CSG SYSTEMS INTERNATIONAL INC
Form 10-Q
August 09, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from to

Commission file number 0-27512

CSG SYSTEMS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**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)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨

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

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

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

Shares of common stock outstanding at August 3, 2011: 34,594,954

Table of Contents

CSG SYSTEMS INTERNATIONAL, INC.

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

INDEX

		Page No.
Part I -	FINANCIAL INFORMATION	
Item 1.	Condensed Consolidated Balance Sheets as of June 30, 2011 and December 31, 2010 (Unaudited)	3
	Condensed Consolidated Statements of Income for the Quarter and Six Months Ended June 30, 2011 and 2010 (Unaudited)	4
	Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2011 and 2010 (Unaudited)	5
	Notes to Condensed Consolidated Financial Statements (Unaudited)	6
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	28
Item 4.	Controls and Procedures	29
Part II -	OTHER INFORMATION	
Item 1.	Legal Proceedings	30
Item 1A.	Risk Factors	30
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	37
Item 6.	Exhibits	38
	Signatures	39
	Index to Exhibits	40

Table of Contents

CSG SYSTEMS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS - UNAUDITED

(in thousands, except share amounts)

	June 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 114,355	$ 197,858
Short-term investments	19,995	17,692
Total cash, cash equivalents and short-term investments	134,350	215,550
Trade accounts receivable-		
Billed, net of allowance of $2,541 and $1,837	166,436	155,005
Unbilled and other	37,617	30,803
Deferred income taxes	18,224	13,852
Income taxes receivable	1,637	9,043
Other current assets	21,515	17,241
Total current assets	379,779	441,494
Property and equipment, net of depreciation of $104,856 and $94,236	51,046	52,257
Software, net of amortization of $51,106 and $45,579	34,570	31,118
Goodwill	200,443	209,164
Client contracts, net of amortization of $146,175 and $133,218	108,310	116,328
Deferred income taxes	9,446	9,677
Other assets	16,427	19,660
Total assets	$ 800,021	$ 879,698
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt, net of unamortized original issue discount of zero and $621	$ 16,000	$ 69,528
Client deposits	29,899	31,897
Trade accounts payable	28,206	25,381
Accrued employee compensation	35,097	53,372
Income taxes payable	2,433	2,028
Deferred revenue	45,451	56,184
Other current liabilities	25,904	32,019
Total current liabilities	182,990	270,409
Non-current liabilities:		
Long-term debt, net of unamortized original issue discount of $32,593 and $34,841	297,407	305,159
Deferred revenue	8,062	16,103
Income taxes payable	1,168	954
Deferred income taxes	23,709	33,247
Other non-current liabilities	19,353	16,748
Total non-current liabilities	349,699	372,211
Total liabilities	532,689	642,620

Stockholders equity:		
Preferred stock, par value $.01 per share; 10,000,000 shares authorized; zero shares issued and outstanding		
Common stock, par value $.01 per share; 100,000,000 shares authorized; 34,607,509 and 34,120,789 shares outstanding	646	641
Additional paid-in capital	443,549	439,712
Treasury stock, at cost, 29,956,808 shares	(704,963)	(704,963)
Accumulated other comprehensive income (loss):		
Unrealized gain on short-term investments, net of tax	5	4
Unrecognized pension plan losses and prior service costs, net of tax	(893)	(897)
Unrecognized loss on change in fair value of interest rate swap, net of tax	(420)	
Cumulative translation adjustments	7,186	868
Accumulated earnings	522,222	501,713
Total stockholders equity	267,332	237,078
Total liabilities and stockholders equity	$ 800,021	$ 879,698

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

Table of Contents

CSG SYSTEMS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME - UNAUDITED

(in thousands, except per share amounts)

