CSG SYSTEMS INTERNATIONAL INC
Form 10-K
March 15, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2011

OR

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

For the transition period from to

Commission file number 0-27512

CSG SYSTEMS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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

9555 Maroon Circle

Englewood, Colorado 80112

(Address of principal executive offices, including zip code)

(303) 200-2000

(Registrant s telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, Par Value $0.01 Per Share	**NASDAQ Stock Market LLC**

Securities Registered Pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

YES x NO ¨

Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the last sales price of such stock, as of the close of trading on June 30, 2011, was $639,546,766.

Shares of common stock outstanding at February 29, 2012: 34,515,397

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Proxy Statement for its 2012 Annual Meeting of Stockholders to be filed on or prior to April 29, 2012, are incorporated by reference into Part III of the Form 10-K.

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CSG SYSTEMS INTERNATIONAL, INC.

2011 FORM 10-K

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PART I

Item 1. Business

Overview

CSG Systems International, Inc. (the Company , CSG , or forms of the pronoun we) is 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 research and development (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, as well as analytics and intelligence.

On November 30, 2010, we completed our acquisition of U.K.-based Intec Telecom Systems PLC (Intec) (the Intec Acquisition). Intec is a recognized global business support systems leader for retail billing, mediation, and wholesale business management, serving the majority of the world s top 100 communications service providers. The Intec Acquisition transformed our company from a North American-centric business serving primarily cable and satellite providers with our outsourced service offerings, to a global provider of software and services to the much broader telecommunications industry and other vertical markets. As a result of the Intec Acquisition, we were able to diversify and expand our client base, industry markets, geographic markets, and our delivery capabilities, illustrated as follows:

In 2010, we had four clients that each individually accounted for greater than 10% of our total revenues, which in the aggregate, were 64% of our total 2010 revenues. In 2011, we were able to reduce our client concentration primarily as a result of our overall larger revenue base. For 2011, we had only three clients that each individually accounted for greater than 10% of our total revenues, which in the aggregate, were 42% of our total 2011 revenues. In addition, we added over 400 clients as a result of the Intec Acquisition.

In 2010, approximately 85% of our revenues came from the North American cable and satellite markets, with the remaining 15% coming from a variety of other verticals. For 2011, we reflected greater industry diversification with approximately 60% of our revenues coming from the North American cable and satellite markets, approximately 30% coming from wireline and wireless communication providers, and the remainder coming from a variety of other markets, such as financial services, logistics, and transportation.

For 2011, we had a greater geographic presence, generating 10% of our revenues from the Europe, Middle East and Africa region, and 5% of our revenues from the Asia Pacific region, compared to nominal amounts from those regions in 2010 s full year results.

We have expanded our delivery capabilities generating 29% of our revenues from software and related services in 2011, as compared to only 9% during the prior year.

While our more diversified revenue and client base has introduced greater risk and variability in our business, we believe this added diversification provides us with greater opportunities for future growth with a broader customer base and expanded product portfolio as a leading global software and services provider.

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Our principal executive offices are located at 9555 Maroon Circle, Englewood, Colorado 80112, and the telephone number at that address is (303) 200-2000. Our common stock is listed on the NASDAQ Stock Market LLC (NASDAQ) under the symbol CSGS . We are a S&P Small Cap 600 company.

Industry Overview

Background. We provide business support solutions to the world s leading communications service providers, as well as clients in several complex and highly competitive industries. Our solutions coordinate and manage many aspects of a service provider s customer interactions, from the initial activation of customer accounts, to the support of various service activities, and through the presentment, collection, and accounts receivables management of monthly customer statements. While our heritage is in serving the North American communications market, through acquisition and organic growth, we have broadened and enhanced our solutions to extend our business both globally and to a number of other industries including financial services, healthcare, utilities, entertainment, and content distribution.

Market Conditions of the Communications Industry. Over the past few years, the global marketplace has experienced a significant economic downturn, with certain countries and regions also experiencing political instability, which has negatively impacted a broad number of industries, including the global communications industry that we serve. The impact of these challenges has resulted in cautiousness and in some cases, a delay in decision making. Companies continued to have an increased focus on controlling costs, streamlining operations and investing in those solutions and services that have a demonstrable short-term return on investments. Large transformational projects have been side-lined while operators continue to monitor the business environment in which they operate.

We believe that our recurring revenue and predictable cash flow business model, our sufficient sources of liquidity, and our stable capital structure lessen the risk of a significant negative impact to our business if the current economic and geo-political conditions linger into future periods. However, these market conditions could result in continued tight client spending and/or extended sales cycles which could impact our revenues related to our clients discretionary spending for such things as special project work, marketing activities, new product sales, and software and professional services projects, and thus, hinder our ability to grow our revenues and earnings.

Market Trends of Communications Industry. The communications industry is undergoing a dramatic transformation. Consumers have more choices for content, devices, and providers than ever before. Operators continue to invest heavily in networks to handle the exponential increase of data and content that is being distributed and consumed over their networks. Mobile data traffic is estimated to increase tenfold in the coming years, while the revenues that operators generate from that network traffic are currently not expected to increase at a commensurate rate. As a result, it is expected that service providers will need to evolve their business models in order to better monetize the traffic that goes across their network.

In addition, relatively new content providers like Netflix, Hulu, and YouTube, as well as new devices such as the iPad, the iPhone, and GoogleTV, have created an increased sense of urgency for traditional service providers to be more creative in their approaches to rolling out new products and services, and enhancing the customer experience. These new competitors and new technologies have created a disintermediation in the marketplace, enabling the consumer to now receive content on a variety of different devices, over different networks at any time. While this development poses challenges to traditional service providers, it also provides us with an opportunity to service the needs of this evolving market. With the proliferation of new services, devices and content, operators must deliver a consistent, personalized and differentiated service experience while closely managing their revenues and costs.

As the lines of distinction between service providers continue to blur, and competition for the same consumer increases between the traditional cable, wireless, and telecom provider as well as non-traditional players, more emphasis is being placed on providing a superior customer experience. This experience includes the types of

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content and products operators offer as well as how every interaction between the operator and the consumer is handled. This dynamic has resulted in an opportunity for us to continue to help our clients be successful in new ways. As a result, we historically have invested a significant amount of our revenues in R&D annually and have acquired companies that have enabled us to expand our offerings in a more timely and efficient manner.

Overall, these market trends drive the demand for scalable, flexible, and cost-efficient customer interaction management solutions, which we believe will provide us with revenue opportunities. While we recognize that operators may choose to develop their own internal solutions or utilize a competitor s solution, we believe that our scalable, modular, and flexible solutions combined with our rich domain expertise provide the industry with proven solutions to improve their profitability and customers experiences.

Business Strategy

Our goal is to be the most trusted provider of world-class software and services to service providers around the world who depend upon the timely and accurate processing of complex, high-volume transactions to operate their business and deliver a superior customer experience. We believe that by successfully executing on this goal we can grow our revenues and earnings, and therefore, create long-term value, not only for our clients and our employees, but for our shareholders as well. Our strategic focus to accomplish this goal is as follows:

Create Recurring Relationships Within Our Core Communications Industry. Our relentless, relationship-driven, customer-focused business approach is built on a foundation of respect, integrity, and collaboration. As a result, we enjoy long-term relationships with many of the world s leading service providers based on a true partnership aimed at helping providers enable sustainable growth, create efficiencies, and deliver differentiated services to their customers.

