Manning & Napier, Inc.
Form DEFR14A
May 03, 2017

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. 1)**

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Under Rule 14a-12

**MANNING & NAPIER, INC.**

**(Name of Registrant as Specified in Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

a. Title of each class of securities to which transaction applies:

b. Aggregate number of securities to which transaction applies:

c. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined:

d. Proposed maximum aggregate value of transaction:

e. Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

a. Amount previously Paid:

b. Form, Schedule or Registration Statement No.:

c. Filing party:

d. Date Filed:

290 Woodcliff Drive

Fairport, New York 14450

You are cordially invited to attend the 2017 annual meeting of stockholders (the Annual Meeting ) of Manning & Napier, Inc. (the Company ). The Annual Meeting will be held at 9:00 a.m., local time on Wednesday, June 14, 2017. This year, our Annual Meeting will be a virtual meeting held over the Internet. You will be able to attend the Annual Meeting, vote your shares electronically, and submit your questions during the live webcast of the meeting by visiting www.virtualshareholdermeeting.com/MN2017 and entering your unique voter identification number.

The attached Notice of Annual Meeting of Stockholders and Proxy Statement describes the formal business to be transacted at the Annual Meeting. Our directors and executive officers will be present at the Annual Meeting to respond to questions from our stockholders.

All holders of record of the Company s shares of common stock outstanding at the close of business on April 19, 2017 will be entitled to vote at the Annual Meeting.

Your vote is important to us and our business and we strongly encourage you to cast your vote.

Sincerely,

William Manning

*Chairman and Chief Executive Officer*

Fairport, New York

May 1, 2017

290 Woodcliff Drive

Fairport, New York 14450

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To be held on June 14, 2017**

Notice is hereby given that the Annual Meeting of Stockholders (the Annual Meeting ) of Manning & Napier, Inc., which will be a virtual meeting held over the Internet, will be held at 9:00 a.m., local time on Wednesday, June 14, 2017 for the following purposes:

I. Election of seven directors to our Board of Directors;

II. Ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accountants for our fiscal year ending December 31, 2017;

III. An advisory (non-binding) vote approving the compensation of our named executive officers;

IV. Such other business as may properly come before the Annual Meeting and any adjournment or postponement thereof.

Stockholders of record at the close on business on April 19, 2017 are entitled to notice of, and to vote at, the Annual Meeting. Each holder of our Class A common stock is entitled to one vote for each share of Class A common stock held at that time. The holder of our Class B common stock is entitled to a number of votes equal to 101% of the aggregate number of votes entitled to be cast by the holders of shares of our Class A common stock and any other class of equity securities entitled to vote other than the Class B common stock, as calculated on the record date for the Annual Meeting. A list of these stockholders will be open for examination by any stockholder for any purpose germane to the Annual Meeting, during ordinary business hours, for a period of 10 days prior to the Annual Meeting through the Corporate Secretary at our principal executive offices at 290 Woodcliff Drive, Fairport, New York 14450.

Even if you plan to attend the Annual Meeting virtually, we ask you to please complete, sign and return the enclosed proxy card or vote your shares by telephone or through the Internet.

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be held on June 14, 2017. The Proxy Statement, 2016 Annual Report to Stockholders and other Soliciting Material are available in the Investor Relations section of the Company s corporate website at *www.manning-napier.com*.**

By Order of the Board of Directors,

Richard B. Yates

*Chief Legal Officer and Secretary*

Fairport, New York

May 1, 2017

**MANNING & NAPIER, INC.**

**290 Woodcliff Drive**

**Fairport, New York 14450**

**PROXY STATEMENT**

**FOR THE ANNUAL MEETING OF STOCKHOLDERS**

**to be held at 9:00 a.m. on June 14, 2017**

In this Proxy Statement, we , our, and us refers to Manning & Napier, Inc. (also referred to as the Company ) and its consolidated subsidiaries.

This Proxy Statement is furnished to the stockholders of the Company in connection with the solicitation of proxies by the Board of Directors of the Company for use at the annual meeting of stockholders of the Company to be held on Wednesday, June 14, 2017 at 9:00 a.m., local time (the Annual Meeting ), for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. As described below, this year s Annual Meeting will be a completely virtual meeting of stockholders to be held over the Internet.

A Notice of Internet Availability of Proxy Materials (the Chief Executive Officer s letter, the Notice of Annual Meeting of Stockholders, this Proxy Statement, the accompanying proxy card for holders of our Class A common stock and Class B common stock, and the accompanying Annual Report on Form 10-K for our fiscal year ended December 31, 2016 (the Annual Report )) will first be mailed to stockholders on or about May 5, 2017, and shareholders will have the option to request a full set of such materials prior to the Annual Meeting.