	Quarter Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Revenues:				
Processing and related services	$ 129,113	$ 121,363	$ 260,491	$ 243,409
Software, maintenance and services	52,199	9,983	103,913	18,200
Total revenues	181,312	131,346	364,404	261,609
Cost of revenues (exclusive of depreciation, shown separately below):				
Processing and related services	60,802	68,925	122,061	135,929
Software, maintenance and services	30,074	5,912	59,579	11,880
Total cost of revenues	90,876	74,837	181,640	147,809
Other operating expenses:				
Research and development	27,920	18,990	56,558	37,502
Selling, general and administrative	32,526	16,678	65,865	33,212
Depreciation	6,273	6,091	12,520	11,713
Restructuring charges	1,346	(7)	1,346	214
Total operating expenses	158,941	116,589	317,929	230,450
Operating income	22,371	14,757	46,475	31,159
Other income (expense):				
Interest expense	(4,325)	(1,629)	(8,666)	(3,177)
Amortization of original issue discount	(1,420)	(1,685)	(2,869)	(3,985)
Interest and investment income, net	175	251	409	367
Loss on repurchase of convertible debt securities				(10,952)
Other, net	(985)	6	(1,288)	4
Total other	(6,555)	(3,057)	(12,414)	(17,743)
Income before income taxes	15,816	11,700	34,061	13,416
Income tax provision	(6,801)	(234)	(13,552)	(886)
Net income	$ 9,015	$ 11,466	$ 20,509	$ 12,530
Weighted-average shares outstanding - Basic:				
Common stock	32,866	32,303	32,738	32,677
Participating restricted stock	161	531	244	637
Total	33,027	32,834	32,982	33,314

Weighted-average shares outstanding - Diluted:				
Common stock	33,072	32,562	32,962	32,938
Participating restricted stock	161	531	244	637
Total	33,233	33,093	33,206	33,575
Earnings per common share:				
Basic	$ 0.27	$ 0.35	$ 0.62	$ 0.38
Diluted	$ 0.27	$ 0.35	$ 0.62	$ 0.37

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

Table of Contents

CSG SYSTEMS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(in thousands)

	Six Months Ended	
	June 30, 2011	**June 30, 2010**
Cash flows from operating activities:		
Net income	$ 20,509	$ 12,530
Adjustments to reconcile net income to net cash provided by (used in) operating activities-		
Depreciation	12,520	11,713
Amortization	21,215	8,285
Amortization of original issue discount	2,869	3,985
Gain on short-term investments and other	(34)	(79)
Loss on repurchase of convertible debt securities		10,952
Deferred income taxes	(1,344)	(44)
Excess tax benefit of stock-based compensation awards	(824)	(1,098)
Stock-based employee compensation	6,529	6,184
Changes in operating assets and liabilities:		
Trade accounts and other receivables, net	(17,769)	7,360
Other current and non-current assets	(2,175)	(3,911)
Income taxes payable/receivable	8,398	(6,423)
Trade accounts payable and accrued liabilities	(28,987)	3,637
Deferred revenue	(22,083)	2,644
Net cash provided by (used in) operating activities	(1,176)	55,735
Cash flows from investing activities:		
Purchases of property and equipment	(11,061)	(7,519)
Purchases of short-term investments	(19,968)	(46,922)
Proceeds from sale/maturity of short-term investments	17,700	34,900
Acquisition of businesses, net of cash acquired		(2,764)
Acquisition of and investments in client contracts	(4,479)	(2,623)
Net cash used in investing activities	(17,808)	(24,928)
Cash flows from financing activities:		
Proceeds from issuance of common stock	753	772
Repurchase of common stock	(4,049)	(33,643)
Payments on acquired equipment financing	(834)	(571)
Proceeds from long-term debt		150,000
Payments of deferred financing costs	(205)	(4,268)
Payments on long-term debt	(64,149)	(124,992)
Excess tax benefit of stock-based compensation awards	824	1,098
Net cash used in financing activities	(67,660)	(11,604)
Effect of exchange rate fluctuations on cash	3,141	
Net increase (decrease) in cash and cash equivalents	(83,503)	19,203
Cash and cash equivalents, beginning of period	197,858	163,489