Expand Our Product and Services Portfolio Through Continuous Innovation. We believe that our product technology and pre-integrated suite of software solutions gives service providers a competitive advantage. We continually add new, relevant capabilities to what we do as a company, both in terms of our people and our solutions. By doing this, we build very strong recurring relationships which are difficult for our competitors to displace.

Increase Our Value Proposition Through Continuous Improvement and Urgency. As discussed earlier, the demands of consumers are significantly increasing as devices and networks continue to feed an insatiable appetite for content, information, and entertainment. In order to continue to help providers better compete in an environment in which network consumption is outpacing revenue generation, we continue to focus on being cost efficient in delivering our solutions, while helping our clients efficiently and effectively manage their business.

Deliver On Our Commitments. Our products and services are business critical. We help our clients manage the entire customer lifecycle, from acquisition to servicing to billing for their end customers. As a result, it is imperative that we deliver on our commitments. For over 25 years, we have been helping global, blue-chip companies manage periods of explosive and sustained market growth and change helping them drive revenues, improve their profitability, and deliver positive customer experiences. Our track record of doing what we say we are going to do has enabled us to become embedded in our clients operations and be a trusted advisor and integral member of their teams.

Bring New Skills and Talents to Market. In order to help our clients manage the pace of change, we invest in our people so that they are prepared to bring the highest quality technical skills, interpersonal skills, and managerial skills to our business and our clients.

In summary, all of our efforts are aimed at helping our clients compete more effectively and successfully in an ever-changing market.

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Description of Business

Key Clients. We work with the leading communication providers located around the world. A partial list of those service providers as of December 31, 2011 is included below:

AT&T	Oi
America Movil	Optus
Bharti	Reliance Communications
Charter Communications, Inc. (Charter)	Telefonica
Comcast Corporation (Comcast)	Time Warner, Inc. (Time Warner)
DISH Network Corporation (DISH)	Verizon
HCPT	Virgin Mobil
Hutchinson 3G	Vodafone
MTN	

The North American communications industry has experienced significant consolidation over the past decade, resulting in a large percentage of the market being served by a limited number of service providers with greater size and scale. Consistent with this market concentration and our heritage in serving the North American cable and satellite markets, a large percentage of our historical revenues have been generated from our four largest clients, as shown in the table below. Clients that represented 10% or more of our revenues for 2011 and 2010 were as follows (in millions, except percentages):

	2011(1)		2010	
	Amount	**% of Revenues**	**Amount**	**% of Revenues**
Comcast	$ 138	19%	$ 131	24%
DISH	92	13%	98	18%
Time Warner	74	10%	65	12%
Charter	N/A	<10%	55	10%

(1) The decrease in percentages between 2010 and 2011 relates primarily to our larger revenue and client base as a result of the Intec Acquisition.

See the Significant Client Relationships section of our MD&A for additional information regarding our business relationships with these key clients.

Research and Development. Our clients around the world are facing competition from new entrants and at the same time, are deploying new services at a rapid pace and dramatically increasing the complexity of their business operations. Therefore, we continue to invest heavily in R&D to ensure that we stay ahead of our clients needs and advance our clients businesses as well as our own. We recognize these challenges and believe our value proposition is to provide solutions that help our clients ensure that each customer interaction is an opportunity to create value and deepen the business relationship. As a result of our R&D efforts, we have not only broadened our footprint within our client base with many new innovative product offerings, but have also found traction in penetrating new markets with portions of our suite of customer interaction management solutions.

Our total R&D expenses were $111.1 million and $78.1 million, respectively, for 2011 and 2010, or approximately 15% and 14% of total revenues for each year, with the increase reflective of the 2011 full year s development efforts related to the acquired Intec business. In the near term, we expect that our R&D investment activities will be relatively consistent with that of 2011, with the level of our total R&D spend highly dependent upon the opportunities that we see in our markets.

There are certain inherent risks associated with significant technological innovations. Some of these risks are described in this report in our Risk Factors section below.

Products and Services. Our products and services help companies with complex transaction-centric business models manage the opportunities and challenges associated with accurately capturing, managing, generating, and optimizing the revenue associated with the immense volumes of customer interactions and then manage the intricate nature of those customer relationships. Our primary product solutions include the following:

Cable and Satellite Care and Billing: Our billing and customer care and business optimization platform (Advanced Convergent Platform (ACP)) is the premier system for cable and satellite providers in North America. ACP, a pre-integrated platform delivered in an outsourced service bureau environment, is relied upon every single day by almost 50 million consumers of voice, video, and data services, and is used by more than 75,000 of our clients customer service agents, and 36,500 of our clients field force technicians, dispatchers and routers.

Convergent Rating and Billing: Our Singleview suite provides an integrated customer care, billing and real-time rating and charging solution for the global marketplace. This solution is a real-time charging, billing, and customer care solution designed from the ground up for convergent markets. Singleview inherently improves support and promotes optimization as a result of the single view of the customer across all services and transactions. As a result, the capabilities of the Singleview suite extend beyond the communications industry to other transaction-intensive markets including financial services, logistics, and transportation.

Mediation and Data Management: Our Total Service Mediation (TSM) provides a comprehensive framework enabling network operators to achieve maximum efficiency with the lowest cost for all interactions between the network and other business support solution applications and related processes. The TSM framework supports offline and real-time mediation requirements as well as service activation. Recognized for its high performance and exceptional throughput, TSM provides the event processing foundation to manage today s exploding network traffic.

Wholesale Settlement and Routing: Our market-leading Wholesale Business Management (WBM) Solution is a comprehensive and powerful settlements system. It handles every kind of traffic from simple voice to the most advanced data and content services in a single, highly-integrated platform. It helps operators around the globe improve profits, meet strict regulatory and audit compliance requirements, and comply with the broadest range of global standards.

Customer Interaction Management: Our customer interaction management solutions help deliver a unique, personal and relevant quality experience across all customer touch points whether that be text, e-mail, web, print, or other communications methods. We are an industry leader in interaction management solutions, processing more than one billion interactive voice, SMS/text, print, e-mail, web, and fax messages each year on behalf of our clients.

Analytics & Intelligence: Our suite of analytics and intelligence services delivers a comprehensive approach to improving the customer experience, increasing sales opportunities, and optimizing business.

Content Management & Monetization: Our Content Direct solutions help manage, deliver, and monetize content to help build brand loyalty and create differentiated offerings for network operators, content aggregators, or content developers. Our Content Direct solutions enable content providers to manage subscriber preferences and offer digital content anytime, anywhere, to any device through a variety of models direct, subscriber or subsidized.

In addition, we have expanded the delivery models by which we can help our clients execute on their business objectives. Today, we now offer high-volume transaction processing and statement production, complemented with world-class applications software and customized software solutions, allowing us to offer one of the most comprehensive, flexible, pre-integrated products and services solutions to the communications market.