**YOU CAN VOTE YOUR SHARES OVER THE INTERNET OR BY TELEPHONE. IF YOU RECEIVED A PAPER PROXY CARD BY MAIL, YOU MAY ALSO VOTE BY SIGNING, DATING AND RETURNING THE PROXY CARD IN THE ENVELOPE PROVIDED.**

This Proxy Statement and our Annual Report are available at *www.manning-napier.com.*

## QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS AND THE ANNUAL MEETING

***When and where is the Annual Meeting?***

The Annual Meeting will be held at 9:00 a.m., local time, on Wednesday, June 14, 2017. The Company will be hosting this year s Annual Meeting live over the Internet at www.virtualshareholdermeeting.com/MN2017. This year s Annual Meeting will be a completely virtual meeting to be held over the Internet. There will not be any in-person meeting. A summary of the information you need to attend the Annual Meeting online is provided below:

- All stockholders can attend the Annual Meeting over the Internet at www.virtualshareholdermeeting.com/MN2017;

- Only stockholders as of the record date of April 19, 2017 may vote or submit questions while attending the Annual Meeting (by using the 16-digit control number provided in your Notice of Internet Availability of Proxy Materials);

- Instructions on how to attend the Annual Meeting are posted at www.virtualshareholdermeeting.com/MN2017; and

- A replay of the Annual Meeting will be available online for approximately 12 months following the meeting date.

***Who is soliciting my proxy?***

The solicitation of proxies is made by and on behalf of the Company s Board of Directors.

***Why was I mailed a notice regarding the Internet availability of proxy materials instead of a full set of printed proxy materials?***

Pursuant to the notice and access rules adopted by the Securities and Exchange Commission ( SEC ), we have elected to provide stockholders access to our proxy materials over the Internet. Accordingly, we will send a Notice of Internet Availability of Proxy Materials ( Notice ) to all of our stockholders as of the record date. The Notice includes instructions on how to access our proxy materials over the Internet and how to request a printed copy of these materials. In addition, by following the instructions in the Notice, stockholders may request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis.

Choosing to receive your future proxy materials by email will save us the cost of printing and mailing documents to you and will reduce the impact of our annual meetings on the environment. If you choose to receive future proxy materials by email, you will receive an email next year with instructions containing a link to those materials and a link to the proxy voting site. Your election to receive proxy materials by email will remain in effect until you terminate it.

***What matters will be voted upon at the Annual Meeting?***

At the Annual Meeting you will be asked to consider and vote upon the following matters:

Election of seven directors to our Board of Directors;

Ratification of the appointment of PricewaterhouseCoopers LLP ( PwC ) as our independent registered public accountants for our fiscal year ending December 31, 2017;

An advisory vote approving the compensation of our named executive officers; and

Transaction of such other business as may properly come before the Annual Meeting and any adjournments or postponements thereof.

***What constitutes a quorum?***

The presence, either in person or by proxy, of the holders of at least a majority of the total voting power of our issued and outstanding shares of Class A common stock and Class B common stock is required to constitute a quorum for the transaction of business at the Annual Meeting. Abstentions and broker non-votes, which are described in more detail below, are counted as shares present at the Annual Meeting for purposes of determining whether a quorum exists.

***Who is entitled to vote?***

Only stockholders of record of our Class A common stock and Class B common stock at the close of business on Wednesday, April 19, 2017, which is the record date, are entitled to notice of, and to vote at, the Annual Meeting. Shares that may be voted include shares that are held (1) directly by the stockholder of record, and (2) beneficially through a broker, bank or other nominee. Each holder of our Class A common stock is entitled to one vote for each share of Class A common stock held at that time. The holder of our Class B common stock is entitled to a number of votes equal to 101% of the aggregate number of votes entitled to be cast by the holders of shares of our Class A common stock and any other class of equity securities entitled to vote other than the Class B common stock, as calculated on the record date for the Annual Meeting.

As of the record date, there were approximately 15,053,279 shares of our Class A common stock and 1,000 shares of our Class B common stock issued and outstanding and entitled to be voted at the Annual Meeting. Also as of the record date, William Manning, our Chairman and Chief Executive Officer, beneficially owned 100% of our Class B common stock and approximately 50.2% of the voting power of our Class A common stock and Class B common stock, voting together as a single class. See Principal and Management Stockholders. Accordingly, the affirmative vote of Mr. Manning alone is sufficient to adopt each of the proposals to be submitted to the stockholders at the Annual Meeting.

