | |
| Corporate debt securities | — | 62,105 | 62,105 | — | 76,786 | 76,786 |
| Municipal bonds | — | 19,317 | 19,317 | — | 29,106 | 29,106 |
| U.S. government agency bonds | — | 14,027 | 14,027 | — | 18,050 | 18,050 |
| Asset-backed securities | — | 12,437 | 12,437 | — | 4,209 | 4,209 |
| Total | \$9,810 | \$121,134 | \$130,944 | \$13,761 | \$147,780 | \$161,541 |
| Liabilities: | | | | | | |
| Interest rate swap contract (1) | \$— | \$— | \$— | \$— | \$154 | \$154 |
| Total | \$— | \$— | \$— | \$— | \$154 | \$154 |

(1) As of December 31, 2013, the fair value of the interest rate swap contract was classified on our Balance Sheet in other 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. The following table indicates the carrying value and estimated fair value of our debt as of the indicated periods (in thousands):

| | September 30, 2014 | | December 31, 2013 | |
|--|--------------------|------------|-------------------|------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Credit Agreement (carrying value including current maturities) | \$123,750 | \$123,750 | \$135,000 | \$135,000 |
| Convertible debt (par value) | 150,000 | 187,065 | 150,000 | 199,800 |

The fair value for our Credit Agreement was estimated using a discounted cash flow methodology, while the fair value for our convertible debt was estimated based upon quoted market prices or recent sales activity, both of which are considered Level 2 inputs.

Income Taxes. Our current income tax provisions for the quarter and nine months ended September 30, 2014 do not reflect any benefit from research and development (“R&D”) tax credits, as they have not yet received Congressional approval for 2014. If enacted prior to the end of the year, we will include those income tax benefits in our 2014

effective income tax rate.

For the third quarter and nine months ended September 30, 2013, the effective income tax rate was unusually low driven mainly by incremental R&D income tax credits claimed for the development activities from previous years and partially by the reduction of certain tax allowances related to foreign operations.

Accounting Pronouncement Issued But Not Yet Effective. In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU is a single comprehensive model which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. Under the new guidance, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The updated accounting guidance is effective for annual and interim reporting periods in fiscal years beginning after December 15, 2016. Early adoption is not permitted. An entity may choose to adopt this ASU either retrospectively or through a cumulative effect adjustment as of the start of the first period for which it applies the standard. We are currently in the process of evaluating the impact that this new guidance will have on our consolidated financial statements and our method of adoption.

3. STOCKHOLDERS' EQUITY AND EQUITY COMPENSATION PLANS

Stock Repurchase Program. We currently have a stock repurchase program, approved by our Board of Directors (the "Board"), 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, 2014 and 2013, we repurchased 0.2 million shares of our common stock for \$5.2 million (weighted-average price of \$27.26 per share) and 0.5 million shares of our common stock for \$10.1 million (weighted-average price of \$20.23 per share), respectively. As of September 30, 2014, the total remaining number of shares available for repurchase under the Stock Repurchase Program totaled 1.9 million shares.

Stock Repurchases for Tax Withholdings. In addition to the above mentioned stock repurchases, during the nine months ended September 30, 2014 and 2013, we repurchased and then cancelled 0.2 million shares of common stock for \$6.7 million and 0.3 million shares of common stock for \$5.0 million, respectively, in connection with minimum tax withholding requirements resulting from the vesting of restricted common stock under our stock incentive plans.

Dividends. In June 2013, the Board approved the initiation of a quarterly cash dividend to be paid to our stockholders. During the third quarter of 2014, the Board approved a quarterly cash dividend of \$0.1575 per share of common stock, totaling \$5.5 million. During the third quarter of 2013, the Board approved a quarterly cash dividend of \$0.15 per share of common stock, totaling \$5.1 million. Dividends declared for the nine months ended September 30, 2014 and 2013, totaled \$16.0 million and \$10.2 million, respectively.

Warrants. On July 25, 2014, we entered into an amendment to our current agreement with Comcast Corporation ("Comcast") (the "Amended Agreement"). The Amended Agreement provides the framework for Comcast to consolidate its residential customer accounts onto our Advanced Convergent Platform ("ACP") customer care and billing solution. As an additional incentive for Comcast to migrate new customer accounts to ACP, the Amended Agreement includes the issuance of stock warrants (the "Warrant Agreement") for the right to purchase up to approximately 2.9 million shares of our common stock (the "Stock Warrants"), 1.9 million warrants relate to Comcast's existing residential business and the remaining 1.0 million warrants relate to additional residential customer accounts that Comcast may acquire and migrate onto ACP in the future. The Stock Warrants have a 10-year term and an exercise price of \$26.68 per warrant.

Of the 1.9 million of Stock Warrants, 25% (0.5 million) vest in January 2015, with the remainder vesting at various points in time only after the successful migration of customer accounts based on predetermined threshold migration levels up to 10 million customer accounts. The remaining 1.0 million Stock Warrants that relate to additional residential accounts that Comcast may acquire and migrate onto ACP in the future only vest proportionately with acquired customer accounts migrated onto ACP from other providers' billing platforms, with full vesting based on a target of 5 million newly migrated customer accounts. Fifty percent of the unvested Stock Warrants become fully vested upon a fundamental change (including a change in control) of the Company, as defined, proportionally reducing the number of Stock Warrants eligible for vesting based on future performance conditions.

Once vested, Comcast may exercise the Stock Warrants and elect either physical delivery of common shares or net share settlement (cashless exercise). Alternatively, the exercise of the Stock Warrants may be settled with cash based solely on our approval, or if Comcast were to beneficially own or control in excess of 19.99% of the common stock or voting of the Company.

The fair value of the 0.5 million Stock Warrants that vest in January 2015 was \$3.7 million at the grant date, as determined using the Black-Sholes option-pricing model. This amount is being recorded ratably over the vesting period as a client incentive asset with the corresponding offset to additional paid-in capital. The client incentive asset is being amortized as a reduction in processing and related services revenues over the remaining term of the Comcast amended agreement. As of September 30, 2014, we recorded a client incentive asset related to these Stock Warrants of \$1.2 million and have amortized \$0.1 million as reduction in processing and related services revenues.

The remaining Stock Warrants will be accounted for as client incentive assets in the period the performance conditions necessary for vesting have been met. As of September 30, 2014, none of the performance conditions related to these Stock Warrants had been met.

Stock Incentive Plan. In May 2014, our stockholders approved an increase of 2.9 million shares authorized for issuance under the 2005 Stock Incentive Plan, from 15.8 million shares to 18.7 million shares.