We believe this pre-integrated approach and multiple delivery model allows our clients to bring new product offerings to market quickly and provide high-quality customer service in a cost effective manner. While our

primary value proposition to our clients is the breadth and depth of this integrated offering, we have evolved many of our product solutions to be more modular-based to allow clients to utilize certain of our products as independent point solutions.

We license certain software products (e.g., WBM Solution, TSM, and Singleview) and provide our professional services to implement, configure, and maintain these software products.

Historically, a substantial percentage of our total revenues have been generated from ACP and Customer Interaction Management solutions. These products and services are expected to provide a large percentage of our total revenues in the foreseeable future as well.

Business Acquisitions. As noted above, our strategy includes acquiring assets and businesses which provide the technology and technical personnel to expedite our product development efforts, provide complementary products and services, increase market share, and/or provide access to new markets and clients. Consistent with this strategy, we have acquired the following businesses over the last several years:

Intec. In November of 2010, we acquired Intec to expand our business support solutions footprint and capabilities. With this acquisition, we added the leading mediation and wholesale billing solution to our product suite, as well as a pre-paid/post-paid convergent customer care and billing solution. In addition, the acquisition increased our presence, as well as our domain expertise, in the wireless and wireline industries worldwide. The addition of Intec enables us to support flexible delivery models, from on-site software delivery to outsourced processing models, supported by complementary services offerings. See the Overview section for additional discussion of the benefits to our business from the Intec Acquisition.

Quaero. In December of 2008, we acquired Quaero Corporation (Quaero), a marketing services provider with expertise in customer strategy, analytics, and marketing performance management. This acquisition broadened our solution suite with powerful customer intelligence capabilities that further assist our clients in maximizing the value of their customer interactions. The Quaero acquisition has also allowed us to further diversify our revenue base and extend our reach into new industry verticals including financial services, pharmaceutical/healthcare, media/publishing, travel/hospitality, consumer, and high tech.

DataProse. In April of 2008, we acquired DataProse, Inc., (DataProse) to further our objective of helping our clients maximize every customer interaction by both strengthening and broadening our portfolio of print solutions capabilities. Additionally, this acquisition has allowed us to diversify our client base into the utilities, financial services, and telecommunications markets, and add clients in the non-profit sectors of healthcare and higher education.

Prairie. In August of 2007, we acquired Prairie Voice Services, Inc. (Prairie) to extend our suite of products and solutions that help our clients maximize the value of their interactions with their customers. Prairie provides inbound and outbound automated voice, text/SMS, email, and fax messaging services to manage workforce communications, collections, lead generation, automated order capture, service outage notifications, and other key business functions. We acquired Prairie to extend our capabilities within our core cable and satellite markets, while also providing an established customer base in new industry verticals such as financial services and telecommunications.

ComTec. In July of 2007, we acquired ComTec, Inc. (ComTec), to expand our Intelligent Customer Communications footprint and capabilities. With this acquisition, we added enhanced statement production and electronic statement presentation hardware and software technologies. In addition, the acquisition increased our presence in our core cable and satellite markets, while also providing an established customer base in new industry verticals such as utilities, healthcare, home security, and financial services markets.

Professional Services. We employ over 800 professional services experts globally who bring a wide-ranging expertise including solution architecture, project management, systems implementation, and business consultancy to every project. We apply a rigorous methodology to each of our engagements, leveraging consistent, world-class processes, best-practice programs, and systemized templates for all engagements.

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Client and Product Support. Our clients typically rely on us for ongoing support and training needs related to our products. We have a multi-level support environment for our clients, which include account management teams to support the business, operational, and functional requirements of each client. These account teams help clients resolve strategic and business issues and are supported by our Solution Support Center (SSC) and Customer Support Services (CSS), which we operate 24 hours a day, seven days a week. Clients call a telephone number, and through an automated voice response unit, have their calls directed to the appropriate SSC or CSS personnel to answer their questions. We have a full-time training staff and conduct ongoing training sessions both in the field and at our training facilities.

Sales and Marketing. We organize our sales efforts to existing clients primarily within our geographically dispersed, dedicated account teams, with senior level account managers who are responsible for new revenues and renewal of existing contracts within a client account. The account teams are supported by sales support personnel who are experienced in the various products and services that we provide. In addition, we have dedicated staff engaged in selling our products and services to prospective clients.

Competition. The market for business support solutions products and services in the converging communications industry, as well as in other industries we serve, is highly competitive. We compete with both independent outsourced providers and in-house developers of customer management systems. We believe that our most significant competitors in our primary markets are Amdocs Limited, Comverse Inc., Convergys Corporation, and Oracle Corporation; network equipment providers such as Ericsson, Huawei, and Alcatel-Lucent; and internally-developed systems. Some of our actual and potential competitors have substantially greater financial, marketing, and technological resources than us and in some instances we may actually partner and collaborate with our competitors on large opportunities and projects.

We believe service providers in our industry use the following criteria when selecting a vendor to provide customer care and billing products and services: (i) functionality, scalability, flexibility, interoperability, and architecture of the software assets; (ii) the breadth and depth of pre-integrated product solutions; (iii) product quality, client service, and support; (iv) quality of R&D efforts; and (v) price. We believe that our products and services allow us to compete effectively in these areas.

Proprietary Rights and Licenses

We rely on a combination of trade secret, copyright, trademark, and patent laws in the United States and similar laws in other countries, and non-disclosure, confidentiality, and other types of contractual arrangements to establish, maintain, and enforce our intellectual property rights in our solutions. Despite these measures, any of our intellectual property rights could be challenged, invalidated, circumvented, or misappropriated. Although we hold a limited number of patents and patent applications on some of our newer solutions, we do not rely upon patents as a primary means of protecting our rights in our intellectual property. In any event, there can be no assurance that our patent applications will be approved, that any issued patents will adequately protect our intellectual property, or that such patents will not be challenged by third parties. Also, much of our business and many of our solutions rely on key technologies developed or licensed by third parties, and we may not be able to obtain or continue to obtain licenses and technologies from these third parties at all or on reasonable terms. Our failure to adequately establish, maintain, and protect our intellectual property rights could have a material adverse impact on our business, financial condition, and results of operations. For a description of the risks associated with our intellectual property rights, see Item 1A Risk Factors Failure to Protect Our Intellectual Property Rights or Claims by Others That We Infringe Their Intellectual Property Rights Could Substantially Harm Our Business, Financial Condition and Results of Operations.

Employees

As of December 31, 2011, we had a total of 3,352 employees, a decrease of 160 employees when compared to the number of employees we had as of December 31, 2010. This decrease is primarily due to the consolidation of our print facilities from four to three locations during 2011, and reducing resources across functions to better leverage and align our talent across the global organization. Our success is dependent upon our ability to attract and retain qualified employees. None of our employees are subject to a collective bargaining agreement, but are subject to various foreign employment laws and regulations based on the country in which they are employed. We believe that our relations with our employees are good.