***What is the difference between holding shares as a registered owner and as a beneficial owner ?***

Most of our stockholders hold their shares through a broker, bank or other nominee rather than directly in their own name. As summarized below, there are some distinctions between registered shares and those owned beneficially:

- Registered Owners If your shares are registered directly in your name with our transfer agent, American Stock Transfer & Trust Company, LLC, you are the stockholder of record. As the stockholder of record, you have the right to grant your proxy vote directly to the Company or to vote in person at the Annual Meeting.

- Beneficial Owners If your shares are held in a brokerage account, bank or by another nominee, you are the beneficial owner of shares held in street name. As the beneficial owner, you have the right to direct your broker, bank or other nominee on how to vote or to vote in person at the Annual Meeting. However, since you are not a stockholder of record, you may not vote these shares in person at the Annual Meeting unless you obtain a legal proxy from your broker, bank or other nominee (who is the stockholder of record), giving you the right to vote the shares.

***What stockholder approval is necessary for approval of the proposals?***

The election of directors requires the affirmative vote of a plurality of the total shares of our Class A common stock and Class B common stock voting at the Annual Meeting. With respect to the election of directors, votes may be cast FOR a director nominee or WITHHELD from a director nominee. A stockholder may also abstain from voting on the proposal. A withhold vote, a broker non-vote, and an abstention will not count as a vote for or against any of the nominees.

Although the Company s independent registered public accountants may be selected by the Audit Committee of the Board of Directors without stockholder approval, the Audit Committee will consider the

3

affirmative vote of a majority of the total shares of our Class A common stock and Class B common stock voting on the proposal to be a ratification by the stockholders of the selection of PwC as the Company s independent registered public accountants for the fiscal year ending December 31, 2017. With respect to the ratification of the appointment of PwC, votes may be cast FOR the proposal or AGAINST the proposal. A stockholder may also abstain from voting on the proposal. A broker non-vote will not count as a vote for or against this proposal. Abstentions will have the same effect as a vote against the proposal.

The advisory vote approving the executive compensation of our named executive officers requires the affirmative vote of a majority of the total shares of our Class A common stock and Class B common stock cast at the Annual Meeting. With respect to the vote on executive compensation, votes may be cast FOR the proposal or AGAINST the proposal. A stockholder may also abstain from voting on the proposal. A broker non-vote will not count as a vote for or against this proposal. Abstentions will have the same effect as a vote against the proposal. While our Board of Directors intends to consider carefully the stockholder vote resulting from the proposal, the final vote will not be binding and is advisory in nature.

***May I vote my shares at the Annual Meeting?***

If you are the registered owner of shares, you have the right to vote these shares at the Annual Meeting.

If you are the beneficial owner of shares, you may vote these shares at the Annual Meeting if you have requested and received a legal proxy from your broker, bank or other nominee (the stockholder of record) giving you the right to vote the shares at the Annual Meeting, completed such legal proxy and presented it to the Company at the Annual Meeting.

Even if you plan to attend the Annual Meeting, we recommend that you submit your proxy card or voting instructions, or vote your shares by telephone or through the Internet, so that your vote will be counted if you later decide not to attend the Annual Meeting.

***How can I vote my shares without attending the Annual Meeting?***

If you are the registered owner of shares, you may instruct the named proxy holders on how to vote your shares by completing, signing, dating and returning the enclosed proxy card in the postage pre-paid envelope provided with this Proxy Statement, or by using the Internet voting site or the toll-free telephone number listed on the proxy card. Specific instructions for using the Internet and telephone voting systems are on the proxy card. The Internet and telephone voting systems will be available until 11:59 p.m. Eastern Daylight Time, on Tuesday, June 13, 2017 (the day before the Annual Meeting).

If you are the beneficial owner of shares held in street name, you may instruct your broker, bank or other nominee on how to vote your shares. Your nominee has enclosed with this Proxy Statement a voting instruction card for you to use in directing your nominee on how to vote your shares. The instructions from your nominee will indicate if Internet or telephone voting is available and, if so, will provide details regarding how to use those systems.

***What is a broker non-vote?***

Generally, a broker non-vote occurs when a broker, bank or other nominee that holds shares in street name for customers is precluded from exercising voting discretion on a particular proposal because (1) the beneficial owner has not instructed the nominee how to vote, and (2) the nominee lacks discretionary voting power to vote such shares. Under New York Stock Exchange ( NYSE ) rules, a nominee does not have discretionary voting power with respect to the approval of non-routine matters absent specific voting instructions from the beneficial owners of such shares.

