

CSG SYSTEMS INTERNATIONAL INC  
Form 10-K  
February 29, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2015

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by 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  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

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, 2015, was \$1,004,123,083.

Shares of common stock outstanding at February 22, 2016: 32,332,186

DOCUMENTS INCORPORATED BY REFERENCE

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Portions of the Registrant's Proxy Statement for its 2016 Annual Meeting of Stockholders to be filed on or prior to April 29, 2016, are incorporated by reference into Part III of the Form 10-K.

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CSG SYSTEMS INTERNATIONAL, INC.

2015 FORM 10-K

TABLE OF CONTENTS

	Page
<u>PART I</u>	
Item 1. <u>Business</u>	3
Item 1A. <u>Risk Factors</u>	8
Item 1B. <u>Unresolved Staff Comments</u>	14
Item 2. <u>Properties</u>	14
Item 3. <u>Legal Proceedings</u>	15
Item 4. <u>Mine Safety Disclosures</u>	15
<u>PART II</u>	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	18
Item 6. <u>Selected Financial Data</u>	21
Item 7. <u>Management’s Discussion and Analysis (“MD&amp;A”) of Financial Condition and Results of Operations</u>	22
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	37
Item 8. <u>Financial Statements and Supplementary Data</u>	39
Item 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	69
Item 9A. <u>Controls and Procedures</u>	69
Item 9B. <u>Other Information</u>	69
<u>PART III</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	70
Item 11. <u>Executive Compensation</u>	70
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	70
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	70
Item 14. <u>Principal Accounting Fees and Services</u>	70
<u>PART IV</u>	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	71
<u>Signatures</u>	72



## 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 changing consumer demands, and address the challenges and opportunities of a dynamically evolving global business environment. 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, and customer interaction management platforms.

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 (BSS) to the world’s leading communications service providers, as well as clients in several evolving, 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 and fulfilment of various products and services, and through the presentment, collection, and accounts receivables management of monthly customer statements. While our heritage is in serving the North American video and satellite 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 content distribution, media and entertainment, and telecommunications.

**Market Conditions of the Communications Industry.** As 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 over the past several years due to multiple competitive and economic factors. Current economic indices suggest a slow stabilization of the industry, but it is impossible to predict whether this stabilization will persist or be subject to future instability. In addition, industry consolidation continues as service providers look for ways to expand their markets, increase their revenues, and gain greater scale efficiencies in their operations.

The impact of these market factors has resulted in spending cautiousness with large transformational projects being displaced in favor of more incremental changes to business operations. Globally, mature operators are looking for

ways to control costs, streamline operations, roll out new products and services quickly, and expand their scale, while operators in emerging markets are focusing on capitalizing on the growth of new services and the explosion of connected devices. Regardless of the specific situation, companies continue to have an increased focus on investing in those solutions and services that have a demonstrable short-term return on investment, generate new revenues, and help businesses remain competitive and meet rapidly changing consumer demands.

**Market Trends of Communications Industry.** The communications industry is experiencing heightened competition and a dramatic shift in purchasing power to the consumer as the consumer now has more choices for content, devices, and providers than ever before. There are three key trends that are emerging as communication service providers (“CSPs”) try to evolve and compete in this highly complex ecosystem.

- The first trend relates to an increased pressure for CSPs to find new revenue sources, while also managing their cost structure and quality of service delivery as their business evolves. CSPs are seeing a decline in revenues and profits associated with their traditional services like wireline voice and video as a result of new or increased competition. In order to offset these declining revenues and profits, CSPs are launching new and unproven revenue generating services with minimal capital investment, while also looking for ways to improve their cost structure. The result of these scenarios is that many CSPs are

3

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capping their investments on their traditional systems and looking for associated cost savings opportunities while launching new services with highly-flexible, lower cost solutions.

- The second trend CSPs are facing relates to the purchasing experience. Consumers have become accustomed to and value a simplified purchasing experience, much like they do with online apps like music or video downloads. And while many aspects of a consumer's experience will appear simpler, the complexity behind the comprehensive communications services that are purchased will remain, with an integration with more simplified billing requirements for emerging services like over-the-top (OTT) and digital services (home security, health services, etc.). The increased velocity in pricing, packaging, and promotions to respond to the changing business environment will require increased flexibility and nimbleness in the CSPs' operational platforms and thereby, inherently increase the complexity involved in providing a relevant and personalized communications experience for the consumer.
- And finally, the last trend that we see emerging is the evolution of the CSPs to a digital lifestyle services provider. In an "always-on" and connected digital society, some CSPs will desire to be the key source for content in a highly personalized experience based on individual consumer needs, desires, and consumption history. These providers will look beyond their own network and provide ubiquitous access to digital services. The "brand" and the "experience" become much more important to these providers as brand loyalty and personalized experience play a larger role in purchasing decisions. They will no longer be competing solely with the traditional communication companies, but will also be competing against well-known brands like Apple, Amazon, and Google for their share of the consumer's wallet. And, importantly, they will be looking to create a digital services ecosystem that extends beyond the traditional video, entertainment and content services and offer everything from e-books to health care monitoring services, thereby increasing their ecosystem and revenue management complexity.

Overall, these market trends drive the demand for scalable, flexible, and cost-efficient revenue management and customer interaction management solutions, which we believe will provide us with revenue opportunities. As a result, we have historically invested a significant amount of our revenues in R&D and have acquired companies that enable us to expand our offerings in a more timely and efficient manner. 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 consumers' experiences. We have specifically architected our solutions to provide operators with a more incremental approach to transforming their businesses, thereby reducing the risk associated with this evolution.

## 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 stockholders as well. Our strategic focus to accomplish this goal is as follows:

**Create Long-Term, Recurring Relationships Within The 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.** 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 30 years, we have been helping 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, we are focused on helping our clients compete more effectively and successfully in an ever-changing market.

#### 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, 2015 is included below:

America Movil	Mediacom Communications
Bell TV	MTN
Bharti Airtel	Singtel
Cable One Inc.	Telefônica
Charter Communications, Inc. (“Charter”)	Telstra
Comcast Corporation (“Comcast”)	Time Warner Cable, Inc. (“Time Warner”)
DISH Network Corporation (“DISH”)	Verizon
Hutchinson Whampoa 3G	Vodafone

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, and there are possibilities of further consolidation, illustrated by the current proposed acquisition of Time Warner by Charter, which is currently our fourth largest client. 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 three largest clients, as shown in the table below. Clients that represented 10% or more of our revenues for 2015 and 2014 were as follows (in millions, except percentages):

	2015		2014	
	Amount	% of Revenues	Amount	% of Revenues
Comcast	\$177	24	\$162	22
DISH	107	14	112	15
Time Warner	87	12	83	11

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 make meaningful investments 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 success in penetrating new markets with portions of our suite of customer interaction management solutions.

Our total R&D expenses for 2015 and 2014 were \$102.0 million and \$104.7 million, respectively, or approximately 14% of our total revenues. In the near term, we expect that our R&D investment activities will be relatively consistent with that of 2015, 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 platform, Advanced Convergent Platform (“ACP”), is the premier system for cable and satellite providers in North America. ACP and our related business support solutions (a pre-integrated, cloud-based platform) are relied upon every single day by over 54 million consumers of voice, video, and

5

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data services, and are used by more than 115,000 of our clients' customer service agents, and 50,000 of our clients' field force technicians, dispatchers and routers.

- Content Management & Monetization: Our Ascendon cloud-based solution helps manage, deliver, and monetize content and digital services to help build brand loyalty and create differentiated offerings for CSPs, digital retail providers, content aggregators, or content developers. Our Ascendon 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.
- Convergent Rating and Billing: Our Singleview suite provides an integrated customer care, billing and real-time rating and charging solution for the global marketplace delivered in either a cloud or stand-alone environment. This solution is a real-time policy, 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”) solution 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 Solution (“WBMS”) is a comprehensive and powerful settlements system delivered in either a cloud or stand-alone environment. 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 is 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. In summary, we offer a fully integrated, cloud-based revenue and customer management solution, complemented with world-class applications software and customized software solutions, allowing us to provide 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 models allows our clients to bring new product offerings to market quickly and provide high-quality customer service in a cost effective manner. In addition, we also license certain software products (e.g., Singleview, TSM, and WBMS) and provide expert 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.