Cash and cash equivalents, end of period	$ 114,355	$ 182,692
Supplemental disclosures of cash flow information:		
Net cash paid during the period for-		
Interest	$ 7,233	$ 1,499
Income taxes	6,213	7,365

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

Table of Contents

CSG SYSTEMS INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. GENERAL

We have prepared the accompanying unaudited condensed consolidated financial statements as of June 30, 2011 and December 31, 2010, and for the second quarter and six months ended June 30, 2011 and 2010, in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information, and pursuant to the instructions to Form 10-Q and the rules and regulations of the Securities and Exchange Commission (the SEC). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of our management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of our financial position and operating results have been included. The unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto, together with Management s Discussion and Analysis of Financial Condition and Results of Operations, contained in our Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC. The results of operations for the second quarter and six months ended June 30, 2011 are not necessarily indicative of the expected results for the entire year ending December 31, 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Postage. We pass through to our clients the cost of postage that is incurred on behalf of those clients, and typically require an advance payment on expected postage costs. These advance payments are included in client deposits in the accompanying Condensed Consolidated Balance Sheets and are classified as current liabilities regardless of the contract period. We net the cost of postage against the postage reimbursements, and include the net amount in processing and related services revenues. The cost of postage that has been shown net of the postage reimbursements from our clients for the second quarter of 2011 and 2010 was $65.3 million and $66.2 million, respectively, and for the six months ended June 30, 2011 and 2010 was $133.1 million and $135.2 million, respectively.

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

As of June 30, 2011, we had $5.1 million of restricted cash that serves to collateralize outstanding letters of credit. This restricted cash is included in Cash and cash equivalents in the accompanying Condensed Consolidated Balance Sheet.

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

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

Table of Contents

Our short-term investments at June 30, 2011, and December 31, 2010, consisted of the following (in thousands):

	June 30, 2011	December 31, 2010
Commercial paper	$ 17,494	$ 17,692
Certificates of deposit	2,501	
Total	$ 19,995	$ 17,692

All short-term investments held by us as of June 30, 2011, have contractual maturities of less than one year from the time of acquisition. Proceeds from the sale/maturity of short-term investments for the six months ended June 30, 2011 and 2010 were $17.7 million and $34.9 million, respectively.

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

	June 30, 2011			December 31, 2010		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Money market funds (1)	$ 43,536	$	$ 43,536	$ 91,002	$	$ 91,002
Commercial paper (2)		25,992	25,992		26,590	26,590
Total	$ 43,536	$ 25,992	$ 69,528	$ 91,002	$ 26,590	$ 117,592
Liabilities:						
Interest rate swap contracts (3)		684	684			
Total	$	$ 684	$ 684	$	$	$

(1) As of June 30, 2011 and December 31, 2010, all of the money market funds were classified on our Condensed Consolidated Balance Sheet in cash equivalents.

(2) As of June 30, 2011 and December 31, 2010, of the total commercial paper, $8.5 million and $8.9 million, respectively, were classified on our Condensed Consolidated Balance Sheet in cash equivalents, and $17.5 and $17.7 million, respectively, were classified on our Condensed Consolidated Balance Sheet in short term investments.

(3) As of June 30, 2011, the fair value of the interest rate swap contracts were classified on our Condensed Consolidated Balance Sheet in other non-current liabilities.

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

We have chosen not to measure our debt at fair value, with changes recognized in earnings each reporting period. As of June 30, 2011, the estimated fair value of our Credit Agreement long-term debt of $195 million (carrying value including current maturities) was approximately $200 million, and was estimated using a discounted cash flow methodology. As of June 30, 2011, the estimated fair value of our $151 million (par value) convertible debt, based upon quoted market prices or recent sales activity, was approximately $153 million.