All proposals other than the ratification of PwC as the Company s independent registered public accountants for fiscal year 2017 are non-routine matters and, therefore, shares of our Class A common stock held in street name will not be voted with respect to these proposals without voting instructions from the beneficial owners. You should follow the instructions provided by your nominee in directing your nominee on how to vote your shares.

***How will my proxy be voted?***

Shares represented by a properly executed proxy (in paper form, by Internet or by telephone) that is received timely, and not subsequently revoked, will be voted at the Annual Meeting or any adjournments or postponements thereof in the manner directed on the proxy form by the proxy (one of the individuals named in the proxy form). If you sign the proxy form but do not make specific choices, your proxy will vote your shares (1) **FOR** the election of the nominees listed in this Proxy Statement as directors of the Company, (2) **FOR** the ratification of PwC as the Company s independent registered public accounting firm for the 2017 fiscal year, and (3) **FOR** the approval, on an advisory (non-binding) basis, of the compensation paid to our named executive officers, as disclosed in this Proxy Statement pursuant to Item 402 of Regulation S-K.

If any other matter is presented at the Annual Meeting, your proxy will vote in accordance with his or her best judgment. As of the date of this Proxy Statement, the Company is not aware of other matters to be acted on at the Annual Meeting other than those matters described in this Proxy Statement. If, for any unforeseen reason, any of the director nominees are not available to serve as a director, the named proxy holders will vote your proxy for such other director candidate or candidates as may be nominated by the Board of Directors.

***May I revoke my proxy and change my vote?***

Yes. You may revoke your proxy and change your vote at any time prior to the vote at the Annual Meeting.

If you are the registered owner of shares, you may revoke your proxy and change your vote with respect to those shares by (1) submitting a later-dated proxy, a later-dated vote by telephone or later-dated vote via the Internet (which automatically revokes the earlier proxy), (2) giving notice of your changed vote to us in writing mailed to the attention of Sarah C. Turner, at our executive offices, or (3) attending the Annual Meeting and giving notice of your intention to vote in person.

If you are the beneficial owner of shares held in street name, you may revoke your proxy and change your vote with respect to those shares (1) by submitting new voting instructions to your broker, bank or other nominee in accordance with their voting instructions or (2) if you have obtained a legal proxy from your nominee giving you the right to vote your shares, by attending the Annual Meeting, presenting the completed legal proxy to the Company and voting in person.

You should be aware that your presence at the Annual Meeting, without any further action on your part, will not revoke your previously granted proxy.

***Who will count the votes?***

Our proxy agent, Broadridge Investor Communication Solutions, Inc. ( Broadridge ), will tabulate and certify the votes. A representative of the proxy agent will serve as the inspector of election.

***Who will pay the costs of soliciting proxies?***

The costs of soliciting proxies pursuant to this Proxy Statement will be borne by the Company. Proxies will be solicited initially by mail. Further solicitation may be made in person or by telephone, electronic mail or facsimile.

The Company will bear the expense of preparing, printing and mailing this Proxy Statement and accompanying materials to our stockholders. The Company may also reimburse brokers, banks or other nominees for reasonable expenses incurred in forwarding copies of the proxy materials relating to the Annual Meeting to the beneficial owners of our Class A common stock.

The Company has retained Broadridge, an independent proxy solicitation firm, to assist in soliciting proxies from stockholders. Broadridge will receive a fee as compensation for its services and will be reimbursed for its out-of-pocket expenses. The Company has agreed to indemnify Broadridge against certain liabilities arising under the federal securities laws.

***Where Can I Find The Voting Results Of The Annual Meeting?***

The Company will publish final voting results of the Annual Meeting in a Current Report on Form 8-K within four business days after the Annual Meeting.

***What Should I Do If I Receive More Than One Set Of Voting Materials?***

You may receive more than one set of voting materials, including multiple copies of this Proxy Statement and/or multiple proxy or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you may receive a separate voting instruction card for each brokerage account. If you are a registered owner and your shares are registered in more than one name, you will receive more than one proxy card. Please vote each proxy and voting instruction card that you receive.

***Who Can Help Answer My Questions?***

If you have any questions concerning a proposal or the Annual Meeting, if you would like additional copies of this Proxy Statement or our Annual Report, or if you need special assistance at the Annual Meeting, please call our Investor Relations office toll free at 1-800-983-3369. In addition, information regarding the Annual Meeting is available via the Internet at our website www.manning-napier.com.