Available Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy materials, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act are available free of charge on our website at www.csgi.com. Additionally, these reports are available at the SEC s Public Reference Room at 100 F Street, NE., Washington, D.C. 20549 or on the SEC s website at www.sec.gov. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

Code of Business Conduct and Ethics

A copy of our Code of Business Conduct and Ethics (the Code of Conduct) is maintained on our website. Any future amendments to the Code of Conduct, or any future waiver of a provision of our Code of Conduct, will be timely posted to our website upon their occurrence. Historically, we have had minimal changes to our Code of Conduct, and have had no waivers of a provision of our Code of Conduct.

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Item 1A. Risk Factors

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

Accordingly, the forward-looking statements are qualified in their entirety by reference to and are accompanied by the following meaningful cautionary statements identifying certain important risk factors that could cause actual results to differ materially from those in such forward-looking statements. This list of risk factors is likely not exhaustive. We operate in rapidly changing and evolving markets throughout the world addressing the complex needs of communication service providers, financial institutions, healthcare providers and many others, and new risk factors will likely emerge. Further, as we enter new market sectors such as healthcare and financial services, as well as new geographic markets, we are subject to new regulatory requirements that increase the risk of non-compliance and the potential for economic harm to us and our clients. Management cannot predict all of the important risk factors, nor can it assess the impact, if any, of such risk factors on our business or the extent to which any risk factor, or combination of risk factors, may cause actual results to differ materially from those in any forward-looking statements. Accordingly, there can be no assurance that forward-looking statements will be accurate indicators of future actual results, and it is likely that actual results will differ from results projected in forward-looking statements and that such differences may be material.

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

Over the past decade, the worldwide communications industry has experienced significant consolidation, resulting in a large percentage of the market being served by a limited number of service providers with greater size and scale. Consistent with this market concentration, we historically have had approximately two-thirds of our revenues generated from four clients, which are (in order of size) Comcast, DISH, Time Warner and Charter, that each individually accounted for approximately 10% or more of our total revenues. As a result of the additional revenues from the Intec Acquisition, in 2011, we had three of these clients, Comcast, DISH, and Time Warner, that individually accounted for over 10% of our total revenues. This resulted in approximately 40% of our total 2011 revenues coming from these three clients. See the Significant Client Relationships section of MD&A for key renewal dates and a brief summary of our business relationship with these clients.

There are inherent risks whenever a large percentage of total revenues are concentrated with a limited number of clients. One such risk is that a significant client could: (i) undergo a formalized process to evaluate alternative providers for services we provide; (ii) terminate or fail to renew their contracts with us, in whole or in part for any reason; (iii) significantly reduce the number of customer accounts processed on our solutions, the price paid for our services, or the scope of services that we provide; or (iv) experience significant financial or operating difficulties. Any such development could have a material adverse effect on our financial position and results of operations and/or trading price of our common stock.

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

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

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

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

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

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

With the acquisition on Intec in November 2010, software license, professional services, and software maintenance services revenues have become an increasingly larger percentage of our total revenues, and this mix of revenues is expected to continue in the future. As our total revenues grow, so too does the risk associated with meeting financial expectations for revenues derived from our software licenses, professional services, and software maintenance services offerings. As a result, there is a proportionately increased likelihood that we may fail to meet revenue and earnings expectations of the investment community. Should we fail to meet analyst expectations, by even a relatively small amount, it would most likely have a disproportionately negative impact upon the market price of our common stock.

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

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

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

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

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

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

Our processing services are generally delivered through a variety of computing environments operated by us, which we will collectively refer to herein as Systems. We provide such computing environments through both outsourced arrangements, such as our current data processing arrangement with Infocrossing, as well as internally operating numerous distributed servers in geographically dispersed environments. The end users are

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connected to our Systems through a variety of public and private communications networks, which we will collectively refer to herein as Networks. Our solutions are generally considered to be mission critical customer management systems by our clients. As a result, our clients are highly dependent upon the high availability and uncompromised security of our Networks and Systems to conduct their business operations.

Our Networks and Systems are subject to the risk of an extended interruption or outage due to many factors such as: (i) planned changes to our Systems and Networks for such things as scheduled maintenance and technology upgrades, or migrations to other technologies, service providers, or physical location of hardware; (ii) human and machine error; (iii) acts of nature; and (iv) intentional, unauthorized attacks from computer hackers.

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

The method, manner, cause and timing of an extended interruption or outage in our Networks or Systems are impossible to predict. As a result, there can be no assurances that our Networks and Systems will not fail, or that our business continuity plans will adequately mitigate the negative effects of a disruption to our Networks or Systems. Further, our property and business interruption insurance may not adequately compensate us for losses that we incur as a result of such interruptions. Should our Networks or Systems: (i) experience an extended interruption or outage, (ii) have their security breached, or (iii) have their data lost, corrupted or otherwise compromised, it would impede our ability to meet product and service delivery obligations, and likely have an immediate impact to the business operations of our clients. This would most likely result in an immediate loss to us of revenue or increase in expense, as well as damaging our reputation. An information breach in our Systems or Networks and loss of confidential information such as credit card numbers and related information could have a longer and more significant impact on our business operations than a hardware-related failure. The loss of confidential information could result in losing the customers confidence, as well as imposition of fines and damages. Any of these events could have both an immediate, negative impact upon our financial position and our short-term revenue and profit expectations, as well as our long-term ability to attract and retain new clients.

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

In providing processing services to our customers, we process, transmit, and store confidential and personally identifiable information, including social security numbers and financial and health information. Our treatment of such information is subject to contractual restrictions and federal, state, and foreign data privacy laws and regulations. We have implemented measures to protect against unauthorized access to such information, and comply with these laws and regulations. These measures include standard industry practices such as periodic security reviews of our systems by independent parties, network firewalls, procedural controls, intrusion detection systems, and antivirus applications. Because of the inherent risks and complexities involved in protecting this information, these measures may fail to adequately protect this information. Any failure on our part to protect the privacy of personally identifiable information or comply with data privacy laws and regulations may subject us to contractual liability and damages, loss of business, damages from individual claimants, fines, penalties, criminal prosecution, and unfavorable publicity. Even the mere perception of a security breach or inadvertent disclosure of personally identifiable information could inhibit market acceptance of our solutions. In addition, third party vendors that we engage to perform services for us may unintentionally release personally identifiable information or otherwise fail to comply with applicable laws and regulations. The occurrence of any of these events could have an adverse effect on our business, financial position, and results of operations.

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

The market for business support solutions, such as customer care and billing solutions, is characterized by rapid changes in technology and is highly competitive with respect to the need for timely product innovations and new product introductions. As a result, we believe that our future success in sustaining and growing our revenues depends upon: (i) our ability to continuously adapt, modify, maintain, and operate our solutions to address the increasingly complex and evolving needs of our clients, without sacrificing the reliability or quality of the solutions; (ii) the integration of the Intec assets and its widely distributed, complex worldwide operations; and (iii) the integration of other acquired technologies such as rating, wholesale billing, and data analytics, as well as creating an integrated suite of customer care and billing solutions, which are portable to new verticals such as utilities, financial services, and content distribution. In addition, the market is demanding that our solutions have greater architectural flexibility and interoperability, and that we are able to meet the demands for technological advancements to our solutions at a greater pace. Attempts to meet these demands subjects our R&D efforts to greater risks.