Stock-Based Awards. A summary of our unvested restricted common stock activity during the third quarter and nine months ended September 30, 2014 is as follows (shares in thousands):

| | Quarter Ended September 30, 2014 | | Nine Months Ended September 30, 2014 | |
|----------------------------|-------------------------------------|---|---|---|
| | Shares | Weighted- Average Grant Date Fair Value | Shares | Weighted- Average Grant Date Fair Value |
| Unvested awards, beginning | 1,832 | \$ 21.27 | 1,922 | \$ 18.57 |
| Awards granted | 629 | 26.64 | 1,279 | 26.46 |
| Awards forfeited/cancelled | (16) | 20.72 | (67) | 20.43 |
| Awards vested | (38) | 23.36 | (727) | 18.78 |
| Unvested awards, ending | 2,407 | \$ 22.64 | 2,407 | \$ 22.64 |

Included in the awards granted during the nine months ended September 30, 2014, are performance-based awards for 0.1 million 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 quarter and nine months ended September 30, 2014 are time-based awards, which vest annually over primarily three or 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 quarters of 2014 and 2013 of \$4.5 million and \$4.0 million, respectively, and for the nine months ended September 30, 2014 and 2013 of \$12.3 million \$11.5 million, respectively.

4. EARNINGS PER COMMON SHARE

Basic and diluted earnings per common share ("EPS") amounts are presented on the face of the accompanying Income Statements.

No reconciliation of the basic and diluted EPS numerators is necessary as net income is used as the numerators for all periods presented. The reconciliation of the basic and diluted EPS denominators related to the common shares is included in the following table (in thousands):

| | Quarter Ended | | Nine Months Ended | |
|--------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2014 | September 30, 2013 | September 30, 2014 | September 30, 2013 |
| Basic weighted-average common shares | 32,604 | 32,084 | 32,514 | 32,114 |

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| | | | | |
|--|--------|--------|--------|--------|
| Dilutive effect of common stock options | — | — | — | 1 |
| Dilutive effect of restricted common stock | 575 | 580 | 565 | 438 |
| Dilutive effect of 2010 Convertible Notes | 813 | — | 778 | — |
| Dilutive effect of Stock Warrants | 4 | — | 1 | — |
| Diluted weighted-average common shares | 33,996 | 32,664 | 33,858 | 32,553 |

There were no potentially dilutive common shares related to stock options and unvested shares of restricted common stock for the third quarters of 2014 and 2013 and nine months ended September 30, 2014 and 2013 excluded from the computation of diluted EPS related to common shares.

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 (see Note 5).

The Stock Warrants have a dilutive effect only in those quarterly periods in which our average stock price exceeds the exercise price of \$26.68 per warrant (under the treasury stock method), and are not subject to performance vesting conditions. The Stock Warrants that vest in January 2015 (0.5 million Stock Warrants) were included in computation of diluted EPS for the period of time

they were outstanding. The remaining Stock Warrants were excluded from the computation of diluted EPS as the performance conditions associated with the vesting of those Stock Warrants had not been met as of September 30, 2014.

5. DEBT

Our long-term debt, as of September 30, 2014 and December 31, 2013, was as follows (in thousands):

| | September 30, 2014 | December 31, 2013 |
|--|--------------------------|----------------------|
| 2012 Credit Agreement: | | |
| Term loan, due November 2017 (or December 2016 if certain conditions exist), interest at adjusted LIBOR plus 2.00% (combined rate of 2.24% at September 30, 2014 and 2.25% at December 31, 2013) | \$ 123,750 | \$ 135,000 |
| \$100 million revolving loan facility, due November 2017 (or December 2016 if certain conditions exist), interest at adjusted LIBOR plus applicable margin | — | — |
| Convertible Debt Securities: | | |
| 2010 Convertible Notes – senior subordinated convertible notes; due March 1, 2017; cash interest at 3.0%; net of unamortized OID of \$15,656 and \$19,950, respectively | 134,344 | 130,050 |
| | 258,094 | 265,050 |
| Current portion of long-term debt | (20,625) | (15,000) |
| Total long-term debt, net | \$ 237,469 | \$ 250,050 |

2012 Credit Agreement. During the nine months ended September 30, 2014, we made \$11.3 million of principal repayments.

As of September 30, 2014, we were in compliance with the financial ratios and other covenants related to the 2012 Credit Agreement and had no borrowings outstanding on our revolving loan facility and had the entire \$100 million available to us.

2010 Convertible Notes. 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 the result of us declaring a cash dividend in September 2014 (see Note 3), the previous conversion rate for the 2010 Convertible Notes of 42.1363 shares of our common stock for each \$1,000 in principal amount of the 2010 Convertible Notes (equivalent to a conversion price of \$23.73 per share of our common stock) has been adjusted to 42.3766 shares of our common stock for each \$1,000 in principal amount of the 2010 Convertible Notes (equivalent to a conversion price of \$23.60 per share of our common stock).

Refer to Note 6 in our 2013 10-K for disclosure of the 2010 Convertible Notes' three contingent conversion features. As a result of the cash dividend declaration in September 2014, prior to September 1, 2016, holders of the 2010 Convertible Notes can convert their securities at any time the price of our common stock trades over \$30.68 per share,

or 130% of the \$23.60 conversion price (previously \$30.85 per share, or 130% of the \$23.73 conversion price) for a specified period of time.

As of September 30, 2014, none of the contingent conversion features have been achieved, and thus, the 2010 Convertible Notes are not convertible by the holders.

6. LONG-LIVED ASSETS

Goodwill. The changes in the carrying amount of goodwill for the nine months ended September 30, 2014, were as follows (in thousands):

| | |
|---|-----------|
| January 1, 2014 balance | \$233,599 |
| Adjustments related to prior acquisitions | (44) |
| Effects of changes in foreign currency exchange rates | (2,757) |
| September 30, 2014 balance | \$230,798 |

Other Intangible Assets. Our intangible assets subject to ongoing amortization consist primarily of client contracts and software. As of September 30, 2014 and December 31, 2013, the carrying values of these assets were as follows (in thousands):

| | September 30, 2014 | | | December 31, 2013 | | |
|------------------|--------------------|---------------|-----------|-------------------|---------------|-----------|
| | Gross | | | Gross | | |
| | Carrying | Accumulated | Net | Carrying | Accumulated | Net |
| | Amount | Amortization | Amount | Amount | Amortization | Amount |
| Client contracts | \$ 131,150 | \$ (85,451) | \$ 45,699 | \$ 130,573 | \$ (75,382) | \$ 55,191 |
| Software | 130,070 | (85,209) | 44,861 | 121,069 | (77,504) | 43,565 |
| Total | \$ 261,220 | \$ (170,660) | \$ 90,560 | \$ 251,642 | \$ (152,886) | \$ 98,756 |

The total amortization expense related to intangible assets for the third quarters of 2014 and 2013 were \$7.8 million and \$9.1 million, respectively, and for the nine months ended September 30, 2014 and 2013 were \$23.5 million and \$26.6 million, respectively. Based on the September 30, 2014 net carrying value of our intangible assets, the estimated total amortization expense for each of the five succeeding fiscal years ending December 31 are: 2014 – \$30.8 million; 2015 – \$23.5 million; 2016 – \$16.6 million; 2017 – \$12.9 million; and 2018 – \$9.7 million.