**YOU SHOULD CAREFULLY READ THIS PROXY STATEMENT IN ITS ENTIRETY.** The summary information provided above in question and answer format is for your convenience only and is merely a brief description of material information contained in this Proxy Statement.

**YOUR VOTE IS IMPORTANT. IF YOU ARE A REGISTERED OWNER, YOU MAY VOTE BY TELEPHONE, INTERNET OR BY COMPLETING, SIGNING AND DATING THE ENCLOSED PROXY CARD AND RETURNING IT IN THE ACCOMPANYING ENVELOPE AS PROMPTLY AS POSSIBLE. IF YOU ARE A BENEFICIAL OWNER, PLEASE FOLLOW THE VOTING INSTRUCTIONS OF YOUR BROKER, BANK OR OTHER NOMINEE PROVIDED WITH THIS PROXY STATEMENT AS PROMPTLY AS POSSIBLE.**

## PROPOSALS TO BE VOTED ON AT THE ANNUAL MEETING

## PROPOSAL 1 ELECTION OF DIRECTORS

At the Annual Meeting, seven directors are to be elected to serve for a term of one year, until the 2018 Annual Meeting of Stockholders or until their successors are elected and qualified, or their earlier resignation or removal. The seven nominees for director are:

William Manning

Richard Goldberg

Barbara Goodstein

Kenneth A. Marvald

Edward J. Pettinella

Geoffrey Rosenberger

Edward George

Our Nominating and Corporate Governance Committee recommended Messrs. Manning, Goldberg, Marvald, Pettinella, Rosenberger, George, and Ms. Goodstein each as a nominee for director. All of these nominees, with the exception of Mr. George, are current members of our Board of Directors, and each nominee has agreed to be named in this Proxy Statement and to serve as a director of the Company if elected. Our Board of Directors believes these directors are well qualified and experienced to direct and manage the Company s operations and business affairs and will represent the interests of the stockholders as a whole.

If any director nominee becomes unavailable for election, which is not anticipated, our Board of Directors intends that proxies will be voted for the election of such other person or persons as designated by the Board of Directors as recommended by the Nominating and Corporate Governance Committee, unless the Board of Directors resolves to reduce the number of directors to serve on the Board of Directors and thereby reduce the number of directors to be elected at the Annual Meeting.

There is no cumulative voting for the election of directors.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE FOR EACH OF THE DIRECTOR NOMINEES LISTED HEREIN.**

***Number of Directors and Term of Directors and Executive Officers***

Our Amended and Restated Bylaws provide that the number of directors will not be less than 3 nor more than 15 with the exact number to be fixed by our Board of Directors. Our stockholders elect successors for directors whose terms have expired at our Annual Meeting. The Board of Directors elects members to fill new membership positions and vacancies in unexpired terms on the Board of Directors. Executive officers of the Company are elected by the Board of Directors and hold office until their successors are elected and qualified or until their earlier death, retirement, resignation or removal.

***Directors and Executive Officers***

The following table sets forth certain information concerning the current directors and executive officers of the Company. Ages are given as of the date of this Proxy Statement. All of our executive officers were appointed to their positions in June 2011, with the exception of Ms. Galusha who was appointed Principal Financial Officer in July 2016 and Mr. Manning, who was appointed Chief Executive Officer in April 2016. Of our current directors, Mr. Manning was first appointed to his position as Chairman effective June 2011. Mr. Pettinella was appointed in November 2011, Ms. Goodstein was appointed in November 2012, Mr. Goldberg was appointed in June 2014, Mr. Rosenberger was appointed in March 2016, and Mr. Marvald was appointed in April 2017.

| Name | Age | Position(s) |
|---|---|---|
| William Manning | 80 | Chairman and Chief Executive Officer |
| Jeffrey S. Coons | 53 | President |
| Beth H. Galusha | 55 | Principal Financial Officer |
| Charles H. Stamey | 56 | Executive Vice President |
| Richard B. Yates | 51 | Chief Legal Officer and Secretary |
| Richard Goldberg | 64 | Director |
| Barbara Goodstein | 56 | Director |
| Kenneth A. Marvald | 54 | Director |
| Edward J. Pettinella | 65 | Director |
| Geoffrey Rosenberger | 63 | Director |
| Edward George | 70 | Director Nominee |

***William Manning*** is our co-founder and Chief Executive Officer, and has served as the Chairman of our Board of Directors since our organization in 2011. In addition, since 2003 Mr. Manning has served as Director of Investment Process at Manning & Napier Advisors, LLC, our affiliate, and, prior to that, was also the President of Manning & Napier Advisors, LLC. In addition, Mr. Manning has previously held officer and director positions with Manning & Napier Fund, Inc. (the Fund ). Mr. Manning earned a Bachelor s degree from Dartmouth College in 1958.