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

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

Our International Operations Subject Us to Additional Risks.

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

- Product development not meeting local requirements;
- Fluctuations in foreign currency exchange rates for which a natural or purchased hedge does not exist or is ineffective;
- Staffing and managing foreign operations;
- Longer sales cycles for new contracts;
- Longer collection cycles for client billings or accounts receivable, as well as heightened client collection risks, especially in countries with highly inflationary economies and/or with restrictions on the movement of cash out of the country;
- Trade barriers;
- Complying with varied legal and regulatory requirements across jurisdictions;

Reduced protection for intellectual property rights in some countries;

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

Political instability and threats of terrorism; and

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

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

The inability to utilize certain foreign tax credits; and

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

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

Our International Operations Require Us to Comply With Applicable U.S. and International Laws and Regulations.

Doing business on a world-wide basis requires our company and its subsidiaries to comply with the laws and the regulations of the U.S. government and various international jurisdictions. These regulations place restrictions on our operations, trade practices and trade partners. In particular, our international operations are subject to U.S. and foreign anti-corruption laws and regulations such as the Foreign Corrupt Practices Act (FCPA), the U.K. Anti-Bribery Act and economic sanction programs administered by the U.S. Department of the Treasury, Office of Foreign Assets Control (OFAC). The FCPA prohibits us from providing anything of value to foreign officials for the purposes of influencing official decisions or obtaining or retaining business. As part of our business, we regularly deal with state-owned business enterprises, the employees of which are considered foreign officials for purposes of the FCPA. In addition, some of the international locations in which we operate lack a developed legal system and have higher than normal levels of corruption. Economic sanctions programs restrict our business dealings with certain countries and individuals. From time to time, certain of our foreign subsidiaries have had limited business dealings with entities in jurisdictions subject to OFAC-administered sanctions. These business dealings, which represent an insignificant amount of our consolidated revenues (less than 1%) and income, generally consist of software licenses and related services. As a result of the above activities, we are exposed to a heightened risk of violating anti-corruption laws and OFAC regulations. Violations of these laws and regulations are punishable by civil penalties, including fines, injunctions, asset seizures, debarment from government contracts and revocations or restrictions of licenses, as well as criminal fines and imprisonment.

We have received an administrative subpoena from OFAC dated February 27, 2012. OFAC has requested that we provide documents and information related to the possibility of direct or indirect transactions with or to a jurisdiction subject to various restrictions and/or prohibitions. We have initiated an internal review to identify transactions by us involving the subject matter of the subpoena. We cannot predict the ultimate outcome of this matter, the total costs to be incurred in response to this subpoena, the potential impact on our personnel, the effect of implementing any further measures that may be necessary to ensure compliance with U.S. sanctions regulations or to what extent, if at all, we could be subject to fines, sanctions or other penalties.

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

We use open source software in connection with our solutions, processes, and technology. Companies that use or incorporate open source software into their products have, from time to time, faced claims challenging their use, ownership and/or licensing rights associated with that open source software. As a result, we could be subject to suits by parties claiming certain rights to what we believe to be open source software. Some open source software licenses require users who distribute open source software as part of their software to publicly disclose all or part of the source code in their software and make any derivative works of the open source code available on unfavorable terms or at no cost. In addition to risks related to license requirements, use of open source software can lead to greater risks than use of third party commercial software, as open source licensors generally do not provide warranties, support, or controls with respect to origin of the software. While we take measures to protect our use of open source software in our solutions, open source license terms may be ambiguous, and many of the risks associated with usage of open source software cannot be eliminated. If we were found to have inappropriately used open source software, we may be required to release our proprietary source code, re-engineer our software, discontinue the sale of certain solutions in the event re-engineering cannot be accomplished on a timely basis, or take other remedial action that may divert resources away from our development efforts, any of which could adversely affect our business, financial position, and results of operations.

The Current Macroeconomic Environment Could Adversely Impact Our Business.

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

A Reduction in Demand for Our Key Business Support Solutions Could Have a Material Adverse Effect on Our Financial Position and Results of Operations.

Historically, a substantial percentage of our total revenues have been generated from our core outsourced processing product, ACP, and related solutions. These solutions are expected to continue to provide a large percentage of our total revenues in the foreseeable future. Any significant reduction in demand for ACP and related solutions could have a material adverse effect on our financial position and results of operations. Likewise, a large percentage of revenues derived from the Intec business have been derived from wholesale billing, retail billing and mediation products which are typically associated with large implementation projects. A sudden downward shift in demand for these products or for our professional services engagements for these products could have a material adverse effect on our financial position and results of operations.

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

Our continued growth plans include the implementation of new solutions, as well as converting both new and existing clients to our solutions. Such implementations or conversions, whether they involve new solutions or new customers, have become increasingly more difficult because of the sophistication, complexity, and interdependencies of the various computing and network environments impacted, combined with the increasing complexity of the underlying business processes. In addition, the complexity of the implementation work increases when the arrangement includes additional vendors participating in the overall project, including, but not limited to, prime and subcontractor relationships with our company. For these reasons, there is a risk that we may experience delays or unexpected costs associated with a particular implementation or conversion, and our inability to complete implementation or conversion projects in an efficient and effective manner could have a material adverse effect on our results of operations.

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

Since the majority of our clients operate within 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, consolidation amongst providers continues as service providers look for ways to expand their markets and increase their revenues.

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 or cancellations of sales and services currently included in our forecasts. This could cause us to either fall short of revenue expectations or have a cost model that is misaligned with revenues, either or both of which could have a material adverse effect on operations and financial results.

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 new content aggregators such as Hulu, YouTube, and Netflix. Should these competitors be successful in their video strategies, it could threaten our clients market share, and thus our source of revenues, as generally speaking these companies do not use our core solutions and there can be no assurance that new entrants will become our clients. In addition, demand for spectrum, network bandwidth and content continues to increase and any changes in the regulatory environment could have a significant impact to not only our clients businesses, but in our ability to help our clients be successful.

We Face Significant Competition in Our Industry.

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

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

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

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

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

Client Bankruptcies Could Adversely Affect Our Business.

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

We May Incur Material Restructuring Charges in the Future.

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

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

As a result of various acquisitions and the growth of our company over the last several years, we have approximately $220 million of goodwill, and $170 million of long-lived assets other than goodwill (principally, property and equipment, software, and client contracts). These long-lived assets are subject to ongoing assessment of possible impairment summarized as follows:

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

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2011 we were operating over 30 leased sites around the world, representing over 600,000 square feet.

Our corporate headquarters is located in Englewood, Colorado. In addition, we lease office space in the United States in Atlanta, Georgia; Bloomfield, New Jersey; Burlington, Massachusetts; Charlotte, North Carolina; Chicago, Illinois; Dallas, Texas; Fairfield, Connecticut; New York, New York; Omaha, Nebraska; Oxnard, California; Philadelphia, Pennsylvania; San Antonio, Texas; and Westminster, Colorado. The leases for these office facilities expire in the years 2012 through 2024. We also maintain leased facilities internationally in Australia, Brazil, Canada, China, France, India, Ireland, Malaysia, Poland, South Africa, United Arab Emirates, and the U.K. The leases for these international office facilities expire in the years 2012 through 2019. We utilize these office facilities primarily for the following: (i) client services, training, and support; (ii) product and operations support; (iii) systems and programming activities; (iv) professional services staff; (v) R&D activities; (vi) sales and marketing activities; and (vii) general and administrative functions.