7. RESTRUCTURING AND REORGANIZATION

During the third quarter of 2014 and 2013, we recorded restructuring expenses of (\$0.2) million and \$0.1 million, respectively, and for the nine months ended September 30, 2014 and 2013, we recorded restructuring expenses of \$1.0 million and \$0.9 million, respectively.

In 2009, we entered into an incentive arrangement with certain employees to develop and then grow our Content Direct solution (the “Arrangement”). The Arrangement included certain liquidation options for the employees in the event of a change of control of the Content Direct solution. Because of the contingent nature of the Arrangement (i.e., payable only upon the occurrence of a change of control related to the Content Direct solution), we had not recognized any amounts in our financial statements related to this matter up to this point. In July 2014, in conjunction with the reorganization of our Content Direct solution to facilitate its integration with our other offerings, we terminated the Arrangement in exchange for a one-time cash payment of \$8.0 million, which is reflected as a reorganization charge in the third quarter of 2014.

8. 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 the date of acceptance 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, 2014, 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.

Indemnifications Related to Officers and the Board of Directors. We have agreed to indemnify members of our Board and certain of our officers 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. As a result, we have not recorded any liabilities related to such indemnifications as of September 30, 2014. In addition, as a result of the insurance policy coverage, we believe these indemnification agreements are not significant to our results of operations.

Favorable Settlement of Claims. In March 2014, we executed a settlement agreement ending litigation we asserted against a third party for patent infringement and misappropriation of trade secrets. In exchange for the release from the lawsuit initiated, we will receive a total of \$6 million, with a portion paid in 2014 and the remainder over the next three years. We have recorded a total \$3.9 million (net of a time value discount and legal costs incurred) as a reduction of selling, general and administrative (“SG&A”) expenses during the nine months ended September 30, 2014.

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

The information contained in this MD&A should be read in conjunction with the Financial Statements and Notes thereto included in this Form 10-Q and the audited consolidated financial statements and notes thereto in our 2013 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 I Item 1A. Risk Factors ("Risk Factors") of our 2013 10-K. Readers are strongly encouraged to review that section closely in conjunction with MD&A.

Company Overview

We are one of the world's largest and most established business support solutions providers primarily serving the communications industry. Our proven approach and solutions are based on our broad and deep experience in serving clients in the communications industry as their businesses have evolved from a single product offering to a highly complex, highly competitive, multi-product service offering. Our approach has centered on using the best technology for the various functions required to provide world-class solutions.

Our solutions help service providers streamline and scale operations, introduce and adapt products and services to meet customer demands, and address the challenges and opportunities brought about by change. Our broad suite of solutions helps our clients improve their business operations by creating more compelling product offerings and an enhanced customer experience through more relevant and targeted interactions, while at the same time, more efficiently managing the service provider's cost structure. Over the years, we have focused our R&D and acquisition investments on expanding our solution set to address the ever expanding needs of communications service providers to provide a differentiated, real-time, and personal experience for their consumers. This extensive suite of solutions includes revenue management, content management and monetization, customer interaction management, and business intelligence.

We generate approximately 65% of our revenues from the North American cable and satellite markets, approximately 25% of our revenues from wireline and wireless communication providers, and the remainder from a variety of other verticals, such as financial services, logistics, and transportation. Additionally, during the nine months ended September 30, 2014, we generated approximately 85% of our revenues from the Americas region, approximately 10% of our revenues from the Europe, Middle East and Africa region, and approximately 5% of our revenues from the Asia Pacific region.

We are a S&P Small Cap 600 company.

Management Overview of Quarterly Results

Third Quarter Highlights. A summary of our results of operations for the third quarter of 2014, when compared to the third quarter of 2013, is as follows (in thousands, except per share amounts and percentages):

| | Quarter Ended | |
|--|---------------|-----------|
| | September | September |
| | 30, | 30, |
| | 2014 | 2013 |
| Revenues | \$185,003 | \$186,180 |
| Operating Results: | | |
| Operating income | 13,831 | 20,553 |
| Operating income margin | 7.5 % | 11.0 % |
| Diluted EPS | \$0.15 | \$0.47 |
| Supplemental Data: | | |
| ACP customer accounts (end of period) | 50,036 | 49,151 |
| Restructuring and reorganization charges | \$7,784 | \$76 |
| Stock-based compensation | 4,536 | 3,979 |
| Amortization of acquired intangible assets | 3,790 | 4,757 |
| Amortization of OID | 1,460 | 1,351 |

Revenues. Our revenues for the third quarter of 2014 were \$185.0 million, a decrease of 1% when compared to \$186.2 million for the same period in 2013. The decrease in revenues can be attributed to lower software and services revenues of \$8.2 million for the quarter and to a much lesser degree, a business divestiture completed at the end of 2013 (discussed in our 2013 Form 10-K) which resulted in approximately \$2 million of divested revenues for the third quarter. These decreases were offset to a large degree by growth in our processing revenues for the quarter.

Operating Results. Operating income for the third quarter of 2014 was \$13.8 million, or a 7.5% operating income margin percentage, compared to \$20.6 million, or an 11.0% operating income margin percentage, for the third quarter of 2013. The year-over-year decreases in operating income and operating income margin percentage are mainly due to the \$7.8 million of restructuring and reorganization charges recorded in the third quarter of 2014 primarily associated with the reorganization of our Content Direct solution to facilitate its alignment across our offerings, including management programs and incentives (see Note 7 to our Financial Statements).

Diluted EPS. Diluted EPS for the third quarter of 2014 was \$0.15 compared to \$0.47 for the third quarter of 2013. The third quarter of 2014 diluted EPS was negatively impacted by the \$7.8 million of restructuring and reorganization charges for the quarter, discussed above, which had a negative impact of \$0.12 per diluted share. Additionally, the third quarter of 2013 benefited from an unusually low GAAP effective income tax rate of 8%, primarily as result of the recognition of incremental R&D income tax credits claimed for development activities from previous years and partially by the reduction of certain tax allowances related to foreign operation. The lower tax rate provided a benefit of approximately \$6 million, or \$0.17 per diluted share for the third quarter of 2013.

Cash and Cash Flows. As of September 30, 2014, we had cash, cash equivalents and short-term investments of \$183.5 million, as compared to \$189.6 million as of June 30, 2014, and \$210.8 million as of December 31, 2013. Our cash flows from operating activities for the third quarter of 2014 were \$19.6 million, compared to \$25.2 million for the same period last year. The third quarter 2014 cash flows were negatively impacted by the reorganization charge of \$8.0 million, referenced above, and by approximately \$12 million related to the timing of a large client's monthly invoice payment, discussed below. See the Liquidity section below for further discussion of our cash flows.