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

Our processing and related services revenues relate primarily to the outsourced, customer care and billing processing and related services we provide to our North American cable and direct broadcast satellite clients under long-term master processing agreements. Under those agreements, on a monthly basis, we provide multiple services, to include billing and processing services; credit management and collection services; and customer statement invoice printing and mailing services. Since there are essentially no processing and related services elements that are

Table of Contents

undelivered at the end of each month, other than the future months repetition of those same services which will be billed for and recognized as revenues in those future months when the services are provided, the new guidance did not impact the manner in which we are recognizing our processing and related services revenues.

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

3. PRIOR YEAR ACQUISITION

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

The application of the acquisition method of accounting for business combinations requires the use of significant estimates and assumptions in the determination of the fair value of assets acquired and liabilities assumed. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition for Intec (in thousands):

Trade accounts receivable	$ 63,899
Other current assets	6,179
Property and equipment	9,968
Acquired software	19,184
Acquired client contracts	77,979
Acquired other intangible assets	6,395
Goodwill	91,400
Net deferred income tax assets	44,452
Other non-current assets	2,552
Total assets acquired	322,008
Trade accounts payable	3,611
Accrued employee compensation	17,517
Deferred revenue	26,311
Other current liabilities	9,620
Non-current liabilities	9,711
Total liabilities assumed	66,770
Net assets acquired (excluding acquired cash)	$ 255,238

The $255.2 million of net assets acquired reflected above has not changed since March 31, 2011. However, we have made certain adjustments to our estimates of the fair value of various assets acquired and liabilities assumed, none of which required the revision of comparative information for periods presented in the accompanying Condensed Consolidated Financial Statements since the effects are not material. In addition, we have made certain adjustments to our estimates of deferred income taxes. As a result of these changes, during the second quarter of 2011, the amount allocated to goodwill increased by $1.7 million.

The above estimated fair values of assets acquired and liabilities assumed are still considered provisional, as we are waiting for additional information, primarily related to certain items within trade accounts receivable and deferred revenue, necessary to finalize those fair values, and to estimate the valuation allowances necessary for certain deferred income tax assets. Thus the provisional measurements of fair value set forth above are subject to change. Such changes could be significant. We expect to finalize the fair values and valuation allowances and complete the purchase price allocation as soon as practicable, but not later than one-year from the acquisition date.

8

Table of Contents

4. STOCKHOLDERS EQUITY AND EQUITY COMPENSATION PLANS

Stock Repurchase Program. We currently have a stock repurchase program, approved by our Board of Directors, authorizing us to repurchase our common stock from time-to-time as market and business conditions warrant (the Stock Repurchase Program). We did not repurchase any shares under our Stock Repurchase Program during the six months ended June 30, 2011. During the six months ended June 30, 2010, we repurchased 1.5 million shares of our common stock under the Stock Repurchase Program for $29.3 million (weighted-average price of $19.56 per share). As of June 30, 2011, the total remaining number of shares available for repurchase under the Stock Repurchase Program totaled 4.2 million shares.

Stock Repurchases for Tax Withholdings. In addition to the above mentioned stock repurchases, during the six months ended June 30, 2011 and 2010, we repurchased from our employees and then cancelled 0.2 million shares of common stock for $4.0 million and 0.2 million shares of common stock for $4.3 million, respectively, in connection with minimum tax withholding requirements resulting from the vesting of restricted common stock under our stock incentive plans.

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

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

	Quarter Ended June 30, 2011		Six Months Ended June 30, 2011	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Unvested awards, beginning	1,858,967	$ 18.02	1,803,971	$ 17.19
Awards granted	6,300	20.08	677,550	19.24
Awards forfeited/cancelled	(14,068)	17.12	(40,068)	17.41
Awards vested	(7,475)	17.88	(597,729)	16.89
Unvested awards, ending	1,843,724	$ 18.04	1,843,724	$ 18.04

Included in the awards granted during the six months ended June 30, 2011, are performance-based awards for 120,000 restricted common stock shares issued to members of executive management, which vest in equal installments over three years upon meeting either pre-established financial performance objectives or pre-established stock price objectives. The performance-based awards become fully vested upon a change in control, as defined, and the subsequent involuntary termination of employment.