Mr. Manning s qualifications to serve on our Board of Directors include his operating and leadership experience as an officer and director of Manning & Napier Advisors, LLC since it was founded including in his role as the primary architect of its research and investment process.

***Jeffrey S. Coons*** has served as our President since our organization in 2011. Dr. Coons has served as the President of Manning & Napier Advisors, LLC since June 2010, as the Co-Director of Research from 2002 through March 2015, and as a member of its executive management team since 1999. In addition, Dr. Coons is a member of Manning & Napier Advisors, LLC s Senior Research Group. Dr. Coons earned a Bachelor s degree from the University of Rochester in 1985, at which time he joined Manning & Napier Advisors, LLC, and a Ph.D from Temple University in 1996.

***Beth H. Galusha*** has served as our Principal Financial Officer since July 2016. Ms. Galusha has over 30 years experience in the financial services industry. Ms. Galusha is also Treasurer and Chief Accounting Officer of Manning & Napier Advisors, LLC and holds executive officer and director positions at certain other of Manning & Napier s affiliates. She joined Manning & Napier in 1987 as the Controller and also assumed the role of Chief Financial Officer of the Manning & Napier Fund, Inc. She served as the Chief Financial Officer of Manning & Napier Advisors, LLC from 1994 until August 2011. Previously, she worked as a certified public accountant at Price Waterhouse from 1983 to 1987. Ms. Galusha earned a Bachelor s degree from the University of Akron in 1983.

***Charles H. Stamey*** has served as our Executive Vice President since our organization in 2011. In addition, Mr. Stamey has served as the Managing Director of Sales and Distribution at Manning & Napier Advisors, LLC since May 2010 and as a member of its executive management team since 2000. Prior to May 2010, Mr. Stamey served as the Managing Director of Client Relations of Manning & Napier Advisors, LLC. Mr. Stamey received his Bachelor s degree from Mount Vernon University in 1981 and an M.B.A. from The Ohio State University in 1985.

***Richard B. Yates*** has served as our Chief Legal Officer and Secretary since our organization in 2011. In addition, Mr. Yates is the Chief Legal Officer of each of Manning & Napier Advisors, LLC and the Fund and has executive officer and director positions at certain other of our affiliates. Mr. Yates earned a Bachelor s degree from the University of Rochester in 1987 and a Juris Doctor from Brooklyn Law School in 1992.

***Richard Goldberg*** joined our Board of Directors in June 2014. Mr. Goldberg has served as a Senior Advisor to Needham & Company since 2009. Prior to joining Needham & Company, Mr. Goldberg was a managing director and head of the North American Financial Institutions Group at Dresdner Kleinwort Wasserstein (formerly Wasserstein Perella), and vice president in Mergers and Acquisitions at Lazard. Mr. Goldberg is currently a faculty and board member of Columbia University s School of International and Public Affairs. He earned a Bachelor s degree from Boston College in 1975 and an M.B.A. from University of Pennsylvania s Wharton Business School in 1978.

Mr. Goldberg s qualifications to serve on our board of directors include his more than 30 years of experience in the investment industry.

***Barbara Goodstein*** joined our Board of Directors in November 2012. Ms. Goodstein served as the Chief Marketing Officer at Vonage from 2012 through January 2015. Prior to joining Vonage, Ms. Goodstein held senior management positions at AXA Equitable, JP Morgan Chase, and Instinet.com. In addition, Ms. Goodstein served as a member of the Board of Directors of AXA Advisors from 2006 through 2010 and Chase Investor Services Corp. from 2001 through 2005. Ms. Goodstein currently serves as the chief executive officer and president of Tiger 21 Holdings. Ms. Goodstein earned a Bachelor s degree from Brown University in 1981 and an M.B.A. from Columbia University School of Business in 1983.

Ms. Goodstein s qualifications to serve on our board of directors include her extensive marketing experience in the financial services industry.

***Kenneth A. Marvald*** joined our Board of Directors in April 2017. For the past 22 years, Mr. Marvald has worked at Graywood Companies Inc., a global equity firm consisting of over 50 domestic and international operating companies across various sectors, where he oversees all legal affairs as Vice President & General Counsel. Mr. Marvald also serves on several boards, including The Summers Foundation, Education Success Network, and the Excellus Rochester Regional Board. Mr. Marvald received a B.A. in Political Science in 1984 from SUNY Binghamton, a J.D. in 1987 from SUNY Buffalo Law School, and an LL.M. in 1988 from NYU Law School.