Professional Services. We employ 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 methodology to each of our engagements, leveraging consistent world-class processes, best-practice programs, and systemized templates for all engagements.

Managed Services. We expanded our managed services capabilities and expertise developed in our North American operations to international operators in early 2013. For our managed services clients, we assume long-term responsibility for delivering our software solutions and related operations under a defined scope and specified service levels, generally using our clients' infrastructure and premises.

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 International Service Desk ("ISD") and Global Operations Service Management ("GOSM"), 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 ISD or GOSM 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 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.

**Competition.** The market for business support solutions products and services in the communications industry, as well as in other industries we serve, is highly competitive. We compete with both independent providers and in-house developers of customer management systems. We believe that our most significant competitors in our primary markets are Amdocs Limited, NEC Corporation, and Oracle Corporation; network equipment providers such as Ericsson, Huawei, and Alcatel-Lucent; and internally-developed solutions. 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) operational excellence and reliability; (v) quality of R&D efforts; and (vi) 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 (“U.S.”) 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, 2015, we had a total of 3,277 employees, a decrease of 171 employees when compared to the number of employees we had as of December 31, 2014. 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](http://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](http://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.

#### 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, and many others, and new risk factors will likely emerge. Further, as we enter new market sectors such as 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, and there are possibilities of further consolidation. Consistent with this market concentration, we generate approximately 50% of our revenues from our three largest clients, which are (in order of size) Comcast, DISH, and Time Warner, which each individually accounted for 10% or more of our total revenues. 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 as a result, 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 service levels; or (iii) if we do not maintain favorable relationships.

**We May Not Realize Our Anticipated Growth With Comcast Related to New Customer Account Migration Opportunities.**



In July 2014, we entered into an expanded and extended contract with our largest client, Comcast. The expanded contract provides the framework for Comcast to consolidate its residential business onto our billing solution. Under the new agreement, Comcast added approximately two million residential customers onto our billing solution in late 2014 and approximately two million more in 2015. We believe we have the opportunity to migrate up to an additional six million Comcast customer accounts that are currently on one of our competitor's platforms onto our solution over the next several years as part of Comcast's future standardization initiatives for their residential business.

Although Comcast has expressed to us their intention to consolidate their residential customer accounts to our platform, they have no financial or legal requirement to do so. The timing of and the number of customer accounts to be migrated to CSG, if any, is at the discretion of Comcast. There can be no assurances, therefore, as to the timing or the number of any new customer accounts migrated to us by Comcast.

#### 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 migrating both new and existing clients to our solutions. Such implementations or migrations (collectively referred to hereafter in this section as “implementations”), regardless of whether they involve new solutions or new customers, have become increasingly more difficult because of the sophistication, complexity, and interdependencies of the various software and network environments impacted, combined with the increasing complexity of the clients’ underlying business processes. In addition, the complexity of the implementations increases when the arrangement includes other vendors participating in the project, including but not limited to, prime and subcontractor relationships with our company. For these reasons, implementations subject our clients’ to potential business disruption, which could cause them to delay or even cancel future implementations.

As a result, there is a risk that we may experience cancellations of previously scheduled implementations, delays in an implementation, or unexpected costs associated with particular implementations. In addition, our inability to complete implementations in an efficient and effective manner could have a material adverse effect on our results of operations, and could damage our reputation in the market place, reducing our opportunity to grow our business with both new and existing clients.

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

Our Networks and Systems are subject to the risk of an extended interruption, outage, or security breach 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”, or cyber-attacks. Most recently, the marketplace is experiencing an ever-increasing exposure to both the number and severity of cyber-attacks. 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, outage, or security breach 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, not suffer a security breach or that our business continuity or remediation plans will adequately mitigate the negative effects of a disruption or security breach 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 or security breaches. 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. 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 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 solutions to our clients, we process, transmit, and store confidential and personally identifiable information ("PII"), including social security numbers and financial information. Our treatment of such information is subject to contractual restrictions and federal, state, and foreign data privacy laws and regulations, which continue to evolve resulting in greater scrutiny over the protection of PII. In response to these evolving restrictions and regulations, we leverage various data encryption strategies and have implemented measures to protect against unauthorized access to such information, and comply with these laws and regulations. These measures include standard industry practices (i.e. ISO-27002 guidelines), 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 to defend against cybercrime, 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 damage our reputation and 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.

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

Since the majority of our clients operate within the global communications industry sector, the economic state of this industry directly impacts our business. The global communications industry has undergone significant fluctuations in growth rates and capital investment cycles in the past decade. Current economic indices suggest a slow stabilization of the industry, but it is impossible to predict whether this stabilization will persist or be subject to future instability. In addition, industry consolidation continues as service providers look for ways to expand their markets and increase their revenues. A byproduct of this consolidation is that there could be fewer providers in the market, each with potentially greater bargaining power and economic leverage due to their larger size, which may result in our having to lower our prices to remain competitive, retain our market share, or comply with the surviving client's current more favorable contract terms.

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

We expect to continue to generate a significant portion of our future revenues from our North American cable and satellite operators. These clients operate in a highly competitive environment. Competitors range from traditional wireline and wireless providers to new entrants like new digital lifestyle service providers such as Hulu, YouTube, Google, Netflix, Apple, and Amazon. Should these competitors be successful in their strategies, it could threaten our clients' market share, and thus our source of revenues, as generally speaking these companies do not use our core solutions and there can be no assurance that new entrants will become our clients. In addition, demand for spectrum, network bandwidth and content continues to increase and any changes in the regulatory environment could have a significant impact to not only our clients' businesses, but in our ability to help our clients be successful.

**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 expand, 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 acquired technologies and their widely distributed, complex worldwide operations; and (iii) creating and maintaining 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. Our attempts to meet these demands subjects our R&D efforts to greater risks.

As a result, substantial and effective R&D and product investment will be required to maintain the competitiveness of our solutions in the market. Technical problems may arise in developing, maintaining, integrating, 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, integration, 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 data processing that 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, integration, and/or operations of enhancements or new solutions.

### 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 our software license and services 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 associated with these products could have a material adverse effect on our financial position and results of operations.

### 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 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 materially within our cost estimates, due to factors discussed in greater detail below.

Software license, professional services, and maintenance revenues are a significant percentage of our total revenues. 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 maintenance 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.

### Our International Operations Subject Us to Additional Risks.

We currently conduct a portion of our business outside the U.S. 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 restrictions on the movement of cash out of the country;
- Trade barriers;
- Governmental sanctions;
- Complying with varied legal and regulatory requirements across jurisdictions;
- Reduced protection for intellectual property rights in some countries;

- Inability to recover value added taxes and/or goods and services taxes in foreign jurisdictions;
- Political instability and threats of terrorism; and
- A potential adverse impact to our overall effective income tax rate resulting from, among other things:
- Operations in foreign countries with higher tax rates than the U.S.;
- 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.

11

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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.

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

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

Acquisitions involve a number of risks and difficulties, including: (i) expansion into new markets and business ventures; (ii) the requirement to understand local business practices; (iii) the diversion of management's attention to the assimilation of acquired operations and personnel; (iv) being bound by acquired 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 acquired 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.

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

Doing business on a worldwide basis requires our company and our subsidiaries to comply with the laws and the regulations of the U.S. government and various international jurisdictions. In addition, the number of countries enacting anti-corruption laws and related enforcement activities is increasing. 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 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. In addition, the FCPA imposes accounting standards and requirements on publicly traded U.S. corporations and their foreign affiliates, which are intended to prevent the diversion of corporate funds to the payment of bribes and other improper payments, and to prevent the establishment of "off books" slush funds from which such improper payment can be made. 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. We inform our personnel and third-party sales representatives of the requirements of the FCPA and other anti-corruption laws, including, but not limited to their reporting requirements. We have also developed and will continue to develop and implement systems for formalizing contracting processes, performing due diligence on agents and improving our recordkeeping and auditing practices regarding these regulations. However, there is no guarantee that our employees, third-party sales representatives or other agents have not or will not engage in conduct undetected by our processes and for which we might be held responsible under the FCPA or other anti-corruption laws.

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. As a result of our worldwide business, 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.

**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. Use of open source software also complicates compliance with export-related laws. While we take measures to protect our use of open source software in our solutions, open source license terms may be

12

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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.

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

Finally, third parties may claim that we, our clients, 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.