All other restricted common stock shares granted during the six months ended June 30, 2011 are time-based awards, which vest annually over four years with no restrictions other than the passage of time. Certain shares of the restricted common stock become fully vested upon a change in control, as defined, and the subsequent involuntary termination of employment.

We recorded stock-based compensation expense for the second quarter of 2011 and 2010 of $3.2 million for both periods, and for the six months ended June 30, 2011 and 2010 of $6.5 million and $6.2 million, respectively.

Table of Contents

5. EARNINGS PER COMMON SHARE

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net Income attributed to:				
Common stock	$ 8,971	$ 11,281	$ 20,357	$ 12,290
Participating restricted common stock	44	185	152	240
Total	$ 9,015	$ 11,466	$ 20,509	$ 12,530

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Weighted-average shares outstanding Basic:				
Common stock	32,866	32,303	32,738	32,677
Participating restricted common stock	161	531	244	637
Total	33,027	32,834	32,982	33,314
Weighted-average shares outstanding Diluted:				
Common stock	33,072	32,562	32,962	32,938
Participating restricted common stock	161	531	244	637
Total	33,233	33,093	33,206	33,575

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Basic weighted-average common shares	32,866	32,303	32,738	32,677
Dilutive effect of common stock options	22	23	22	26
Dilutive effect of non-participating restricted common stock	184	236	202	235
Dilutive effect of 2010 Convertible Notes				
Dilutive effect of 2004 Convertible Debt Securities				
Diluted weighted-average common shares	33,072	32,562	32,962	32,938

Potentially dilutive common shares related to stock options and non-participating unvested shares of restricted common stock of zero and 0.1 million, respectively, for the second quarter of 2011 and 2010, and zero and 0.2 million for the six months ended June 30, 2011 and 2010,

respectively, were excluded from the computation of diluted EPS related to common shares as their effect was antidilutive.

The 2010 Convertible Notes have a dilutive effect only in those quarterly periods in which our average stock price exceeds the current effective conversion price of $24.45 per share. The 2004 Convertible Debt Securities have a dilutive effect only in those quarterly periods in which our average stock price exceeds the current effective conversion price of $26.77 per share. See Note 7 for additional discussion of our convertible debt.

Table of Contents

6. COMPREHENSIVE INCOME

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income	$ 9,015	$ 11,466	$ 20,509	$ 12,530
Other comprehensive income (loss), net of tax, if any:				
Unrealized gain (loss) on short-term investments	1	(7)	1	(9)
Change in unrecognized pension plan losses and prior service costs			4	22
Unrealized loss on change in fair value of interest rate swap	(420)		(420)	
Foreign currency translation adjustments	410		6,318	
Comprehensive income	$ 9,006	$ 11,459	$ 26,412	$ 12,543

7. DEBT

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

	June 30, 2011	December 31, 2010
Credit Agreement:		
Term loan, due December 2015, interest at adjusted LIBOR plus 3.75% (combined rate of 4.00% at June 30, 2011 and 4.06% at December 31, 2010)	$ 195,000	$ 200,000
$100 million revolving loan facility, due December 2015, interest at adjusted LIBOR plus applicable margin (combined rate of 4.06% at December 31, 2010)		35,000
Convertible Debt Securities:		
2010 Convertible Notes senior subordinated convertible notes; due March 1, 2017; cash interest at 3.0%; net of unamortized OID of $32,593 and $34,841, respectively	117,407	115,159
2004 Convertible Debt Securities senior subordinated convertible contingent debt securities; due June 15, 2024; cash interest at 2.5%; net of unamortized OID of zero and $621, respectively	1,000	24,528
	313,407	374,687
Current portion of long-term debt, net	(16,000)	(69,528)
Total long-term debt, net	$ 297,407	$ 305,159

Credit Agreement. In January 2011, we repaid the $35 million outstanding balance of our $100 million revolving loan facility (Revolver). During the six months ended June 30, 2011, we made $5.0 million mandatory repayments on the Term Loan.