Significant Client Relationships

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

| | Quarter Ended | | | |
|-------------|--------------------|---------------|--------------------|--|
| | September 30, 2014 | June 30, 2014 | September 30, 2013 | |
| Comcast | 22 % | 21 % | 19 % | |
| DISH | 15 % | 16 % | 15 % | |
| Time Warner | 11 % | 11 % | 11 % | |

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

| | As of | | June | | March | | December | |
|-------------|-----------|------|------|------|-------|------|----------|--|
| | September | 30, | 30, | 31, | 31, | 31, | 31, | |
| | 2014 | 2014 | 2014 | 2014 | 2014 | 2013 | | |
| Comcast | 22% | 20% | 19% | 19% | 21% | | | |
| DISH | 19% | 13% | 13% | 13% | 14% | | | |
| Time Warner | 11% | 16% | 13% | 13% | 9% | | | |

As the table above indicates, at September 30, 2014 and June 30, 2014, we experienced delays in the monthly payments received at quarter-end. However, these monthly payments were received subsequent to quarter-end.

See our 2013 10-K for additional discussion of our business relationships and contractual terms with the above mentioned significant clients.

Comcast. On July 25, 2014, we entered into an amendment to our Master Subscriber Management System Agreement with Comcast (the “Amended Agreement”). The Amended Agreement provides the framework for Comcast to consolidate its residential customer accounts onto our ACP customer care and billing solution. Key changes included in the Amended Agreement, and possible impacts to our business, are as follows:

Term Extension

·The terms of the Amended Agreement are effective July 1, 2014, and run through June 30, 2019 (a five-year initial term). In addition, Comcast has the option to extend the Amended Agreement for two consecutive one-year terms by exercising renewal options no later than January 1, 2019 for the first extension option, and January 1, 2020 for the second extension option.

Migration of Comcast Residential Customer Accounts

·The Amended Agreement modifies and adds pricing tiers above the level of customer accounts we currently process for Comcast, which will provide Comcast lower pricing per unit for incremental customer accounts brought under the Amended Agreement.

·Initially under the Amended Agreement, Comcast plans to add approximately 2.3 million residential customer accounts onto ACP in early 2015. As a result, the Amended Agreement is not expected to have a material impact to our 2014 results of operations. We have the opportunity for additional customer account migrations to CSG as part of any future consolidation or standardization by Comcast of their residential business.

·The timing of and the number of customer accounts to be migrated to CSG, if any, is at the discretion of Comcast. Therefore, there can be no assurances as to the timing and/or the number of customer accounts migrated to us by Comcast, or whether we will experience any material increase in revenues or profits under the Amended Agreement.

Issuance of Warrants

·As an additional incentive for Comcast to migrate new customer accounts to ACP, the Amended Agreement includes the issuance of stock warrants (the “Warrant Agreement”) for the right to purchase up to approximately 2.9 million shares of our common stock (the “Stock Warrants”), 1.9 million warrants relate to Comcast’s existing residential business and the remaining 1.0 million warrants relate to additional residential customer accounts that Comcast may acquire and migrate onto ACP in the future. The Stock Warrants have a 10-year term and an exercise price of \$26.68 per warrant.

·The Stock Warrants represent potentially dilutive shares to earnings per share only to the extent the shares are “in the money” (under the treasury stock method), and not subject to performance vesting conditions.

·Comcast’s ability to exercise the Stock Warrants is tied primarily to the number of customer accounts Comcast migrates onto ACP. The vesting of the Stock Warrants is summarized as follows:

-Current Comcast Residential Business. Up to 1.9 million of the Stock Warrants relate to Comcast’s existing residential business and vest as follows:

§ The first 25% of these Stock Warrants (approximately 0.475 million Stock Warrants) vest in January 2015, which approximates the expected beginning of the above mentioned 2.3 million customer account migrations.

§ The next 25% of these Stock Warrants vest after the successful migration of the first 0.5 million customer accounts.

§ The next 25% of these Stock Warrants vest only after 5 million additional customer accounts are migrated onto ACP.

§ The last 25% of these Stock Warrants vest only after and proportionate to approximately 5 million additional customer accounts are migrated onto ACP.

-Potential Future Comcast Acquired Residential Business. Should Comcast acquire additional residential customer accounts in the future, up to 1.0 million additional Stock Warrants will vest proportionately should these acquired customer accounts be migrated onto ACP from other providers’ billing platforms, with full vesting based on a target of 5 million newly migrated customer accounts.

A copy of the Amended Agreement, along with the Warrant Agreement, with confidential information redacted, is filed as exhibit 10.22I to this Form 10-Q.

Risk of Client Concentration. We expect to continue to generate a significant percentage of our future revenues from our three 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.

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; (v) business combinations and asset purchases; and (vi) loss contingencies. These critical accounting policies, as well as our other significant accounting policies, are discussed in our 2013 10-K.

Results of Operations

Total Revenues. Total revenues for the: (i) third quarter of 2014 were \$185.0 million, a 1% decrease when compared to \$186.2 million for the third quarter of 2013; and (ii) nine months ended September 30, 2014 were \$557.6 million, a 1% increase when compared to \$552.9 million for the nine months ended September 30, 2013. The components of total revenues, discussed in more detail below, are as follows (in thousands):

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---------------------------------|--------------------------------|------------------|------------------------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues: | | | | |
| Processing and related services | \$140,981 | \$133,294 | \$419,696 | \$399,112 |
| Software and services | 22,079 | 30,294 | 72,553 | 87,049 |
| Maintenance | 21,943 | 22,592 | 65,340 | 66,758 |
| Total revenues | \$185,003 | \$186,180 | \$557,589 | \$552,919 |

We use the location of the client as the basis of attributing revenues to individual countries. Revenues by geographic regions for the quarters and nine months ended September 30, 2014 and 2013 were as follows (in thousands):

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---------------------------------|--------------------------------|------------------|------------------------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Americas (principally the U.S.) | \$156,594 | \$158,209 | \$475,722 | \$470,422 |
| Europe, Middle East, and Africa | 19,259 | 20,613 | 57,149 | 57,564 |
| Asia Pacific | 9,150 | 7,358 | 24,718 | 24,933 |
| Total revenues | \$185,003 | \$186,180 | \$557,589 | \$552,919 |

Processing and related services revenues. Processing and related services revenues for the: (i) third quarter of 2014 increased 6% to \$141.0 million, from \$133.3 million for the third quarter of 2013; and (ii) nine months ended September 30, 2014 increased 5% to \$419.7 million, from \$399.1 million for the nine months ended September 30, 2013. The increases in processing and related services revenues are due mainly to the following key items: (i) continued growth in our ACP processing revenues and several of our related ancillary products and services; (ii) growth in our international managed services offering as a result of recent contract wins and service launches; and (iii) special project work for certain clients completed in the first quarter of 2014. These increases were offset to a certain

degree by divested revenues resulting from the sale of a small print operation in July 2013 and our marketing analytics business at the end of 2013, which combined, had a total net impact of approximately \$2 million and \$7 million of processing revenues, respectively, for the third quarter and nine months ended September 30, 2014.