**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 and reorganization 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 or reorganization 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 \$111 million of long-lived assets other than goodwill (principally, property and equipment, software, and client contracts) as of December 31, 2015. These long-lived assets are subject to ongoing assessment of possible impairment summarized as follows:

- Goodwill is required to be tested for impairment on an annual basis. We have elected to do our annual test for possible impairment as of July 31 of each year. In addition to this annual requirement, goodwill is required to be evaluated for possible impairment on a periodic basis (e.g., quarterly) if events occur or circumstances change that could indicate a possible impairment may have occurred.
- Long-lived assets other than goodwill are required to be evaluated for possible impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable.

We utilize our market capitalization and/or cash flow models as the primary basis to estimate the fair value amounts used in our goodwill and other long-lived asset impairment valuations. If an impairment was to be recorded in the future, it could 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 sales 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, 2015, we were operating in over 30 leased sites around the world, representing over 550,000 square feet.

Our corporate headquarters is located in Englewood, Colorado. In addition, we lease office space in the U.S. in Atlanta, Georgia; Bloomfield, New Jersey; Chicago, Illinois; Columbia, Maryland; Omaha, Nebraska; Oxnard, California; and Philadelphia, Pennsylvania. The leases for these office facilities expire in the years 2016 through 2025. We also maintain leased facilities internationally in Australia, Brazil, Canada, China, Denmark, France, India, Ireland, Lebanon, Malaysia, Philippines, Saudi Arabia, Singapore, South Africa, Sweden, United Arab Emirates, and the U.K. The leases for these international office facilities expire in the years 2016 through 2022. 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 two statement production and mailing facilities totaling approximately 176,000 square feet. These facilities are located in: (i) Omaha, Nebraska; and (ii) Wakulla County, Florida. The leases for these facilities expire in the 2018 and 2019, respectively.

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 9 to our 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 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

Our executive officers are Bret C. Griess (President and Chief Executive Officer), Randy R. Wiese (Executive Vice President and Chief Financial Officer), and Joseph T. Ruble (Executive Vice President, General Counsel, Corporate Secretary and Chief Administrative Officer).

We have employment agreements with each of the executive officers.

Peter E. Kalan resigned as Chief Executive Officer on December 30, 2015 and is no longer an executive officer of the company.

Bret C. Griess

President and Chief Executive Officer

Mr. Griess, 47, serves as President and Chief Executive Officer for CSG. He joined CSG in 1996 and held a variety of positions in Operations and Information Technology, until being appointed Executive Vice President of Operations in February 2009, Chief Operating Officer in March 2011, and President in June 2015. In January 2016, Mr. Griess was appointed President and Chief Executive Officer and a member of the Board. 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 from Eastern Florida State College, formerly Brevard Community College.

Randy R. Wiese

Executive Vice President and Chief Financial Officer

Mr. Wiese, 56, serves as Executive Vice President and Chief Financial Officer for CSG. Mr. Wiese 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 on the Board of Directors of Habitat for Humanity-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, 55, serves as Executive Vice President, General Counsel, Corporate Secretary and Chief Administrative Officer for CSG. Mr. Ruble 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, 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.

15

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Board of Directors of the Registrant

Information related to our Board of Directors (the “Board”) is provided below.

On December 30, 2015, Peter E. Kalan resigned from the Board in conjunction with his resignation as Chief Executive Officer.

Donald B. Reed

Mr. Reed, 71, was elected to the Board in May 2005 and has served as the Company’s non-executive Chairman of the Board since January 2010. Mr. Reed is retired, having served as Chief Executive Officer of Cable & Wireless Global from May 2000 to January 2003. Cable & Wireless Global, a subsidiary of Cable & Wireless plc, is a provider of internet protocol (IP) and data services to business customers in the U.S., U.K., Europe, and Japan. 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 holds a B.S. degree in History from Virginia Military Institute.

Bret C. Griess

Mr. Griess’ biographical information is included in the “Executive Officers of the Registrant” section shown directly above.

David G. Barnes

Mr. Barnes, 54, was appointed to the Board in February 2014. He currently serves as the Chief Financial Officer and a Director for MWH Global, a private, employee-owned global provider of environmental engineering, construction, and strategic consulting services. From 2006 to 2008, he was Executive Vice President of Western Union Financial Services. From 2004 to 2006, Mr. Barnes served as Chief Financial Officer of Radio Shack Corporation. From 1999 to 2004, he was Vice President, Treasurer, and U.S. Chief Financial Officer for Coors Brewing Company. Mr. Barnes holds an M.B.A. degree from the University of Chicago and a B.A. degree from Yale University.

Ronald H. Cooper

Mr. Cooper, 59, was elected to the Board in November 2006. He most recently served as the President and Chief Executive Officer of Clear Channel Outdoor Americas, Inc. from 2009 through 2012. Prior to this position, Mr. Cooper was a Principal at Tufts Consulting LLC 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, New England Cable Television Association, and Outdoor Advertising Association of America. Mr. Cooper holds a B.A. degree from Wesleyan University.

John L. M. Hughes



Mr. Hughes, 64, 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 us in 2010. Mr. Hughes currently serves as Chairman of the Board for Just-Eat Group plc and Spectris plc, and for privately-held Zenos Cars. He also is a Director on the boards for Equinix, Inc. and privately-held Scorpion Ventures Limited. During the past five years, Mr. Hughes was formerly a Director on the boards of the public companies of NICE-Systems Ltd., Sepura plc, Telecity Group plc, and Vitec Group plc. Mr. Hughes has been an advisor to Oakley Corporate Finance since 2012 and previously served as an advisor to Advent International, a private equity fund, from 2008 to 2011. Prior to his board positions, from 2000 to 2004, Mr. Hughes served as Executive Vice President and Chief Operating Officer for Thales Group, a 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 the Director of 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 Hatfield Polytechnic (now the University of Hertfordshire).

Janice I. Obuchowski

Ms. Obuchowski, 64, was elected to the Board in November 1997. Ms. Obuchowski is the founder and President of Freedom Technologies, Inc., a research and consulting firm providing public policy, strategic, and engineering advice to companies in the communications sector, government agencies, and international clients, since 1992. She was previously Chairman and Founder of Frontline Wireless, Inc., a public safety network start-up from 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 Radiocommunication Conference. She has served as Assistant Secretary for Communications and Information at the Department of Commerce, and Administrator for the National Telecommunications and Information Administration (NTIA) and as the head of international government relations at NYNEX Corporation. Ms. Obuchowski currently serves as a Director on the boards for Orbital ATK and Inmarsat. She also has served on several non-profit and other publicly traded company boards. She holds a J.D. degree from Georgetown University and a B.A. degree from Wellesley College, and also attended the University of Paris.

Frank V. Sica

Mr. Sica, 65, has served as a director of the Company since its formation in 1994. Mr. Sica 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, where he 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. He currently serves as a Director on the boards of JetBlue Airways, Kohl's Corporation, and Safe Bulkers, Inc. Mr. Sica holds an M.B.A. degree from the Tuck School of Business at Dartmouth College and a B.A. degree from Wesleyan University.

Donald V. Smith

Mr. Smith, 73, was elected to the Board in January 2002. Mr. Smith is presently retired. 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. From 1978 to 1988, he served as Principal with Morgan Stanley & Co. Inc., where he headed their valuation and reorganization services. He is also on the board of directors of several non-profit organizations. 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

Mr. Unruh, 75, was elected to the Board in June 2005. Mr. Unruh 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, including serving 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. Prior to 1982, Mr. Unruh was Chief Financial Officer with Memorex Corporation and also held various executive positions with Fairchild Camera and Instrument Corporation, including Chief Financial Officer. Mr. Unruh currently serves as Director on the boards for Prudential Financial, Inc. and Tenet Healthcare Corporation, and formerly served as Director on the boards for Qwest Communications International, Inc. and CenturyLink, Inc. during the past five years. He holds an M.B.A. degree from the University of Denver and a B.S. degree from the University of Jamestown.



## 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.

2015	High	Low	Dividends Declared
First quarter	\$30.95	\$23.72	\$ 0.1750
Second quarter	32.80	28.69	0.1750
Third quarter	33.20	29.18	0.1750
Fourth quarter	38.85	30.54	0.1750

2014	High	Low	Dividends Declared
First quarter	\$32.11	\$25.59	\$ 0.1500
Second quarter	27.75	24.74	0.1575
Third quarter	28.45	25.52	0.1575
Fourth quarter	27.11	23.16	0.1575

On February 22, 2016, the last sale price of our common stock as reported by NASDAQ was \$38.02 per share. On January 31, 2016, the number of holders of record of common stock was 154.