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

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

Table of Contents

Upon conversion of the 2010 Convertible Notes, we will settle our conversion obligation as follows: (i) we will pay cash for 100% of the par value of the 2010 Convertible Notes that are converted; and (ii) to the extent the value of our conversion obligation exceeds the par value, we will satisfy the remaining conversion obligation in our common stock, cash or any combination of our common stock and cash. As of June 30, 2011, the value of our conversion obligation did not exceed the par value of the 2010 Convertible Notes.

2004 Convertible Debt Securities. In June 2011, holders of $24.1 million par value of our 2004 Convertible Debt Securities exercised their put option and we paid the par value and accrued interest to extinguish these securities in June 2011. In June 2011, we exercised our option to call the remaining $1.0 million par value of our 2004 Convertible Debt Securities, and extinguished the debt in July 2011. As a result of the holders exercising their put option, approximately $6 million of deferred tax liabilities became payable and have been reclassified to current income taxes payable as of June 30, 2011.

8. DERIVATIVES

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

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

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

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

As of June 30, 2011, the fair value of the interest rate swap contracts, reflected in other non-current liabilities in our Condensed Consolidated Balance Sheet, was $0.7 million, with the loss, net of tax, reflected as a reduction in other comprehensive income.

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

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

We do not use derivative financial instruments for speculative purposes.

Table of Contents

9. LONG-LIVED ASSETS

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

January 1, 2011 balance	$ 209,164
Adjustments related to prior acquisitions	(9,724)
Effects of changes in foreign currency exchange rates	1,003
June 30, 2011 balance	$ 200,443

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

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

	June 30, 2011			December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Client contracts	$ 254,485	$ (146,175)	$ 108,310	$ 249,546	$ (133,218)	$ 116,328
Software	85,676	(51,106)	34,570	76,697	(45,579)	31,118
Total	$ 340,161	$ (197,281)	$ 142,880	$ 326,243	$ (178,797)	$ 147,446

The total amortization expense related to intangible assets for the second quarter of 2011 and 2010 was $10.3 million and $4.0 million, respectively, and $19.7 million and $7.9 million for the six months ended June 30, 2011 and 2010, respectively. Based on the June 30, 2011 net carrying value of our intangible assets, the estimated total amortization expense for each of the five succeeding fiscal years ending December 31 are: 2011 $38.3 million; 2012 $36.7 million; 2013 $27.4 million; 2014 $17.8 million; and 2015 $11.5 million.

10. COMMITMENTS, GUARANTEES AND CONTINGENCIES

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

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

Claims for Company Non-performance. Our arrangements with our clients typically cap our liability for breach to a specified amount of the direct damages incurred by the client resulting from the breach. From time-to-time, these arrangements may also include provisions for possible liquidated damages or other financial remedies for our non-performance, or in the case of certain of our outsourced customer care and billing solutions, provisions for damages related to service level performance requirements. The service level performance requirements typically relate to

system availability and timeliness of service delivery. As of June 30, 2011, we believe we have adequate reserves, based on our historical experience, to cover any reasonably anticipated exposure as a result of our nonperformance for any past or current arrangements with our clients.

Indemnifications Related to Officers and the Board of Directors. We have agreed to indemnify certain of our officers and members of our Board of Directors if they are named or threatened to be named as a party to any proceeding by reason of the fact that they acted in such capacity. We maintain directors and officers (D&O) insurance coverage to protect against such losses. We have not historically incurred any losses related to these types of indemnifications, and are not aware of any pending or threatened actions or claims against any officer or member of our Board of Directors. As a result, we have not recorded any liabilities related to such indemnifications as of June 30, 2011. In addition, as a result of the insurance policy coverage, we believe these indemnification agreements are not significant to our results of operations.