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

- 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 third quarters of 2014 and 2013 were \$1.6 million and \$1.5 million, respectively; and (ii) nine months ended September 30, 2014 and 2013 were \$4.7 million and \$4.6 million, respectively.

- Total customer accounts processed on our ACP solution as of September 30, 2014 were 50.0 million, compared to 49.9 million as of June 30, 2014, and 49.2 million as of September 30, 2013.

Software and Services Revenues. Software and services revenues for the: (i) third quarter of 2014 decreased 27% to \$22.1 million, from \$30.3 million for the third quarter of 2013; and (ii) nine months ended September 30, 2014 decreased 17% to \$72.6 million, from \$87.0 million for the nine months ended September 30, 2013. These decreases in software and services revenues can be mainly attributed to extended sales cycles in our software and professional services business and continued low market demand for large

transformational software and service deals, and to a much lesser degree, the divested services revenues related to our marketing analytics business at the end of 2013, which resulted in decreases of approximately \$1 million and \$3 million, respectively, for the quarter and nine months ended September 30, 2014.

Maintenance Revenues. Maintenance revenues for the: (i) third quarter of 2014 were \$21.9 million, relatively consistent when compared to \$22.6 million generated in the third quarter of 2013; and (ii) nine months ended September 30, 2014 were \$65.3 compared to \$66.8 million for the nine months ended September 30, 2013.

Total Expenses. Our operating expenses for the: (i) third quarter of 2014 were \$171.2 million, a 3% increase when compared to \$165.6 million for the third quarter of 2013; and (ii) nine months ended September 30, 2014 were \$501.0 million, a 2% increase when compared to \$492.7 million for the nine months ended September 30, 2013. These increases are mainly attributed to the \$7.8 million of restructuring and reorganization charges recorded in the third quarter of 2014, discussed above.

Additionally, during the first quarter of 2014, we incurred expenses related to the following unique items. These items essentially offset each other within our total expenses, but are classified in different line items within our Income Statement for the nine months ended September 30, 2014:

- We recorded a provision of approximately \$4 million (included in the cost of software and services) for estimated cost overruns related to a large software and services implementation project. Because of the complexity of the overall project, the estimated costs and efforts required to complete the project have increased significantly from our original expectations. In addition, we may experience additional changes in our overall estimated costs to complete this project over the remainder of 2014.
- We executed a settlement agreement ending litigation that we had asserted against a third party for patent infringement and misappropriation of trade secrets. In exchange for the release from the lawsuit we initiated, we will receive a total settlement of \$6 million, with a portion to be paid in 2014 and the remainder over the next three years. As a result, we recorded \$3.9 million (net of a time value discount and legal costs incurred) as a reduction of SG&A expenses for the first quarter of 2014.

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

Cost of Revenues. See our 2013 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 (Exclusive of Depreciation). The cost of processing and related services for the: (i) third quarter of 2014 increased 6%, to \$69.2 million, from \$65.2 million for the third quarter of 2013; and (ii) nine months ended September 30, 2014 increased 8% to \$205.0 million, from \$189.7 million for the nine months ended September 30, 2013. These increases are primarily due to the following key items: (i) an increase in our ACP data processing costs resulting from our clients' continued growth and increasing complexities of their businesses, thus requiring more computing resources; (ii) reassignment of resources related to increases in client directed and funded work on our ACP platform and our international managed services offering; and (iii) an increase in certain other variable costs related to corresponding increases in related revenues, to include our managed services offering. Total processing and related services cost as a percentage of our processing and related services revenues for the: (i) third quarters of 2014 and 2013 were 49.1% and 48.9%, respectively; and (ii) nine months ended September 30, 2014 and 2013 were 48.8% and 47.5%, respectively.

Cost of Software and Services (Exclusive of Depreciation). The cost of software and services for the: (i) third quarter of 2014 decreased 12%, to \$17.5 million, from \$19.9 million for the third quarter of 2013; and (ii) nine months ended September 30, 2014 decreased 5% to \$60.7 million, from \$63.9 million for the nine months ended September 30, 2013. These decreases in cost of software and services is reflective of the lower revenues for the periods and a result

of the reassignment of personnel and the related costs previously assigned internally to software and consulting projects to other projects, with the year-to-date amount offset to certain degree by the estimated cost overruns related to the large software and services implementation project, discussed above. Total software and services cost as a percentage of our software and services revenues for the: (i) third quarters of 2014 and 2013 were 79.3% and 65.8%, respectively; and (ii) nine months ended September 30, 2014 and 2013 were 83.7% and 73.4%, respectively.

Variability in quarterly revenues and operating results are inherent characteristics of companies that sell software licenses and perform professional services. Our quarterly revenues for software licenses and professional services may fluctuate, depending on various factors, including the timing of executed contracts and revenue recognition, and the delivery of contracted solutions. However, the costs associated with software and professional services revenues are not subject to the same degree of variability (e.g., these costs are generally fixed in nature within a relatively short period of time), and thus, fluctuations in our cost of software and services as a percentage of our software and services revenues will likely occur between periods.

Cost of Maintenance (Exclusive of Depreciation). The cost of maintenance for the: (i) third quarter of 2014 decreased 21%, to \$7.7 million, from \$9.8 million for the third quarter of 2013; and (ii) nine months ended September 30, 2014 decreased 17% to \$24.5 million, from \$29.4 million for the nine months ended September 30, 2013, with the decreases mainly attributed to a decrease in amortization expense for certain technology assets that became fully amortized in previous periods and to the reassignment of personnel and the related costs previously assigned internally to maintenance projects to other projects. Total cost of maintenance as a percentage of our maintenance revenues for the: (i) third quarters of 2014 and 2013 were 35.3% and 43.3%, respectively; and (ii) nine months ended September 30, 2014 and 2013 were 37.6% and 44.0%, respectively.

R&D Expense. R&D expense for the: (i) third quarter of 2014 decreased 5%, to \$26.3 million, from \$27.6 million for the third quarter of 2013; and (ii) nine months ended September 30, 2014 decreased 7% to \$77.8 million, from \$83.7 million for the nine months ended September 30, 2013. These decreases in R&D expense between years are primarily a result of the reassignment of resources previously assigned to development projects to other areas of the business, primarily client directed and funded work on our ACP platform. As a percentage of total revenues, R&D expense was 14.2% for the third quarter of 2014 compared to 14.8% for the third quarter of 2013.