Additionally, we lease three statement production and mailing facilities totaling approximately 217,000 square feet. These facilities are located in: (i) Omaha, Nebraska; (ii) Wakulla County, Florida; and (iii) Coppell, Texas. The leases for these facilities expire in the years 2013 through 2019.

We believe that our facilities are adequate for our current needs and that additional suitable space will be available as required. We also believe that we will be able to either: (i) extend our current leases as they terminate; or (ii) find alternative space without experiencing a significant increase in cost. See Note 11 to our Consolidated Financial Statements (Financial Statements) for information regarding our obligations under our facility leases.

Item 3. 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. In addition, we have received an administrative subpoena from OFAC dated February 27, 2012. OFAC has requested that we provide documents and information related to the possibility of direct or

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indirect transactions with or to a jurisdiction subject to various restrictions and/or prohibitions. We have initiated an internal review to identify transactions by us involving the subject matter of the subpoena. The business dealings of our foreign subsidiaries in the jurisdiction that is the subject of the OFAC subpoena represent an insignificant amount of our consolidated revenues (less than 1%) and income, and the business dealings generally consist of software licenses and related services. We cannot predict the ultimate outcome of this matter, the total costs to be incurred in response to this subpoena, the potential impact on our personnel, the effect of implementing any further measures that may be necessary to ensure compliance with U.S. sanctions regulations or to what extent, if at all, we could be subject to fines, sanctions or other penalties. Thus, no reasonable estimate of the potential loss is possible. Other than described above, in the opinion of our management, we are not presently a party to any material pending or threatened legal proceedings.

Item 4. Mine Safety Disclosures

Not applicable.

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Executive Officers of the Registrant

As of December 31, 2011, our executive officers were Peter E. Kalan (Chief Executive Officer and President), Randy R. Wiese (Executive Vice President and Chief Financial Officer), Joseph T. Ruble (Executive Vice President, General Counsel, Corporate Secretary and Chief Administrative Officer), Bret C. Griess (Executive Vice President and Chief Operating Officer), and Michael J. Henderson (Executive Vice President-Sales and Marketing).

We have employment agreements with each of the executive officers.

Peter E. Kalan

Chief Executive Officer and President

Mr. Kalan, 52, joined the Company in January 1997, was appointed as Chief Financial Officer in October 2000, and named an Executive Vice President in 2004. In April 2006, he became Executive Vice President of Business and Corporate Development. In December 2007, Mr. Kalan was appointed Chief Executive Officer and President and elected to the Board. Prior to joining the Company, he was Chief Financial Officer at Bank One, Chicago, and he also held various other financial management positions with Bank One in Texas and Illinois from 1985 through 1996. Mr. Kalan is a member of The Cable Center board of directors and is also a member of the Board of Pensions of the Presbyterian Church USA. Mr. Kalan holds a B.A. degree in Business Administration from the University of Texas at Arlington.

Randy R. Wiese

Executive Vice President and Chief Financial Officer

Mr. Wiese, 52, joined CSG in 1995 as Controller and later served as Chief Accounting Officer. He was named Executive Vice President and Chief Financial Officer in April 2006. Prior to joining CSG, he was manager of audit and business advisory services and held other accounting-related positions at Arthur Andersen & Co. Mr. Wiese is a member of the AICPA and the Nebraska Society of Certified Public Accountants, and serves as a board member for the Habitat for Humanity Board Omaha Chapter. He holds a B.S. degree in Accounting from the University of Nebraska-Omaha.

Joseph T. Ruble

Executive Vice President, General Counsel, Corporate Secretary and Chief Administrative Officer

Mr. Ruble, 51, joined CSG in 1997 as Vice President and General Counsel. In November 2000, he was appointed Senior Vice President of Corporate Development, General Counsel and Corporate Secretary. In February 2007,

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he was named Executive Vice President and Chief Administrative Officer. Prior to joining CSG, Mr. Ruble served from 1991 to 1997 as Vice President, General Counsel and Corporate Secretary for Intersolv, Inc., and as counsel to Pansophic Systems, Inc. for its international operations from 1988 to 1991. Prior to that, he represented the software industry in Washington, D.C. on legislative matters. Mr. Ruble holds a J.D. from Catholic University of America and a B.S. degree from Ohio University.

Bret C. Griess

Executive Vice President and Chief Operating Officer

Mr. Griess, 43, joined CSG in 1996 as a project manager and held a variety of positions in Operations and Information Technology, until being appointed Executive Vice President of Operations in February 2009 and Chief Operating Officer in March 2011. Prior to joining CSG, Mr. Griess was Genesis Product Manager with Chief Automotive Systems from 1995 to 1996, and an information systems analyst with the Air Force from 1990 to 1995. Mr. Griess holds an M.A. degree in Management and a B.S. degree in Management from Bellevue University in Nebraska, an A.A.S. degree from the Community College of the Air Force, and an A.S. degree in Business Administration degree from Brevard Community College in Florida.

Michael J. Henderson

Executive Vice President-Sales and Marketing

Mr. Henderson, 54, joined CSG in 2010 as Executive Vice President of Sales and Marketing to oversee all new business development, marketing, and management of account relationships for CSG. Prior to joining CSG, he served as Chief Sales Officer with Call Genie from 2008 to 2010, and as a partner with BVM Consulting, LLC from 2007 until 2008. Mr. Henderson was President for Telcordia Technologies Global Solutions division from 2004 to 2007, and was at ADC s Software Systems division as Executive Vice President of Global Sales and Marketing from 1999 until 2004. He also was co-founder and Chief Executive Officer of PCI, a venture-backed software company, and held senior executive positions with Nortel, Frontier Corporation, and Volt Delta Resources. Mr. Henderson earned an M.B.A. in Marketing and Finance from the University of Rochester and a B.S. in Management Information Systems from the University of Arizona.

Board of Directors of the Registrant

Information related to our Board of Directors as of December 31, 2011, is provided below.

Donald B. Reed

Former Chief Executive Officer

Cable & Wireless Global

Mr. Reed, 67, was elected to the Board in May 2005 and presently serves as the Company s non-executive Chairman of the Board. He currently is retired, having served as Chief Executive Officer of Cable & Wireless Global from May 2000 to January 2003. Cable & Wireless Global, Cable & Wireless plc s wholly owned operations in the United States, United Kingdom, Europe and Japan, is a provider of internet protocol (IP) and data services to business customers. From June 1998 until May 2000, Mr. Reed served Cable & Wireless in various other executive positions. Mr. Reed s career includes 30 years at NYNEX Corporation (now part of Verizon), a regional telephone operating company. From 1995 to 1997, Mr. Reed served NYNEX Corporation as President and Group Executive with responsibility for directing the company s regional, national and international government affairs, public policy initiatives, legislative and regulatory matters, and public relations. Mr. Reed currently is the Executive Chairman of Oceus Networks. Mr. Reed has also previously served as a director of Intervoice, Inc., Idearc Media (formerly Verizon Yellow Pages), Bell Atlantic, St. Lawrence Cement and Aggregate Industries in London, England. Mr. Reed holds a B.S. degree in History from Virginia Military School.