## Dividends

In June 2013, our Board approved the initiation of a quarterly cash dividend to be paid to our stockholders for the first time in our history. Quarterly cash dividends were paid to stockholders in March, June, September, and December of 2015 and 2014, as detailed in the table above. Going forward, we expect to continue to pay dividends each year in March, June, September, and December, with the amount and timing subject to the Board's approval. In January 2016, our Board declared a dividend of \$0.185 per share of common stock to be paid on March 31, 2016 for shareholders of record as of the close of business on March 16, 2016.

The payment of dividends is subject to the covenants of our Credit Agreement, and has certain impacts to our senior subordinated convertible contingent debt (the 2010 Convertible Notes). See Note 5 to our Financial Statements for additional discussion of our long-term debt.

## Stock Price Performance

The following graph compares the cumulative total stockholder return on our common stock, the Russell 2000 Index, and our Standard Industrial Classification (“SIC”) Code Index: Data Preparation and Processing Services during the indicated five-year period. The graph assumes that \$100 was invested on December 31, 2010, in our common stock and in each of the two indexes, and that all dividends, if any, were reinvested.

	As of December 31,					
	2010	2011	2012	2013	2014	2015
CSG Systems International, Inc.	\$100.00	\$77.67	\$95.99	\$158.01	\$137.90	\$202.33
Russell 2000 Index	100.00	95.82	111.49	154.78	162.35	155.18
Data Preparation and Processing Services	100.00	108.45	126.43	181.69	200.82	214.95

## Equity Compensation Plan Information

The following table summarizes certain information about our equity compensation plans as of December 31, 2015:

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	—	\$ —	4,663,888

Of the total number of securities remaining available for future issuance, 4,223,266 shares can be used for various types of stock-based awards, as specified in the equity compensation plan, with the remaining 440,622 shares to be used for our employee stock purchase plan. See Note 11 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 2015 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 (2)	Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs
October 1 - October 31	285	\$ 32.00	—	7,305,247
November 1 - November 30	—	—	—	7,305,247
December 1 - December 31	246,218	31.63	245,393	7,059,854
Total	246,503	\$ 31.63	245,393	

(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.

(2) See Note 10 to our Financial Statements for additional information regarding our share repurchases.

## 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,				
	2015	2014	2013	2012	2011
(in thousands, except per share amounts)					
<b>Statements of Income Data:</b>					
Revenues (1)(2)	\$752,520	\$751,286	\$747,468	\$756,866	\$734,731
Operating income (1)(2)	113,140	75,690	76,704	96,574	96,285
Net income (6)	62,567	35,711	45,268	47,120	42,282
Weighted-average diluted shares outstanding	33,438	33,736	32,873	32,476	33,022
Diluted net income per common share (6)	\$1.87	\$1.06	\$1.38	\$1.45	\$1.28
Dividend declared per share (4)	\$0.70	\$0.62	\$0.45	\$-	\$-
<b>Key Capital Activities:</b>					
Shares repurchased under Stock Repurchase Program (5)	1,838	733	500	823	750
Cost of shares repurchased under Stock Repurchase Program (5)	\$56,959	\$19,106	\$10,129	\$13,350	\$9,930
Dividends declared (4)	22,852	21,327	15,214	-	-
<b>Balance Sheet Data (at Period End):</b>					
Cash, cash equivalents and short-term investments	\$240,936	\$201,800	\$210,837	\$169,321	\$158,830
Total assets (6)	877,233	854,632	868,809	847,225	814,897
Total debt (3)	284,577	255,831	265,050	274,698	309,744
Total treasury stock (5)	814,437	757,478	738,372	728,243	714,893
Total stockholders' equity (4)(6)	345,845	358,633	358,262	324,880	274,714

(1) On July 13, 2012, we acquired the Ascade business, and as a result, approximately six months of their operations are included in our 2012 results (approximately \$9 million of revenue impact) and a full twelve months of their operations are included in our 2013, 2014, and 2015 results. See the MD&A Basis of Discussion – Impact of Divestitures and Acquisitions section in our MD&A for further discussion of the Ascade acquisition. The overall cost of the Ascade acquisition was approximately \$19 million, and was paid from existing cash.

(2) In September 2015, we sold our cyber-security business, marketed under the Invotas brand, to certain former management personnel, resulting in a gain on the sale of \$3.7 million. The impact of Invotas to our business prior to the divestiture date was not material.

On July 1, 2013, we sold a small print operation, and on December 31, 2013, we sold our marketing analytics business marketed under the Quaero brand. As a result of these divestitures, 2014 revenue levels were approximately \$13 million lower when compared to our 2013 revenues generated from these businesses. We sold these businesses for a total of approximately \$6 million, and recorded a total loss on the dispositions of approximately \$3 million.

(3)

In February 2015, we refinanced our Credit Agreement. As a result, under the refinanced Credit Agreement, we: (i) extended the term of the agreement to February 2020; (ii) increased the amount of the revolving credit facility from \$100 million to \$200 million; and (iii) borrowed \$150 million, resulting in a net increase of available cash of \$30 million, after paying off the outstanding \$120 million balance from the term loan under the previous Credit Agreement.

In November 2012, we refinanced our Credit Agreement, and as a result, under the refinanced Credit Agreement, we: (i) borrowed \$150 million, thus paying down \$18 million of outstanding debt; and (ii) extended the term from 2015 to 2017.

See Note 5 to our Financial Statements for additional discussion of our debt.

- (4) In June 2013, our Board approved the initiation of a quarterly cash dividend to be paid to our stockholders for the first time in our history. Quarterly dividends are typically paid each year in March, June, September, and December with the amount and timing subject to the Board's approval. Because of the timing of when we initiated our dividend, 2013 only includes three quarterly dividends.
- (5) In March 2015, we entered into an accelerated share repurchase ("ASR") Agreement with a counterparty to repurchase \$50 million of our common stock. Final share settlement occurred in December 2015, with total shares purchased under the ASR Agreement of 1.6 million.
- (6) The 2014, 2013, and 2012 amounts have been adjusted as a result of an immaterial correction made to the income tax provision. See Note 7 to our Financial Statements for additional discussion.



## Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements

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

### MD&A Basis of Discussion - Impact of Divestitures and Acquisitions

Our Consolidated Statements of Income (“Income Statements” or “Income Statement”) for the years ended December 31, 2015, 2014, and 2013 reflect the results of operations for the following acquisitions and divestitures:

In September 2015, we sold our cyber-security business, marketed under the Invotas brand, to certain former management personnel, resulting in a gain on the sale of \$3.7 million, which is included in restructuring and reorganization charges in our 2015 Income Statement. The impact of Invotas to our business prior to the divestiture date was not material. We retained a minority interest in the business such that the results of operations from the business are not included in our financial statements subsequent to the divestiture date.

In February 2016, this business was acquired by a third-party. Based on the terms of our agreement with former management personnel, we have received additional proceeds which were contingent upon a liquidation event, as defined in the agreement, resulting in an additional gain on the sale of approximately \$6.6 million. The additional gain on sale will be recognized in the first quarter of 2016, and will be included in restructuring and reorganization charges in our Income Statement.

On December 31, 2013, we sold our marketing analytics business marketed under the Quaero brand, which generated approximately \$11 million of revenue in 2013. As part of this transaction, we retained certain clients, which generated approximately \$2 million and \$3 million, respectively, of this revenue in 2015 and 2014.

On July 1, 2013, we sold a small print operation, which generated revenues of approximately \$5 million in 2013. As a result of these acquisitions and divestitures, amounts may not be comparable between years due to the timing of the transactions. The comparable differences have been described below where relevant or significant. Overall, the acquisition and divestiture activity was not material to our operating results in 2015, 2014, or 2013.

### Management Overview

Results of Operations. A summary of our results of operations for 2015 and 2014, and other key performance metrics are as follows (in thousands, except percentages and per share amounts):

	Year Ended December 31,	
	2015	2014
Revenues	\$752,520	\$751,286
Operating results:		
Operating income	113,140	75,690

Operating income margin	15.0	%	10.1	%
Diluted earnings per share (“EPS”)	\$1.87		\$1.06	
Supplemental data:				
Restructuring charges	3,074		13,969	
Stock-based compensation (1)	21,371		16,655	
Amortization of acquired intangible assets	11,983		15,408	
Amortization of OID	6,246		5,781	

(1) Stock-based compensation included in the table above excludes amounts that have been recorded in restructuring and reorganization charges.