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 business support solutions aimed at improving a providers' time-to-market, flexibility, scalability, and total cost of ownership. We expect that our R&D investment activities in the near-term will be relatively consistent with previous quarters, with the level of R&D spend highly dependent upon the opportunities that we see in our markets.

SG&A Expense. SG&A expense for the: (i) third quarter of 2014 increased slightly to \$39.0 million, from \$38.4 million for the third quarter of 2013; and (ii) nine months ended September 30, 2014 increased 3% to \$113.5 million, from \$110.6 million for the nine months ended September 30, 2013. These increases are mainly due to the investments we are making in the business towards new initiatives, to include our cyber security offering (i.e., our Invotas product). Additionally, included in the first quarter 2014 SG&A expense is the \$3.9 million reduction of expense related to the settlement agreement discussed above.

Our SG&A costs as a percentage of total revenues for the third quarters of 2014 and 2013 were 21.1% and 20.6%, respectively.

Depreciation Expense. Depreciation expense for the: (i) third quarter of 2014 decreased 23%, to \$3.6 million, from \$4.6 million for the third quarter of 2013; and (ii) nine months ended September 30, 2014 decreased 27% to \$10.5 million, from \$14.4 million for the nine months ended September 30, 2013, with the decreases a result of certain assets that became fully depreciated over the past year and assets sold as part of our 2013 divestures.

Restructuring and Reorganization Charges. Restructuring and reorganization charges for the: (i) third quarter of 2014 were \$7.8 million, compared to \$0.1 million for the third quarter of 2013; and (ii) nine months ended September 30, 2014 were \$9.0 million, compared to \$0.9 million for the nine months ended September 30, 2013. During the third quarter of 2014, we recorded restructuring and reorganization charges of \$7.8 million primarily associated with the reorganization of our Content Direct solution to facilitate its alignment across our offerings, including management programs and incentives (see Note 7 to our Financial Statements).

Operating Income. Operating income and operating income margin percentages for the: (i) third quarter of 2014 was \$13.8 million, or 7.5% of total revenues, compared to \$20.6 million, or 11.0% of total revenues for the third quarter of 2013; and (ii) nine months ended September 30, 2014 was \$56.6 million, or 10.1% of total revenues, compared to \$60.3 million, or 10.9% of total revenues for the nine months ended September 30, 2013. These decreases in operating

income and operating income margin percentage are mainly due to the reorganization charge of \$8.0 million recorded in the third quarter of 2014, discussed above.

Income Tax Provision. The effective income tax rates for the third quarters of 2014 and 2013 and nine months ended September 30, 2014 and 2013 were as follows:

| Quarter Ended September 30, 2014 | | 2013 | | Nine Months Ended September 30, 2014 | | 2013 | |
|----------------------------------|---|------|---|--------------------------------------|---|------|---|
| 48 | % | 8 | % | 46 | % | 14 | % |

For the full-year 2014 we are currently estimating an effective income tax rate of 46%, which does not include any benefit from R&D tax credits generated during the year, as they have not yet received Congressional approval. If enacted prior to the end of the year, we would include those income tax benefits in our 2014 effective income tax rate.

For the third quarter and nine months ended September 30, 2013, the effective income tax rate was unusually low driven mainly by incremental R&D income tax credits claimed for the development activities from previous years and partially by the reduction of certain tax allowances related to foreign operations. The lower tax rates provided a benefit of \$5.6 million and \$11.5 million for the third quarter and nine months ended September 30, 2013, respectively.

Liquidity

Cash and Liquidity

As of September 30, 2014, our principal sources of liquidity included cash, cash equivalents, and short-term investments of \$183.5 million, compared to \$189.6 million as of June 30, 2014 and \$210.8 million as of December 31, 2013. 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 \$100 million senior secured revolving loan facility (“Revolver”) with a syndicate of financial institutions that expires in November 2017 (or December 31, 2016 if certain conditions exist). As of September 30, 2014, there were no borrowings outstanding on the Revolver. The Credit Agreement contains customary affirmative covenants and financial covenants. As of September 30, 2014, and the date of this filing, we believe that we are in compliance with the provisions of the Credit Agreement.

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, 2014 | December 31, 2013 |
|--|--------------------------|-------------------------|
| Americas (principally the U.S.) | \$ 159,113 | \$ 187,596 |
| Europe, Middle East and Africa | 20,350 | 18,665 |
| Asia Pacific | 3,996 | 4,576 |
| Total cash, equivalents and short-term investments | \$ 183,459 | \$ 210,837 |

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, 2014, we had \$4.8 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 or non-operating activity (e.g., depreciation, amortization, amortization of OID, impairments, deferred income taxes, stock-based compensation, etc.), and then factoring in the impact of changes in operating assets and liabilities. See our 2013 10-K for a description of the primary uses and sources of our cash flows from operating activities.

Our 2013 and 2014 net cash flows from operating activities, broken out between operations and changes in operating assets and liabilities, for the quarters ended are as follows (in thousands):

| | Operations | Changes in Operating Assets and Liabilities | Net Cash Provided by Operating Activities – Totals |
|--|------------|---|---|
| Cash Flows from Operating Activities: | | | |
| 2013: | | | |
| March 31 | \$ 41,320 | \$ (18,776) | \$ 22,544 |
| June 30 | 31,308 | 7,494 | 38,802 |
| September 30 | 29,634 | (4,398) | 25,236 |
| Year-to-date total | \$ 102,262 | \$ (15,680) | \$ 86,582 |
| 2014: | | | |
| March 31(1) | \$ 27,983 | \$ (36,561) | \$ (8,578) |
| June 30 | 24,804 | 43 | 24,847 |
| September 30 (2) | 22,452 | (2,815) | 19,637 |
| Year-to-date total | \$ 75,239 | \$ (39,333) | \$ 35,906 |

- (1) Cash flows from operating activities for the quarter ended March 31, 2014 reflect the negative impact of the following timing items on working capital for the quarter: (i) the increase in the accounts receivable balance primarily related to the timing around certain monthly client payments that were received after the quarter ended; and (ii) the payment of 2013 year-end accrued employee incentive compensation.
- (2) Cash flows from operating activities for the quarter ended September 30, 2014 were negatively impacted by: (i) the \$8.0 million charge associated with the reorganization of our Content Direct solution to facilitate its alignment across our offerings, including management programs and incentives (see Note 7 to our Financial Statements); and (ii) an approximately \$12 million delayed client invoice payment that was received subsequent to quarter-end.