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Peter E. Kalan

Chief Executive Officer and President

CSG Systems International, Inc.

Mr. Kalan s biographical information is included in the Executive Officers of the Registrant section shown directly above.

Ronald H. Cooper

Former President and Chief Executive Officer

Clear Channel Outdoor Americas, Inc.

Mr. Cooper, 55, was elected to the Board in November 2006. Mr. Cooper most recently served as the President and Chief Executive Officer of Clear Channel Outdoor Americas, Inc. beginning in 2009. Prior to this position, Mr. Cooper was a Principal at Tufts Consulting from 2006 through 2009. He previously spent nearly 25 years in the cable and telecommunications industry, most recently at Adelphia Communications where he served as President and Chief Operating Officer from 2003 to 2006. Prior to Adelphia, Mr. Cooper held a series of executive positions at AT&T Broadband, RELERA Data Centers & Solutions, MediaOne and its predecessor Continental Cablevision, Inc. He has held various board and committee seats with the National Cable Television Association, California Cable & Telecommunications Association, Cable Television Association for Marketing and the New England Cable Television Association. In addition, Mr. Cooper is a director of the Outdoor Advertising Association of America. Mr. Cooper holds a B.A. degree from Wesleyan University.

John L. M. Hughes

Chairman of the Boards for

Spectris plc, Telecity Group plc, and Sepura plc

Mr. Hughes, 60, was appointed to the Board in March 2011. Mr. Hughes previously served as Chairman of the Board for Intec Telecom Systems plc for nearly six years until the company was acquired by CSG Systems International, Inc. in 2010. Mr. Hughes currently serves as Chairman of the Board for several corporations, including Spectris plc, Telecity Group plc, and Sepura plc. Spectris plc is a U.K.-headquartered multinational leading supplier of precision productivity-enhancing instrumentation and control systems and equipment, and Mr. Hughes has been Spectris s Non-Executive Director since 2008. Telecity Group plc is a FTSE-250 listed leading provider of premium network independent data centers with 24 locations in eight major European cities, providing co-location and managed services, and he has served as Chairman since 2007. Sepura plc is a world-leading and LSE-listed supplier of Tetra terminals for mission-critical applications, and he has served as Chairman since 2010. Mr. Hughes is currently also a director for Vitec Group plc. Since 2009, Mr. Hughes has served as Chairman of the Board of AIRCOM International Limited, a privately-held independent global provider of network management tools and services specializing in the development and delivery of end-to-end planning and optimization tools for IP and cellular networks. From 2005 to 2007, Mr. Hughes also served as Chairman of the Board and then transitioned to Deputy Chairman until 2010 for Parity Group plc. Mr. Hughes has also served as a director for Nice Systems Ltd, Chloride Group plc, Global Crossing UK and Barco N.V. He is also Chairman of Just Eat Group. Prior to his multiple board positions, Mr. Hughes served as Executive Vice President and Chief Operating Officer from 2000 to 2004 for Thales Group, the leading European provider of complex systems for the defense, aerospace and commercial markets. Prior to 2000, he served as President of GSM/UMTS Wireless Networks of Lucent Technologies, and as Director, Convex Global Field Operations and Vice President and Managing Director of Convex Europe, a division of Hewlett-Packard Company. Mr. Hughes holds a B.S. degree in Electrical and Electronic Engineering from the University of Hertfordshire.

Edward C. Nafus

Former Chief Executive Officer and President

CSG Systems International, Inc.

Mr. Nafus, 71, was elected to the Board in March 2005. Mr. Nafus joined the Company in August 1998 as Executive Vice President and became the President of our Convergent Services and Solutions Division in

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January 2002. In April 2005, Mr. Nafus assumed the position of Chief Executive Officer and President of the Company and held that position until his retirement in December 2007. Prior to joining the Company, Mr. Nafus held numerous management positions within First Data Corporation from 1978 to 1998. From 1992 to 1998, he also served as Chief Executive of First Data Resources Limited and President of First Data International; from 1984 to 1992, he served as President of First Data International and Executive Vice President of First Data Resources. From 1971 to 1978, Mr. Nafus worked in sales management, training and sales for Xerox Corporation. From 1966 to 1971, Mr. Nafus was a pilot and division officer in the United States Navy. Mr. Nafus holds a B.S. degree from Jamestown College.

Janice I. Obuchowski

President

Freedom Technologies, Inc.

Ms. Obuchowski, 60, was elected to the Board in November 1997. She is the founder and has been President of Freedom Technologies, Inc., a business that provides public policy and strategic advice to a wide range of companies in the communications sector, to the United States Department of Defense and other agencies, and to the international clients, since 1992. She was Chairman and Founder of Frontline Wireless, Inc., a public safety network start-up in 2007 through 2008. In 2003, Ms. Obuchowski was appointed by President George W. Bush to serve as Ambassador and Head of the U.S. Delegation to the World Radio Communication Conference. She has served as Assistant Secretary for Communications and Information at the Department of Commerce and as Administrator for the National Telecommunications and Information Administration. Ms. Obuchowski currently is a director of Orbital Sciences Corporation and Inmarsat. Ms. Obuchowski was also a director of Stratos Global Corporation and Qualcomm. Ms. Obuchowski also serves on several non-profit boards, including as trustee of the Federal Communications Bar Association. Ms. Obuchowski holds a J.D. degree from Georgetown University and a B.A. degree from Wellesley College, and also attended the University of Paris.

Bernard W. Reznicek

Consultant

The Premier Group

Mr. Reznicek, 75, was elected to the Board in January 1997 and served as the Company s non-executive Chairman of the Board from 2005 until 2009. He currently provides consulting services as President and Chief Executive Officer of Premier Enterprises, and is Chairman of Erra, Inc., a startup clean technology company. Mr. Reznicek previously was an Executive with Central States Indemnity Company of Omaha, a Berkshire Hathaway company, from 1997 to 2003. He has 40 years of experience in the electric utility industry, having served as Chairman, President and Chief Executive Officer of Boston Edison Company, and President and Chief Executive Officer of Omaha Public Power District. He also served as Dean of the College of Business for Creighton University. Mr. Reznicek currently is a director of Pulte Homes, Inc. (NYSE). Mr. Reznicek has previously been a director of State Street Corporation, Stone and Webster, Guarantee Life, INFOGROUP Inc. and Central States Indemnity. Mr. Reznicek holds an M.B.A. degree from the University of Nebraska-Lincoln and a B.S.B.A. degree from Creighton University.