Revenues. Our revenues for 2015 were \$752.5 million, a slight increase when compared to \$751.3 million for 2014. The increase can be primarily attributed to a 3% increase in our processing revenues, offset by unfavorable foreign currency movements, which had a negative impact to total revenues of approximately \$15 million. The growth in our processing revenues for 2015 was driven largely

by the migration of new customer accounts onto ACP, and the continued revenue growth from our Ascendon solution and international managed services offering, offset by some of the challenges we experienced in our software and services revenues.

**Operating Results.** Operating income for 2015 was \$113.1 million, or a 15.0% operating income margin percentage, compared to \$75.7 million, or a 10.1% operating income margin percentage for 2014, with the increase due to lower operating expenses (driven primarily by foreign currency movements, focus on cost improvements, and lower restructuring and reorganization charges), and the scale benefits we are achieving from increasing the number of customer accounts and clients on our solutions.

**Diluted EPS.** Diluted EPS for 2015 was \$1.87 compared to \$1.06 for 2014 with the increase primarily attributed to the higher operating margin.

**Balance Sheet and Cash Flows.** As of December 31, 2015, we had cash, cash equivalents, and short-term investments of \$240.9 million, as compared to \$201.8 million as of December 31, 2014. Cash flows from operating activities for 2015 were \$137.0 million, compared to \$83.7 million for 2014, with the fluctuations between years caused primarily by timing items within our working capital. See the Liquidity section below for further discussion of our cash flows.

#### Capital Planning Activities

In February 2015, we announced a planned increase in our capital allocation to shareholders and an improvement in our capital structure that included the following key items:

- an 11% increase in our quarterly dividend effective for the first quarter of 2015, which resulted in dividends for 2015 of approximately \$23 million;
- a planned increase in share repurchases of up to \$150 million under our Stock Repurchase Program over the next three years, which resulted in share repurchases of approximately \$57 million for 2015, of which \$50 million was done through an accelerated share repurchase program (“ASR”) program, that was executed in March; and
- an amendment to our credit agreement which provides capital capacity and flexibility in managing our capital structure over the next five years.

In 2016, we plan to continue this capital allocation strategy as follows:

- a 6% increase in our quarterly dividend effective for the first quarter of 2016; and
- the repurchase of a minimum of up to \$50 million of shares in 2016.

#### Significant Client Relationships

**Comcast.** Comcast continues to be our largest client. For 2015 and 2014, revenues from Comcast were \$177 million and \$162 million, respectively, representing approximately 24% and 22% of our total revenues. This increase is driven primarily by the migration of additional Comcast customer accounts to our platform, as noted below. Our agreement with Comcast runs through June 30, 2019, with an option to extend the agreement for two consecutive one-year terms by exercising the renewal options no later than January 1, 2019 for the first extension option, and January 1, 2020 for the second extension option.

During the fourth quarter of 2014, Comcast added over two million residential customer accounts onto ACP and approximately two million more during 2015. We believe we have the opportunity to migrate up to an additional six million Comcast customer accounts that are currently on one of our competitor’s platforms onto our solution over the next several years as part of Comcast’s future standardization initiatives for their residential business. However, the timing of and the number of additional customer accounts to be migrated to CSG, if any, is at the discretion of Comcast. Therefore, there can be no assurances as to the timing or the number of additional customer accounts

migrated to us by Comcast, or whether we will experience any further material increase in revenues or profits under the Amended Agreement. See our Risk factors for additional discussion.

A copy of the Comcast agreement and related amendments, with confidential information redacted, is included in the exhibits to our periodic filings with the SEC.

DISH. DISH is our second largest client. For 2015 and 2014, revenues from DISH were \$107 million and \$112 million, respectively, representing approximately 14% and 15% of our total revenues. Our agreement with DISH runs through December 31, 2017.

The DISH agreement and related amendments, with confidential information redacted, is included in the exhibits to our periodic filings with the SEC.

Time Warner. Time Warner is our third largest client. For 2015 and 2014, revenues from Time Warner were \$87 million and \$83 million, respectively, representing approximately 12% and 11% of our total revenues. Our agreement with Time Warner runs through March 31, 2017, with an option to extend the term for one additional year by exercising the renewal option on or before September 30, 2016.

The Time Warner processing agreement and related amendments, with confidential information redacted, is included in the exhibits to our periodic filings with the SEC.

#### Stock-Based Compensation Expense

Stock-based compensation expense is included in the following captions in our Income Statement (in thousands):

	2015	2014	2013
Cost of processing and related services	\$2,589	\$3,203	\$2,342
Cost of software and services	2,563	1,071	897
Cost of maintenance	204	201	253
Research and development	3,206	2,343	1,621
Selling, general and administrative	12,809	9,837	9,683
Restructuring	(241 )	-	-
Total stock-based compensation expense	\$21,130	\$16,655	\$14,796

See Notes 2 and 11 to our Financial Statements for additional discussion of our stock-based compensation expense.

#### Amortization of Acquired Intangible Assets

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

	2015	2014	2013
Cost of processing and related services	\$1,347	\$1,305	\$2,109
Cost of maintenance	10,636	14,103	17,111
Total amortization of acquired intangible assets	\$11,983	\$15,408	\$19,220

See Note 4 to our Financial Statements for additional discussion of our amortization of acquired intangible assets.

#### Critical Accounting Policies

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

We have identified the most critical accounting policies that affect our financial position and the results of our operations. These critical accounting policies were determined by considering our accounting policies that involve the most complex or subjective decisions or assessments. The most critical accounting policies identified relate to: (i) revenue recognition; (ii) impairment assessments of goodwill and other long-lived assets; (iii) income taxes; and (iv) loss contingencies. These critical accounting policies, as well as our other significant accounting policies, are

disclosed in the notes to our Financial Statements.

Revenue Recognition. The revenue recognition policy that involves the most complex or subjective decisions or assessments that may have a material impact on our business' operations relates to the accounting for certain software license and services arrangements.

The accounting for software license arrangements, especially when software is sold in a multiple-element arrangement, can be complex and may require considerable judgment. Key factors considered in accounting for software license and related services include the following criteria: (i) the identification of the separate elements of the arrangement; (ii) the determination of whether any undelivered elements are essential to the functionality of the delivered elements; (iii) the assessment of whether the software, if hosted, should be accounted for as a services arrangement and thus outside the scope of the software revenue recognition literature; (iv) the determination of vendor specific objective evidence ("VSOE") of fair value for the undelivered element(s) of the arrangement; (v) the assessment of whether the software license fees are fixed or determinable; (vi) the determination as to whether the fees are considered collectible; and (vii) the assessment of whether services included in the arrangement represent significant production,

customization or modification of the software. The evaluation of these factors, and the ultimate revenue recognition decision, requires significant judgments to be made by us. The judgments made in this area could have a significant effect on revenues recognized in any period by changing the amount and/or the timing of the revenue recognized. In addition, because software licenses typically have little or no direct, incremental costs related to the recognition of the revenue, these judgments could also have a significant effect on our results of operations.

The initial sale of our software products generally requires significant production, modification or customization and thus falls under the guidelines of contract accounting. In these software license arrangements, the software license and professional services elements of the arrangement fee are typically combined and subject to contract accounting using the percentage-of-completion (“POC”) method of accounting. Under the POC method of accounting, software license and professional services revenues are typically recognized as the professional services related to the software implementation project are performed. We are using hours performed on the project as the measure to determine the percentage of the work completed.

A portion of our professional services revenues does not include an element of software delivery (e.g., business consulting services, etc.), and thus, do not fall within the scope of specific authoritative accounting literature for software arrangements. In these cases, revenues from fixed-price, professional service contracts are recognized using a method consistent with the proportional performance method, which is relatively consistent with our POC methodology. Under a proportional performance model, revenue is recognized by allocating revenue between reporting periods based on relative service provided in each reporting period, and costs are generally recognized as incurred. We utilize an input-based approach (i.e., hours worked) for purposes of measuring performance on these types of contracts. Our input measure is considered a reasonable surrogate for an output measure. In instances when the work performed on fixed price agreements is of relatively short duration, or if we are unable to make reasonably dependable estimates at the outset of the arrangement, we use the completed contract method of accounting whereby revenue is recognized when the work is completed.