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

Significant fluctuations in key operating assets and liabilities between 2014 and 2013 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 consistently strong quarterly cash flows from operating activities. Our billed trade accounts receivable balance includes significant 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 |
|---------------|-----------|-------------|---------------|------|
| 2013: | | | | |
| March 31 | \$182,711 | \$ (3,618) | \$179,093 | 64 |
| June 30 | 176,271 | (3,750) | 172,521 | 65 |
| September 30 | 177,800 | (3,043) | 174,757 | 65 |
| 2014: | | | | |
| March 31 | \$198,840 | \$ (3,104) | \$195,736 | 64 |
| June 30 | 194,413 | (2,798) | 191,615 | 69 |
| September 30 | 193,760 | (2,736) | 191,024 | 70 |

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During the second and third quarters of 2014, we experienced a deterioration of our DBO, which has historically been a relatively consistent metric for us, as evidenced by the table above. This increase in our DBO can be mainly attributed to our international software and services business, which has seen a decrease in billings during 2014, without a corresponding decrease in accounts receivable due to project milestone timing, delayed payments, and monetary restrictions in certain jurisdictions. Additionally, we experienced an increase in gross and net billed accounts receivable in the first three quarters of 2014 related primarily to the timing around certain recurring client payments (all from different clients) that were delayed at each quarter end, which also negatively impacted our DBO. As these monthly payments were received subsequent to each quarter-end, they do not raise any collectability concerns.

As a global provider of software and professional services, a portion of our accounts receivable balance relates to clients outside the U.S. As a result, this diversity in the geographic composition of our client base may adversely impact our DBOs 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.

Unbilled Trade Accounts Receivable

Revenue earned and recognized prior to the scheduled billing date of an item is reflected as unbilled accounts receivable. Our unbilled accounts receivable as of the end of the indicated periods are as follows (in thousands):

| | 2014 | 2013 |
|--------------|----------|----------|
| March 31 | \$39,541 | \$26,836 |
| June 30 | 39,592 | 35,426 |
| September 30 | 39,513 | 41,347 |

The unbilled accounts receivable balances above are primarily the result of several transactions with various milestone and contractual billing dates which have not yet been reached. Unbilled accounts receivable are an inherent characteristic of certain software and professional services transactions and may fluctuate between quarters, as these type of transactions typically have scheduled invoicing terms over several quarters, as well as certain milestone billing events.

Accrued Employee Compensation

Accrued employee compensation decreased \$18.2 million, from \$58.4 million as of December 31, 2013 to \$40.2 million as of September 30, 2014. This decrease is primarily due to: (i) the payment of 2013 employee incentive compensation that were fully accrued for at December 31, 2013, offset to a certain degree by the accrual for the 2014 employee incentive compensation; and (ii) the timing of payment of employee wages and other benefits.

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. Additionally, during the third quarter of 2013, we sold a small print and mail facility which resulted in net proceeds from the disposition of \$1.1 million and 1.7 million, respectively, during the nine months ended September 30, 2014 and 2013.

Purchases/Sales of Short-term Investments. During the nine months ended September 30, 2014 and 2013, we purchased \$127.0 million and \$129.3 million, respectively, and sold (or had mature) \$146.4 million and \$62.7 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, 2014 and 2013, for property and equipment, and investments in client contracts were as follows (in thousands):

| | Nine Months Ended | |
|------------------------|----------------------|----------|
| | September 30, | |
| | 2014 | 2013 |
| Property and equipment | \$21,406 | \$18,986 |
| Client contracts | 4,235 | 5,349 |

The property and equipment expenditures during the nine months ended September 30, 2014 consisted principally of investments in: (i) computer hardware, software, and related equipment; and (ii) facilities and internal infrastructure items.

The investments in client contracts for the nine months ended September 30, 2014 and 2013 relate to client incentive payments (\$3.0 million and \$4.7 million, respectively) and the deferral of costs related to conversion/set-up services provided under long-term processing contracts (\$1.2 million and \$0.6 million, respectively).

Cash Flows From Financing Activities

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

Cash Dividends Paid on Common Stock. During the nine months ended September 30, 2014 and 2013, we paid Board approved dividend payments totaling \$15.5 million and \$9.6 million, respectively.

Repurchase of Common Stock. During the nine months ended September 30, 2014 and 2013, we repurchased approximately 0.2 million and 0.5 million shares of our common stock under the guidelines of our Stock Repurchase Program for approximately \$5 million and \$10 million, respectively. Outside of our Stock Repurchase Program, during the nine months ended September 30, 2014 and 2013, we repurchased from our employees and then cancelled approximately 0.2 million and 0.3 million shares of our common stock for \$6.7 million and \$5.0 million, respectively, in connection with minimum tax withholding requirements resulting from the vesting of restricted common stock under our stock incentive plans.

Long-term Debt. During the nine months ended September 30, 2014 and 2013, we made \$11.3 million of principal repayments during each period.

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, 2014, we had cash, cash equivalents, and short-term investments of \$183.5 million, of which approximately 86% is in U.S. Dollars and held in the U.S. We have \$4.8 million of restricted cash, used primarily to collateralize outstanding letters of credit. For the remainder of the monies denominated in foreign currencies and/or located outside the U.S., we do not anticipate any material amounts being unavailable for use in running our business.

- Operating Cash Flows. As described in the Liquidity section above, we believe we have the ability to generate strong cash flows to fund our operating activities and act as a source of funds for our capital resource needs.
- Revolving Loan Facility. We have a \$100 million senior secured revolving loan facility with a syndicate of financial institutions that expires in November 2017 (or December 2016 if certain conditions exist—see Note 5 to our Financial Statements for additional details). As of the date of this filing, we have \$100 million of the revolving loan facility available to us.

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

- Common Stock Repurchases. We have made repurchases of our common stock in the past under our Stock Repurchase Program. During the nine months ended September 30, 2014, we repurchased 192,100 shares of our common stock for \$5.2 million (\$27.26 per share). As of September 30, 2014, we have 1.9 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.
- Cash Dividends. In June 2013, our Board approved the initiation of a quarterly cash dividend to be paid to our stockholders. During the nine months ended September 30, 2014, we made dividend payments totaling \$15.5 million. Going forward, we expect to pay cash dividends each year in March, June, September, and December, with the amount and timing subject to the Boards' approval.
- Acquisitions. 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.
- Capital Expenditures. During the nine months ended September 30, 2014, we spent \$21.4 million on capital expenditures. At this time, we expect our 2014 capital expenditures to be relatively consistent with that of 2013. As of September 30, 2014, we have made no significant capital expenditure commitments.
- 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. In addition, we incurred direct and incremental costs related to conversion/set-up services provided under long-term processing contracts. During the nine months ended September 30, 2014, we made client incentive payments and incurred deferred conversion/set-up services costs totaling \$4.2 million. As of September 30, 2014, we had commitments to make \$3.0 million of client incentive payments, \$1.5 million in 2015 and 2016, respectively. On July 25, 2014, we entered into an Amended Agreement with Comcast. As an additional incentive for Comcast to migrate new customer accounts to ACP, the Amended Agreement includes the issuance of Stock Warrants for the right to purchase up to approximately 2.9 million shares of our common stock, with vesting tied primarily to the number of customer accounts Comcast migrates onto ACP. Once vested, Comcast may exercise the Stock Warrants and elect either physical delivery of common shares or net share settlement (cashless exercise). Alternatively, the exercise of the Stock Warrants may be settled with cash based solely on our approval, or if Comcast were to beneficially own or control in excess of 19.99% of the common stock or voting of the Company. As of September 30, 2014 none of the Stock Warrants had vested.
- Long-Term Debt Service. As of September 30, 2014 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 \$123.8 million. During the next twelve months, there are no scheduled conversion triggers on our 2010 Convertible Notes, and therefore, our expected cash debt service at this time related to the 2010 Convertible Notes is the \$4.5 million of interest payments. Over the next 12 months, the mandatory repayments and the cash interest expense (based upon current interest rates) for our Credit Agreement are approximately \$20.6 million and \$3.0 million, respectively. We have the ability to make prepayments on our Credit Agreement without penalty.
- We continue to evaluate the best use of our capital going forward, which from time-to-time, may include common stock repurchases, repurchases of our 2010 Convertible Notes, and/or prepayments on our Credit Agreement, as market and business conditions warrant.