Mr. Marvald s qualifications to serve on our board of directors include his over 30 years of experience in financial services law across the corporate finance, real estate, M&A, and tax sectors.

***Edward J. Pettinella*** joined our Board of Directors in November 2011. From January 2004 through October 2015, Mr. Pettinella served as President, CEO and Director of Home Properties, Inc., an S&P 400 company which was traded on the NYSE and acquired, developed and operated apartment communities, primarily in the Northeast and Mid-Atlantic markets. Mr. Pettinella also served as Executive Vice President of Home Properties from 2001 to January 2004. Home Properties was purchased by Lone Star Funds in fall 2015. Prior to joining Home Properties in 2001, Mr. Pettinella served as President of Charter One Bank of New York and Executive Vice President of Charter One Financial, Inc. In addition, he held several management positions for Rochester Community Savings Bank, including Chief Operating Officer, Chief Financial Officer and Chief Investment Officer. Previously he worked in the Treasurer s Office at Ford Motor Credit headquartered in Dearborn, Michigan. Mr. Pettinella serves on the Board of Directors of the Rochester Chamber of Commerce, Syracuse University, and the SUNY Geneseo Foundation. Previously he served on the board of the National Association of Real Estate Investment Trusts, the National Multi Housing Council, the YMCA of Greater Rochester, and the United Way of Greater Rochester, and was a member of the Urban Land Institute. He is a graduate of the SUNY Geneseo and holds a Masters in Business Administration degree in Finance from Syracuse University.

Mr. Pettinella s qualifications to serve on our Board of Directors include his extensive, broad-based experience in the banking industry, including a multi-billion dollar financial services company.

***Geoffrey Rosenberger*** joined our Board of Directors in March 2016. Mr. Rosenberger started his career with Manning & Napier Advisors, LLC in 1976 and went on to become a co-founder of Clover Capital Management, Inc. in 1984. He served as Managing Director at Clover Capital until his retirement in 2004. Mr. Rosenberger currently manages his personal holding company, Lily Pond Ventures, LLC, in addition to serving on several educational and corporate boards. He earned a Bachelor s degree in 1974 and an M.B.A. in 1976, both from the University of Kentucky. Mr. Rosenberger is a Chartered Financial Analyst.

Mr. Rosenberger s qualifications to serve on our board of directors include his nearly 30 years of experience in the investment management and financial services industries.

***Edward George*** is a director nominee expected to join our Board of Directors on June 14, 2017. Prior to his retirement, Mr. George worked for Manning & Napier Advisors, LLC for fourteen years ending in 2000, where he started in sales and went on to become Managing Director. Prior to his employment at Manning & Napier, Mr. George worked for two consulting firms, AG Becker and Mercer Consulting. Mr. George previously served on the board of Ferrum Junior College. He earned an Associate s degree from Ferrum Junior College in 1968, and a Bachelor s degree in Education from Wake Forest University in 1972.

Mr. George s qualifications to serve on our board of directors include his over 20 years of extensive experience in the asset management industry.

There are no family relationships among the Company and any of its executive officers, directors or nominees for director other than those identified in the Certain Relationships and Related Party Transactions section of this Proxy Statement.

Set forth below is a list of the names, ages and positions of other current significant employees as of the date of this Proxy Statement.

| **Name** | **Age** | **Position(s)** |
|---|---|---|
| Ebrahim Busheri | 51 | Director of Investments |
| Christian A. Andreach | 44 | Co-Head of Global Equities |
| Marc D. Tommasi | 53 | Chief Investment Strategist |

**Biographies of Significant Employees**

***Ebrahim Busheri***, having rejoined the Company in 2011, is a member of the Senior Research Group and was named Director of Investments in March 2015. Previously, Mr. Busheri worked as the Director of Investments at W.P. Stewart and as a Consultant for Heritage Capital. From 1988 to 2001, he worked at Manning & Napier Advisors in various roles, including as a Director of Research. Mr. Busheri earned a Bachelor s degree in Accounting & Economics from Muskingum College in 1986 and an M.B.A. in Finance from the University of Rochester in 1988 and is a Chartered Financial Analyst.

***Christian A. Andreach*** has served as the Co-Head of Global Equities of Manning & Napier Advisors since 2010 and as a member of its Senior Research Group since 2002. Mr. Andreach joined Manning & Napier Advisors in 1999. Mr. Andreach earned a Bachelor s degree from St. Bonaventure University in 1995 and an M.B.A. from the University of Rochester in 1997 and is a Chartered Financial Analyst.