Our use of the POC and proportional performance methods of accounting on professional services engagements requires estimates of the total project revenues, total project costs and the expected hours necessary to complete a project. Changes in estimates as a result of additional information or experience on a project as work progresses are inherent characteristics of the POC and proportional performance methods of accounting as we are exposed to various business risks in completing these engagements. The estimation process to support these methods of accounting is more difficult for projects of greater length and/or complexity. The judgments and estimates made in this area could: (i) have a significant effect on revenues recognized in any period by changing the amount and/or the timing of the revenue recognized; and/or (ii) impact the expected profitability of a project, including whether an overall loss on an arrangement has occurred. To mitigate the inherent risks in using the POC and proportional performance methods of accounting, we track our performance on projects and reevaluate the appropriateness of our estimates as part of our monthly accounting cycle.

Revenues are recognized only if we determine that the collection of the fees included in an arrangement is considered probable (i.e., we expect the client to pay all amounts in full when invoiced). In making our determination of collectibility for revenue recognition purposes, we consider a number of factors depending upon the specific aspects of an arrangement, which may include, but is not limited to, the following items: (i) an assessment of the client’s specific credit worthiness, evidenced by its current financial position and/or recent operating results, credit ratings, and/or a bankruptcy filing status (as applicable); (ii) the client’s current accounts receivable status and/or its historical payment patterns with us (as applicable); (iii) the economic condition of the industry in which the client conducts the majority of its business; and/or (iv) the economic conditions and/or political stability of the country or region in which the client is domiciled and/or conducts the majority of its business. The evaluation of these factors, and the ultimate determination of collectibility, requires significant judgments to be made by us. The judgments made in this area could have a significant effect on revenues recognized in any period by changing the amount and/or the timing of the

revenue recognized.

#### Impairment Assessments of Goodwill and Other Long-Lived Assets.

Goodwill. 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. Goodwill is considered impaired if the carrying value of the reporting unit, which includes the goodwill, is greater than the estimated fair value of the reporting unit. If it is determined that an impairment has occurred, an impairment loss (equal to the excess of the carrying value of the goodwill over its estimated fair value) is recorded.

As of July 31, 2015, we had goodwill of approximately \$225 million, which was assigned to a single reporting unit. Since we had only a single reporting unit, we used our public market capitalization as our primary means to estimate the fair value for that single reporting unit. Since our market capitalization exceeded the carrying value of our single reporting unit by a significant margin, we concluded there was no impairment of goodwill.



We believe that our approach for testing our goodwill for impairment was appropriate. However, if we experience a significant drop in our market capitalization due to company performance, and/or broader market conditions, it may result in an impairment loss. If a goodwill impairment was to be recorded in the future, it would likely materially impact our results of operations in the period such impairment is recognized, but such an impairment charge would be a non-cash expense, and therefore would have no impact on our cash flows, or on the financial position of our company.

**Other Long-lived Assets.** Long-lived assets other than goodwill, which for us relates primarily to property and equipment, software, and client contracts, 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. A long-lived asset (or group of long-lived assets) is impaired if estimated future undiscounted cash flows associated with that asset, without consideration of interest, are insufficient to recover the carrying amount of the long-lived asset. Once deemed impaired, even if by \$1, the long-lived asset is written down to its fair value which could be considerably less than the carrying amount or future undiscounted cash flows. The determination of estimated future cash flows and, if required, the determination of the fair value of a long-lived asset, are by their nature, highly subjective judgments. Changes to one or more of the assumptions utilized in such an analysis could materially affect our impairment conclusions for long-lived assets.

**Income Taxes.** We are required to estimate our income tax liability in each jurisdiction in which we operate, which includes the U.S. (including both Federal and state income taxes) and numerous foreign countries.

Various judgments are required in evaluating our income tax positions and determining our provisions for income taxes. During the ordinary course of our business, there are certain transactions and calculations for which the ultimate income tax determination may be uncertain. In addition, we may be subject to examination of our income tax returns by various tax authorities which could result in adverse outcomes. For these reasons, we establish a liability associated with unrecognized tax benefits based on estimates of whether additional taxes and interest may be due. We adjust this liability based upon changing facts and circumstances, such as the closing of a tax audit, the closing of a tax year upon the expiration of a statute of limitations, or the refinement of an estimate. Should any of the factors considered in determining the adequacy of this liability change significantly, an adjustment to the liability may be necessary. Because of the potential significance of these issues, such an adjustment could be material.

One of the more complex items within our income tax expense is the determination of our annual research and experimentation income tax credit (“R&D credit”). We incur more than \$100 million annually in R&D expense. The calculation of the R&D tax credit involves the identification of qualifying projects, and then an estimation of the qualifying costs for such projects. Because of the size, nature, and the number of projects worked on in any given year, the calculation can become complex and certain judgments are necessary in determining the amount of the R&D credits claimed. In fact, during the fourth quarter of 2015, we corrected our financial statements for an error in the calculation of R&D credit amounts recorded within our 2014, 2013, and 2012 income tax provisions. See further discussion below and Note 7 to our Financial Statements for additional information regarding this immaterial correction.

**Loss Contingencies.** In the ordinary course of business, we are subject to claims (and potential claims) related to various items including but not limited to the following: (i) legal and regulatory matters; (ii) client and vendor contracts; (iii) product and service delivery matters; and (iv) labor matters. Accounting and disclosure requirements for loss contingencies requires us to assess the likelihood of any adverse judgments in or outcomes to these matters, as well as the potential ranges of probable losses. A determination of the amount of reserves for such contingencies, if any, for these contingencies is based on an analysis of the issues, often with the assistance of legal counsel. The evaluation of such issues, and our ultimate accounting and disclosure decisions, are by their nature, subject to various estimates and highly subjective judgments. Should any of the factors considered in determining the adequacy of any

required reserves change significantly, an adjustment to the reserves may be necessary. Because of the potential significance of these issues, such an adjustment could be material.

#### Detailed Discussion of Results of Operations

**Total Revenues.** Total revenues for: (i) 2015 were \$752.5 million, a slight increase from \$751.3 million for 2014; and (ii) 2014 increased 1% to \$751.3 million, from \$747.5 million for 2013.

- The slight increase in 2015 revenues can be primarily attributed to growth in our processing revenues, offset by unfavorable foreign currency movements, which had a negative impact to total revenues of approximately \$15 million. The growth in our processing revenues for 2015 was driven largely by the migration of new customer accounts onto ACP, and the continued revenue growth from our Ascendon solution and international managed services offering, offset by some of the challenges we experienced in our software and services revenues.
  - The 1% year-over-year increase between 2014 and 2013 is mainly due to the growth in processing revenues of approximately \$25 million that we experienced during 2014, which more than offset the lower software and services
- 26
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revenues for the year and the approximately \$13 million year-over-year impact of the two business divestitures completed in the second half of 2013, discussed above.

The components of total revenues, discussed in more detail below, are as follows:

	Year Ended December 31,		
	2015	2014	2013
<b>Revenues:</b>			
Processing and related services	\$577,410	\$562,109	\$537,453
Software and services	93,678	102,585	118,988
Maintenance	81,432	86,592	91,027
<b>Total revenues</b>	<b>\$752,520</b>	<b>\$751,286</b>	<b>\$747,468</b>

**Processing and Related Services Revenues.** Processing and related services revenues for: (i) 2015 increased 3% to \$577.4 million, from \$562.1 million for 2014; and (ii) 2014 increased 5% to \$562.1 million, from \$537.5 million for 2013.

- The year-over-year increase between 2015 and 2014 in processing and related services revenues is primarily the result of the migration of new customer accounts onto ACP, and the continued revenue growth from our Ascendon solution and international managed services offering. As discussed above, Comcast added over two million customer accounts onto ACP during the fourth quarter of 2014, and approximately two million additional customer accounts during the second half of 2015.
- The year-over-year increase between 2014 and 2013 in processing and related services revenues is due mainly to the following key items: (i) continued growth in our ACP processing revenues and several of our related ancillary products and services; and (ii) growth in our international managed services offering as a result of recent contract wins and service launches. These increases were offset to a certain degree by the year-over-year impact of the two business divestitures completed in the second half of 2013, discussed above, which combined, had a total net impact of approximately \$8 million on processing revenues for 2014.