In summary, we expect to continue to have material needs for capital resources going forward, as noted above. 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 capital resource 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.

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, 2014, we are exposed to various market risks, including changes in interest rates, fluctuations and changes in the market value of our cash equivalents and short-term investments, and changes in foreign currency exchange rates. We have not historically entered into derivatives or other financial instruments for trading or speculative purposes.

Interest Rate Risk.

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 our Credit Agreement are based upon an adjusted LIBOR rate plus an applicable margin, or an alternate base rate plus an applicable margin. As of September 30, 2014, we were exposed to fluctuations in interest rate movements on \$123.8 million of our term loan. See Note 5 to our Financial Statements for further details of our long-term debt.

A hypothetical adverse change of 10% in the September 30, 2014 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, 2014 and December 31, 2013 were \$75.6 million and \$82.7 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, 2014 and December 31, 2013 were \$107.9 million and \$128.2 million, respectively. Currently, we utilize short-term investments as a means to invest our excess cash, primarily in the U.S. The day-to-day management of our U.S. short-term investments is performed by a large financial institution, using strict and formal investment guidelines approved by our Board. 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.

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.

During the nine months ended September 30, 2014, we generated approximately 88% of our revenues in U.S. dollars. We expect that, in the foreseeable future, we will continue to generate a very large percentage of our revenues in U.S. dollars.

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As of September 30, 2014 and December 31, 2013, 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, 2014 | | December 31, 2013 | |
|-----------------|-------------------------|--------------------|-------------------------|--------------------|
| | Monetary Liabilities | Monetary Assets | Monetary Liabilities | Monetary Assets |
| Pounds sterling | \$(4) | \$ 2,445 | \$(39) | \$ 3,075 |
| Euro | (76) | 6,080 | (41) | 5,618 |
| U.S. Dollar | (314) | 12,642 | (191) | 18,996 |
| Other | (75) | 2,642 | (8) | 2,686 |
| Totals | \$(469) | \$ 23,809 | \$(279) | \$ 30,375 |

A hypothetical adverse change of 10% in the September 30, 2014 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.

During the third quarter of 2014, we completed a global-wide initiative to consolidate our financial processing systems onto a single, enterprise-wide system solution. Prior to this, we had been utilizing primarily two separate systems. In connection with this initiative and resulting business process changes, we continue to enhance the design and documentation of our internal control over financial reporting processes to maintain effective controls over our financial reporting.

Except as discussed above, the CEO and CFO concluded that there have been no changes in our internal control over financial reporting during the third quarter of 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

A discussion of our risk factors can be found in Item 1A. Risk Factors in our 2013 Form 10-K. There were no material changes to the risk factors disclosed in our 2013 Form 10-K during the third quarter of 2014, with the exception of certain updates to the following risk factor:

Our Business is Dependent Upon the Economic and Market Condition of the Global Communications Industry.

Since the majority of our clients operate within the global communications 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, industry consolidation continues as service providers look for ways to expand their markets and increase their revenues. A byproduct of this consolidation is that there could be fewer providers in the market, each with potentially greater bargaining power and economic leverage due to their larger size, which may result in our having to lower our prices to remain competitive, retain our market share, or comply with the surviving client's current more favorable contract terms.

Continued consolidation, a significant retrenchment in investment by communications providers, or even a material slowing in growth (whether caused by economic, geo-political, competitive, or consolidation factors) could cause delays, cancellations or downward pricing pressure on our sales and services. 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 our financial position and results of operations.

We expect to continue to generate a significant portion of our future revenues from our North American cable and satellite operators. These clients operate in a highly competitive environment. Competitors range from traditional wireline and wireless providers to new entrants like digital lifestyle service providers such as Hulu, YouTube, Google, Netflix, Apple, and Amazon. Should these competitors be successful in their 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.

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 2014 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 | 2,733 | \$ 26.74 | - | 2,130,881 |
| August 1 – August 31 | 74,884 | 27.81 | 72,300 | 2,058,581 |
| September 1 – September 30 | 119,800 | 26.92 | 119,800 | 1,938,781 |
| Total | 197,417 | \$ 27.26 | 192,100 | |

(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.

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Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 6, 2014

CSG SYSTEMS INTERNATIONAL, INC.

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

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

/s/ Rolland B. Johns
Rolland B. Johns
Chief Accounting Officer
(Principal Accounting Officer)

CSG SYSTEMS INTERNATIONAL, INC.

INDEX TO EXHIBITS

| Exhibit Number | Description |
|----------------|---|
| 10.22I* | Ninth Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC |
| 10.22J* | Tenth Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC |
| 10.23AH* | Forty-second Amendment to the Master Subscriber Management System Agreement between CSG Systems, Inc. and DISH Network L.L.C. |
| 10.23AI* | Forty-third Amendment to the Master Subscriber Management System Agreement between CSG Systems, Inc. and DISH Network L.L.C. |
| 10.23AJ* | Forty-fourth Amendment to the Master Subscriber Management System Agreement between CSG Systems, Inc. and DISH Network L.L.C. |
| 10.23AK* | Forty-fifth Amendment to the Master Subscriber Management System Agreement between CSG Systems, Inc. and DISH Network L.L.C. |
| 10.23AL* | Forty-sixth Amendment to the Master Subscriber Management System Agreement between CSG Systems, Inc. and DISH Network L.L.C. |
| 10.24AI* | Eighty-seventh Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Time Warner Cable Inc. |
| 10.24AJ* | Eighty-eighth Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Time Warner Cable Inc. |
| 10.24AK* | Eighty-ninth Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Time Warner Cable Inc. |
| 10.24AL* | Ninetieth Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Time Warner Cable Inc. |
| 10.24AM* | Ninety-first Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Time Warner Cable Inc. |
| 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.DEF | XBRL Taxonomy Extension Definition 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.

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