Frank V. Sica

Managing Partner

Tailwind Capital

Mr. Sica, 61, has served as a director of the Company since its formation in 1994. He is currently a Managing Partner of Tailwind Capital. From 2004 to 2005, Mr. Sica was a Senior Advisor to Soros Private Funds Management. From 2000 until 2003, he was President of Soros Private Funds Management which oversaw the direct real estate and private equity investment activities of Soros. In 1998, he joined Soros Fund Management where he was a Managing Director responsible for Soros private equity investments. Mr. Sica was previously Managing Director for Morgan Stanley Merchant Banking Division. Mr. Sica currently is a director of JetBlue Airways, Kohl s Corporation, and Safe Bulkers, Inc. Mr. Sica has previously been a director for NorthStar Realty

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Finance Corporation and Emmis Communications. Mr. Sica holds an M.B.A. degree from Dartmouth University and a B.A. degree from Wesleyan University.

Donald V. Smith

Former Senior Managing Director

Houlihan Lokey Howard & Zukin, Inc.

Mr. Smith, 70, was elected to the Board in January 2002. He is presently retired but continues to provide financial advisory services to certain clients. Previously, he served as Senior Managing Director of Houlihan Lokey Howard & Zukin, Inc., an international investment banking firm with whom he has been associated from 1988 through 2009, and where he served on the board of directors of the firm. From 1978 to 1988, he served as Principal with Morgan Stanley & Co. Inc., where he headed their valuation and reorganization services. Mr. Smith is also on the board of directors for several non-profit organizations. He previously served as director for Jos. A. Bank Clothiers. Mr. Smith holds an M.B.A. degree from the Wharton Graduate School of the University of Pennsylvania and a B.S. degree from the United States Naval Academy.

James A. Unruh

Managing Principal

Alerion Capital Group, LLC

Mr. Unruh, 71, was elected to the Board in June 2005. He became a founding principal of Alerion Capital Group, LLC (a private equity investment company) in 1998 and currently holds such position. Mr. Unruh was an executive with Unisys Corporation from 1987 to 1997 and served as its Chairman and Chief Executive Officer from 1990 to 1997. From 1982 to 1986, Mr. Unruh held various executive positions, including Senior Vice President Finance and Chief Financial Officer, with Burroughs Corporation, a predecessor of Unisys Corporation. Mr. Unruh currently is a director of Prudential Financial, Inc., Tenet Healthcare Corporation and Century Link, Inc. He has also previously served as a director of Qwest Communications International, Inc. Mr. Unruh holds an M.B.A. degree from the University of Denver and a B.S. degree from Jamestown College.

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PART II

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

Our common stock is listed on NASDAQ under the symbol CSGS . The following table sets forth, for the fiscal quarters indicated, the high and low sale prices of our common stock as reported by NASDAQ.

	High	Low
2011		
First quarter	$ 21.31	$ 18.35
Second quarter	21.59	17.70
Third quarter	19.60	12.35
Fourth quarter	15.53	12.13

	High	Low
2010		
First quarter	$ 22.29	$ 17.29
Second quarter	23.85	18.28
Third quarter	21.39	17.22
Fourth quarter	20.34	17.69

On March 9, 2012, the last sale price of our common stock as reported by NASDAQ was $16.00 per share. On January 31, 2012, the number of holders of record of common stock was 215.

Dividends

We have not declared or paid cash dividends on our common stock since our incorporation. We intend to retain any earnings to finance the growth and development of our business, and at this time, we do not plan to pay cash dividends in the foreseeable future.

The payment of dividends are limited by the covenants of our Credit Agreement, and has certain impacts to our senior subordinated convertible contingent debt (the 2010 Convertible Notes). See Note 6 to our Financial Statements for additional discussion of our long-term debt and the impact the payment of dividends may have on these items.

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Stock Price Performance

The following graph compares the cumulative total stockholder return on our common stock, the Russell 2000 Index, the S&P 500 Index, and our Standard Industrial Classification (SIC) Code Index: Computer Processing and Data Preparation and Processing Services during the indicated five-year period. The graph assumes that $100 was invested on December 31, 2006, in our common stock and in each of the two indexes and that all dividends, if any, were reinvested.

	As of December 31,					
	2006	**2007**	**2008**	**2009**	**2010**	**2011**
CSG Systems International, Inc.	$ 100.00	$ 55.07	$ 65.36	$ 71.42	$ 70.86	$ 55.03
Russell 2000 Index	100.00	98.43	65.18	82.89	105.14	100.75
S&P 500 Index	100.00	105.49	66.46	84.05	96.71	98.75
Data Preparation & Processing Services	100.00	101.32	79.05	97.69	111.84	118.74

CSG is now utilizing the Russell 2000 Index rather than the S&P 500 Index as its benchmark to more accurately compare itself to companies whose equity securities are of a comparable market capitalization.

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Equity Compensation Plan Information

The following table summarizes certain information about our equity compensation plans as of December 31, 2011:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance
Equity compensation plans approved by security holders	72,533	$ 21.31	8,404,508
Equity compensation plan not approved by security holders	30,517	22.46	
Total	103,050	$ 21.65	8,404,508

Of the total number of securities remaining available for future issuance, 7,681,170 shares can be used for various types of stock-based awards, as specified in the individual plans, with the remaining 723,338 shares to be used for our employee stock purchase plan. See Note 13 to our Financial Statements for additional discussion of our equity compensation plans.

Issuer Repurchases of Equity Securities

The following table presents information with respect to purchases of our common stock made during the fourth quarter of 2011 by CSG Systems International, Inc. or any affiliated purchaser of CSG Systems International, Inc., as defined in Rule 10b-18(a)(3) under the Exchange Act.

Period	Total Number of Shares Purchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs
October 1 October 31	173,354	$ 13.21	171,789	3,454,096
November 1 November 30	1,218	14.17		3,454,096
December 1 December 31	12,223	14.49		3,454,096
Total	186,795	$ 13.30	171,789	

(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 6. Selected Financial Data

The following selected financial data have been derived from our audited financial statements. The selected financial data presented below should be read in conjunction with, and is qualified by reference to, our MD&A and our Financial Statements. The information below is not necessarily indicative of the results of future operations.

	Year Ended December 31,				
	2011(1)	2010(1)	2009	2008	2007
	(in thousands, except per share amounts)				
Statements of Income Data:					
Revenues(2):					
Processing and related services	$ 524,666	$ 497,775	$ 464,970	$ 439,975	$ 382,070
Software, maintenance and services	210,065	51,604	35,747	32,082	37,191
Total revenues	734,731	549,379	500,717	472,057	419,261
Cost of revenues (exclusive of depreciation, shown separately below):					
Processing and related services(3)	244,776	258,638	249,335	226,343	193,135
Software, maintenance and services	120,874	31,166	26,344	19,007	24,674
Total cost of revenues	365,650	289,804	275,679	245,350	217,809
Other operating expenses:					
Research and development	111,142	78,050	70,113	67,278	58,342
Selling, general and administrative(1)	128,346	82,586	59,510	53,857	45,743
Depreciation(3)	25,435	22,428	20,069	16,194	12,900
Restructuring charges(1)(8)	7,873	2,169	599	79	630
Total operating expenses	638,446	475,037	425,970	382,758	335,424
Operating income(2)	96,285	74,342	74,747		