Additionally, amortization of the investments in client contracts intangible asset (reflected as a reduction of processing revenues) for 2015, 2014, and 2013 was \$5.2 million, \$6.4 million, and \$6.2 million, respectively.

**Software and Services Revenues.** Software and services revenues for: (i) 2015 decreased 9% to \$93.7 million, from \$102.6 million for 2014; and (ii) 2014 decreased 14% to \$102.6 million, from \$119.0 million for 2013.

- The year-over-year decrease in software and services revenues from 2015 to 2014 is primarily attributed to foreign currency movements, and to a lesser degree, continued extended sales cycles in our software and professional services business and lower demand.
- The year-over-year decrease from 2014 to 2013 is mainly attributed to extended sales cycles in our software and professional services business and continued low market demand for large transformational software and service deals, and to a much lesser degree, the divested services revenues related to our marketing analytics business at the end of 2013, which resulted in a decrease of approximately \$5 million for 2014.

**Maintenance Revenues.** Maintenance revenues for: (i) 2015 decreased 6% to \$81.4 million, from \$86.6 million for 2014; and (ii) 2014 decreased 5% to \$86.6 million, from \$91.0 million for 2013.

- The year-over-year decrease in maintenance revenues from 2015 to 2014 can be attributed to foreign currency movements.
- The year-over-year decrease from 2014 to 2013 can be attributed to: (i) the timing of maintenance renewals and related revenue recognition; (ii) lower software license sales during the year, which translates to lower maintenance revenue; and (iii) pricing pressures that we have been experiencing on maintenance renewals, driven mainly by

various market factors.

Total Operating Expenses. Our operating expenses for: (i) 2015 decreased 5% to \$639.4 million, from \$675.6 million for 2014; and (ii) 2014 increased 1% to \$675.6 million, from \$670.8 million for 2013.

- The \$36.2 million decrease in total operating expenses between 2015 and 2014 is due mainly to favorable foreign currency movements, our focus on cost improvements (to include the benefits we received from the 2014 restructuring activities), and a reduction in restructuring and reorganization costs.

27

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·The \$4.8 million increase in total operating expenses between 2014 and 2013 can be mainly attributed to the increased cost of processing and related services between years, reflective of the increase in processing revenues we experienced during 2014, and to a lesser degree, the \$1.6 million year-over-year increase in restructuring and reorganization charges. These increases were partially offset by lower costs in software and services, and maintenance, which can be primarily attributed to the lower related revenues in 2014.

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

**Cost of Processing and Related Services (Exclusive of Depreciation).** The cost of processing and related services revenues consists principally of the following: (i) data processing and network communications costs; (ii) statement production costs (e.g., labor, paper, envelopes, equipment, equipment maintenance, etc.); (iii) client support organizations (e.g., our client support call center, account management, etc.); (iv) various product delivery and support organizations (e.g., managed services delivery, product management, product maintenance, etc.); (v) facilities and infrastructure costs related to the statement production and support organizations; and (vi) amortization of acquired intangibles. The costs related to new product development (including significant enhancements to existing products and services) are included in R&D expenses.

The cost of processing and related services for: (i) 2015 decreased 2% to \$270.7 million, from \$277.1 million for 2014; and (ii) 2014 increased 9% to \$277.1 million, from \$253.8 million for 2013. Total processing and related services cost of revenues as a percentage of our processing and related services revenues for 2015, 2014, and 2013, were 46.9%, 49.3%, and 47.2%, respectively.

- The year-over-year decrease in cost of processing and related services between 2015 and 2014 is mainly due cost savings initiatives, and other decreases in variable costs, and to a lesser degree, favorable foreign currency movements.
- The year-over-year increase in cost of processing and related services between 2014 and 2013 is primarily due to the following key items: (i) an increase in our ACP data processing costs resulting from our clients' continued growth and increasing complexities of their businesses, thus requiring more computing resources; (ii) reassignment of resources related to increases in client directed and funded work on our ACP platform and our international managed services offering; and (iii) an increase in certain other variable costs related to corresponding increases in related revenues, to include our managed services offering.

**Cost of Software and Services (Exclusive of Depreciation).** The cost of software and services revenues consists principally of the following: (i) various product support organizations (e.g., product management and delivery, etc.); (ii) professional services organization; (iii) facilities and infrastructure costs related to these organizations; and (iv) third-party software costs and/or royalties related to certain software products. The costs related to new product development (including significant enhancements to existing products and services) are included in R&D expenses.

The cost of software and services for: (i) 2015 decreased 14% to \$68.6 million, from \$79.6 million for 2014; and (ii) 2014 decreased 5% to \$79.6 million, from \$84.2 million for 2013.

- The year-over-year decrease in cost of software and services between 2015 and 2014 is primarily due to favorable foreign currency movements, and to a lesser degree, targeted efficiencies and cost improvements within our professional services practice.
- The year-over-year decrease in cost of software and services between 2014 and 2013 is reflective of the lower revenues for the periods and a result of the reassignment of personnel and the related costs previously assigned internally to software and consulting projects to other projects, offset to a certain degree by the estimated cost overruns related to the large software and services implementation project, discussed below.

Total cost of software and services as a percentage of our software and services revenues for 2015, 2014, and 2013, were 73.2%, 77.6%, and 70.8%, respectively, with the level and variability of these percentages reflective of the negative impact of two large implementation projects. In the first quarter of 2014, we incurred a loss of

approximately \$4 million on a large software and implementation project (to be substantially completed in 2019) due to cost overruns. In the first quarter of 2015, we incurred a loss of approximately \$5 million on another large software and services implementation project (to be substantially completed in 2016) due to estimated cost overruns.

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

Cost of Maintenance (Exclusive of Depreciation). The cost of maintenance consists principally of the following: (i) client support organizations (e.g., our client support call center, account management, etc.); (ii) various product support organizations (e.g., product maintenance, etc.); (iii) facilities and infrastructure costs related to these organizations; and (iv) amortization of acquired intangibles.

The cost of maintenance for: (i) 2015 increased 24% to \$40.4 million, from \$32.6 million for 2014; and (ii) 2014 decreased 17% to \$32.6 million, from \$39.2 million for 2013. Total cost of maintenance as a percentage of our maintenance revenues for 2015, 2014, and 2013 were 49.6%, 37.7%, and 43.0%, respectively.

- The increase in cost of maintenance between 2015 and 2014 can be mainly attributed to the reassignment of personnel and the related costs to maintenance projects from other projects, offset by the favorable movements in foreign currency between years.
- The decrease between 2014 and 2013 is mainly attributed to lower amortization expense for certain technology assets that became fully amortized in previous periods and the reassignment of personnel and the related costs previously assigned internally to maintenance projects to other projects.

R&D Expense (Exclusive of Depreciation). R&D expense for: (i) 2015 decreased 3% to \$102.0 million, from \$104.7 million for 2014; and (ii) 2014 decreased 5% to \$104.7 million, from \$110.0 million for 2013.

- The decrease in R&D expense between 2015 and 2014 is attributed to favorable foreign currency movements.
  - The decrease between 2014 and 2013 is primarily the result of a reassignment of resources previously allocated to development projects to other areas of the business, primarily client directed and funded work on our ACP platform.
- Our R&D efforts are focused on the continued evolution of our solutions that enable service providers worldwide to provide a more personalized customer experience while turning transactions into revenues. This includes the continued investment in our business support solutions aimed at improving a providers' time-to-market for new offerings, flexibility, scalability, and total cost of ownership.

As a percentage of total revenues, R&D expense for 2015, 2014, and 2013 was 13.5%, 13.9%, and 14.7%, respectively. We expect that our R&D investment activities in the near-term will be relatively consistent with those of the past few years, with the level of R&D spend highly dependent upon the opportunities that we see in our markets.

Selling, General and Administrative Expense (Exclusive of Depreciation) ("SG&A"). SG&A expense for: (i) 2015 decreased 9% to \$139.8 million, from \$153.5 million for 2014; and (ii) 2014 increased 1% to \$153.5 million, from \$152.6 million for 2013.