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

Table of Contents

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

The information contained in this Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the unaudited Condensed Consolidated Financial Statements and Notes thereto (our Financial Statements) included in this Form 10-Q and the audited consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2010 (our 2010 10-K).

Forward-Looking Statements

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

Company Overview

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

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

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

We are a S&P SmallCap 600 company.

Management Overview of Quarterly Results

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

	Quarter Ended	
	June 30, 2011	June 30, 2010
Revenues	$ 181,312	$ 131,346
Operating Results:		
Operating income	$ 22,371	$ 14,757
Operating income margin	12.3%	11.2%
Diluted EPS	$ 0.27	$ 0.35

	Quarter Ended	
	June 30, 2011	**June 30, 2010**
Supplemental Data:		
Cable and DBS customer accounts (end of period)	48,860	48,864
Data center transition expenses	$	$ 10,600
Restructuring charges	1,346	
Stock-based compensation	3,255	3,175
Amortization of acquired intangible assets	5,739	1,163
Amortization of OID	1,420	1,685

Revenues. Our revenues for the second quarter of 2011 were $181.3 million. This represents a 38.0% increase from revenues of $131.3 million for the same period in 2010, with the increase almost entirely attributed to the additional revenues generated as a result of the Intec Acquisition.

Operating Results. Operating income for the second quarter of 2011 was $22.4 million, or a 12.3% operating income margin percentage, compared to $14.8 million, or an 11.2% operating income margin percentage, for the second quarter of 2010. The data center transition expenses reduced operating income by $10.6 million for the second quarter of 2010, with no comparable expenses in 2011.

Diluted EPS. Diluted EPS for the second quarter of 2011 was $0.27 per diluted share, which compares to $0.35 per diluted share for the second quarter of 2010. Diluted EPS for the second quarter of 2011, when compared to diluted EPS for the second quarter of 2010 was impacted by the following items:

- the $4.8 million of amortization of acquired intangible assets related to the Intec acquisition, which negatively impacted diluted EPS by $0.09 per diluted share; and

- restructuring charges of $1.3 million, which negatively impacted diluted EPS by $0.02 per diluted share.

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

- the data center transition expenses of $10.6 million, which negatively impacted diluted EPS by $0.20 per diluted share; and

- favorable adjustments to our income tax reserves of approximately $4 million as a result of the completion of an IRS examination during the second quarter of 2010, which provided a positive diluted EPS impact of $0.13 per diluted share.

Cash and Cash Flows. As of June 30, 2011, we had cash, cash equivalents and short-term investments of $134.4 million, as compared to $167.4 million as of March 31, 2011. The sequential quarterly decrease is primarily the result of the $24.1 million payment related to our 2004 convertible debt securities, which, as anticipated, were put back to us in June 2011.

Our cash flows from operating activities for the second quarter of 2011 were $0.7 million compared to $24.4 million for the second quarter of 2010 and were negatively impacted by quarter-end movements in our working capital items, in particular, an increase in our quarter-end accounts receivable balance, due primarily to the timing of payments from a significant client, which were received after quarter-end. See the Liquidity section for further discussion of our cash flows.

Table of Contents

Significant Client Relationships

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

	Quarter Ended		
	June 30, 2011	**March 31, 2011**	**June 30, 2010**
Comcast	18%	19%	25%
DISH	12%	13%	18%
Time Warner	11%	<10%	12%
Charter	<10%	<10%	11%

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

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

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

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

DISH. On January 15, 2011, we entered into a contract extension with DISH to extend our relationship for processing and related services, and for print and mail services, through December 31, 2017. As a result of this new agreeme