- The decrease in SG&A expense between 2015 and 2014 reflect: (i) the financial benefits of the restructuring activities undertaken in 2014 to reduce our sales and marketing costs; (ii) focus on cost improvements, to include the divestiture of Invotas; and (iii) impact of foreign currency movements.
- The increase in SG&A expense between 2014 and 2013 is mainly due to the investments we made towards new initiatives, to include our international managed services offering, our content monetization platforms, and cyber security offering (i.e., our Invotas product).

Additionally, it should be noted that 2014 SG&A expense benefited from a settlement agreement ending litigation that we had asserted against a third party for patent infringement and misappropriation of trade secrets. In exchange for the release from the lawsuit we initiated, we recorded \$3.9 million (net of a time value discount and legal costs incurred) as a reduction of SG&A expenses in that period.

As a percentage of total revenues, SG&A expense for 2015, 2014, and 2013 was 18.6%, 20.4%, and 20.4%, respectively.

Depreciation Expense. Depreciation expense for all property and equipment is reflected separately in the aggregate and is not included in the cost of revenues or the other components of operating expenses. Depreciation expense for: (i) 2015 was \$14.8 million, a slight increase from \$14.1 million for 2014; and (ii) 2014 decreased 24% to \$14.1 million, from \$18.6 million for 2013, with the decrease the result of certain assets becoming fully depreciated, and to a lesser degree, the assets sold as part of our 2013 divestitures.

Restructuring and Reorganization Charges. In 2015, 2014, and 2013, we implemented various cost reduction and efficiency initiatives that resulted in restructuring and reorganization charges of \$3.1 million, \$14.0 million, and \$12.4 million, respectively. These initiatives included: (i) the divestitures of our Invotas cyber security business, our Quero marketing analytics business, and a small print operation; (ii) the reorganization of our Content Direct solution to facilitate its alignment across our offerings, including



management programs and incentives; (iii) reducing our workforce to further align it around our long-term growth initiatives; (iv) the termination of our previously frozen defined benefit pension plan; and (v) the abandonment of space at some of our facility locations. We completed these initiatives in order to better align and allocate our resources around our long-term growth initiatives.

See Note 6 to our Financial Statements for additional information regarding these initiatives.

**Operating Income.** Operating income and operating income margin for: (i) 2015 was \$113.1 million, or 15.0% of total revenues, compared to \$75.7 million, or 10.1% of total revenues for 2014; and (ii) 2014 was \$75.7 million, or 10.1% of total revenues, compared to \$76.7 million, or 10.3% of total revenues for 2013.

- The increases in operating income and operating income margin between 2015 and 2014 are due primarily to the overall reduction in operating expenses, discussed above, and the scale benefits we are achieving from increasing the number of customer accounts and clients on our solutions.
- The decreases in operating income and operating income margin between 2014 and 2013 can be mainly attributed to the additional \$1.6 million of restructuring and reorganization charges recorded in 2014, discussed above.

**Interest Expense and Amortization of Original Issue Discount (“OID”).** Our interest expense relates primarily to our 2010 Convertible Notes and our Credit Agreement. See Note 5 to our Financial Statements for additional discussion of our long-term debt, to include the non-cash interest expense related to the amortization of the convertible debt OID.

Interest expense for: (i) 2015 increased slightly to \$11.0 million, from \$10.5 million for 2014; and (ii) 2014 decreased to \$10.5 million, from \$11.6 million for 2013.

- The increase in interest expense between 2015 and 2014 can be mainly attributed to the higher average debt balance outstanding in 2015 as compared to 2014 as a result of the additional \$30 million that was borrowed in conjunction with the refinancing of the credit agreement in February 2015.
- The decrease in interest expense between 2014 and 2013 can be primarily attributed to the lower average debt balance outstanding in 2014 as compared to 2013.

**Income Tax Provision.** Our effective income tax rates for 2015, 2014, and 2013 were as follows:

2015	2014	2013
(1)	(2)	(2)(3)
35 %	42 %	26 %

- (1) Our 2015 effective tax rate was positively impacted by improved earnings in our non-U.S. operations.
- (2) During the fourth quarter of 2015, we corrected our financial statements for an error in the calculation of our R&D credit amounts recorded within our 2014, 2013, and 2012 income tax provisions. The error, which relates to the 2009 – 2014 tax years, resulted in the understatement of income tax expense of \$1.2 million, \$6.1 million, and \$1.8 million for each of years ended December 31, 2014, 2013, and 2012 (2013 beginning accumulated earnings), respectively. Due to the timing of claims for certain of the R&D credit amounts, the fiscal year ended December 31, 2013 included the income tax benefits related to not only 2013, but the change in estimate of certain incremental R&D credits claimed for development activities generated in 2009, 2010, and 2012. See Note 7 to our Financial Statements for additional information regarding this immaterial correction.
- (3) Our 2013 effective income tax rate was positively impacted by the following items:
- The recognition of approximately \$3 million of R&D tax credits that we generated in 2012 but were recorded in the first quarter of 2013. As a result of the American Taxpayer Relief Act of 2012 being signed into law on January 2, 2013, we were unable to include these credits in the determination of our 2012 effective income tax rate, as a change in tax law is accounted for in the period of enactment. Thus, the benefit of these credits is reflected in our 2013

effective income tax rate.

- The reduction of certain tax allowances related mainly to foreign operations, offset by increases in tax reserves for uncertainties, provided for the remaining net benefit.

30

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## Liquidity

Cash and Liquidity. As of December 31, 2015, our principal sources of liquidity included cash, cash equivalents, and short-term investments of \$240.9 million, compared to \$201.8 million as of December 31, 2014. We generally invest our excess cash balances in low-risk, short-term investments to limit our exposure to market and credit risks.

At December 31, 2015, as part of our 2015 Agreement, we have a \$200 million senior secured revolving loan facility (“Revolver”) with a syndicate of financial institutions that expires in February 2020. As of December 31, 2015, there were no borrowings outstanding on the Revolver. The Credit Agreement contains customary affirmative covenants and financial covenants. As of December 31, 2015, and the date of this filing, we believe that we are in compliance with the provisions of the Credit Agreement.

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

	December 31, 2015	December 31, 2014
Americas (principally the U.S.)	\$ 199,117	\$ 175,070
Europe, Middle East and Africa	36,396	22,098
Asia Pacific	5,423	4,632
Total cash, equivalents and short-term investments	\$ 240,936	\$ 201,800

We generally have ready access to substantially all of our cash, cash equivalents, and short-term investment balances, but may face limitations on moving cash out of certain foreign jurisdictions due to currency controls. As of December 31, 2015, we had \$5.0 million of cash restricted as to use to collateralize outstanding letters of credit.

Cash Flows From Operating Activities. We calculate our cash flows from operating activities beginning with net income, adding back the impact of non-cash items or non-operating activity (e.g., depreciation, amortization, amortization of OID, impairments, deferred income taxes, stock-based compensation, etc.), and then factoring in the impact of changes in operating assets and liabilities.

Our primary source of cash is from our operating activities. Our current business model consists of a significant amount of recurring revenue sources related to our long-term managed services arrangements (mostly billed monthly), and software maintenance agreements (billed monthly, quarterly, or annually). This recurring revenue base provides us with a reliable and predictable source of cash. In addition, software license fees and professional services revenues are sources of cash, but the payment streams for these items are less predictable.

The primary use of our cash is to fund our operating activities. Over half of our total operating costs relate to labor costs (both employees and contracted labor) for the following: (i) compensation; (ii) related fringe benefits; and (iii) reimbursements for travel and entertainment expenses. The other primary cash requirements for our operating expenses consist of: (i) data processing and related services and communication lines for our outsourced processing business; (ii) paper, envelopes, and related supplies for our statement processing solutions; (iii) hardware and software; and (iv) rent and related facility costs. These items are purchased under a variety of both short-term and long-term contractual commitments. A summary of our material contractual obligations is provided below.

See “Cash Flows From Investing Activities” and “Cash Flows From Financing Activities” below for the other primary sources and uses of our cash.

Our 2015 and 2014 net cash flows from operating activities, broken out between operations and changes in operating assets and liabilities, for the indicated quarterly periods are as follows (in thousands):

31

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		Changes in Operating Assets and Liabilities	Net Cash Provided by Operating Activities – Totals
Cash Flows from Operating Activities:	Operations		
2015:			
March 31	\$ 26,193	\$ (7,257 )	\$ 18,936
June 30	26,770	12,806	39,576
September 30	33,187	(7,353 )	