***Marc D. Tommasi*** has served as the firm s Chief Investment Strategist since April 2016, the Co-Head of Global Equities since March 2015, as the Head of Global Investment Strategy of Manning & Napier Advisors from 2010 through 2014, and as a member of its Senior Research Group since 1989. Mr. Tommasi joined Manning & Napier Advisors in 1986. Mr. Tommasi earned a Bachelor s degree from the University of Rochester in 1986.

## CORPORATE GOVERNANCE

***Board Meetings***

The directors hold regular meetings, attend special meetings as required and spend such time on the affairs of the Company as their duties require. Pursuant to the Company s Corporate Governance Guidelines, directors are expected to attend all Board of Directors meetings and meetings of the committees of the Board of Directors on which they serve. During 2016, the Board of Directors held five meetings. Each director attended at least 75% of the combined total number of meetings of the Board and Board committees of which he or she was a member.

***Attendance of Directors at 2016 Annual Meeting of the Stockholders***

The Board of Directors encourages all of its members to attend its annual meeting of the stockholders. Six of the Company s directors participated in the virtual 2016 annual meeting of the stockholders, including Michael Jones, who was elected at the 2016 annual meeting of the shareholders and served on the Board of Directors until his resignation in January 2017.

***Board Committees***

Our Board of Directors has established an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee, each consisting solely of independent directors, and our Board of Directors has adopted charters for its committees that comply with the NYSE and Securities and Exchange Commission ( SEC ) rules relating to corporate governance matters. Copies of these committee charters can be found under the Investor Relations Governance section of the Company s website at *www.manning-napier.com* and are available to any stockholder in writing upon request to the Company.

*Audit Committee.* Our Audit Committee oversees a broad range of issues surrounding our accounting and financial reporting processes and audits of our financial statements, including the following:

- monitor the integrity of our financial statements, our compliance with legal and regulatory requirements, our independent registered public accounting firm s qualifications and independence, and the performance of our internal audit function and independent registered public accounting firm;

- assume direct responsibility for the appointment, compensation, retention and oversight of the work of any independent registered public accounting firm engaged for the purpose of performing any audit, review or attest services and for dealing directly with any such accounting firm;

- provide a medium for consideration of matters relating to any audit issues; and

- prepare the audit committee report that the rules require be included in our filings with the SEC.

As of the date of this Proxy Statement, Messrs. Pettinella, Rosenberger, Marvald, and Ms. Goodstein serve on the Audit Committee and Mr. Pettinella serves as its chairman. Our Board of Directors has determined that Messrs. Pettinella, Rosenberger, Marvald, and Ms. Goodstein are financially literate and independent under the NYSE listing standards and under Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the Exchange Act ), and that Mr. Pettinella is an audit committee financial expert within the meaning of the applicable rules of the SEC and the

NYSE. The Audit Committee held five meetings in 2016.

*Compensation Committee.* Our Compensation Committee reviews and recommends policy relating to compensation and benefits of our officers, directors and employees, including reviewing and approving corporate goals and objectives relevant to the compensation of our chief executive officer and other senior officers, evaluating the performance of these persons in light of those goals and objectives and setting compensation of these persons based on such evaluations. The Compensation Committee will review and evaluate, at least annually, the performance of the Compensation Committee and its members, including compliance of the Compensation Committee with its charter.

As of the date of this Proxy Statement, Messrs. Pettinella, Rosenberger, Marvald, and Ms. Goodstein serve on the Compensation Committee and Mr. Rosenberger currently serves as its chairman. The Compensation Committee held four meetings in 2016.

*Nominating and Corporate Governance Committee.* The Nominating and Corporate Governance Committee oversees and assists our Board of Directors in identifying, reviewing and recommending nominees for election as directors; evaluates our Board of Directors and our management succession; develops, reviews and recommends corporate governance guidelines and a corporate code of business conduct and ethics; and generally advises our Board of Directors on corporate governance and related matters.

As of the date of this Proxy Statement, Messrs. Pettinella, Rosenberger, Marvald, and Ms. Goodstein serve on the Nominating and Corporate Governance Committee and Ms. Goodstein serves as its chairman. The Nominating and Corporate Governance Committee held four meetings in 2016.

***Compensation Committee Interlocks and Insider Participation***

In 2016, Messrs. Pettinella and Rosenberger, Ms. Goodstein and Richard Barrington, Robert M. Zak, and Michael Jones served as members of our Compensation Committee. No member of our Compensation Committee was at any time during 2016 an officer or employee of the Company, or formerly an officer of the Company. No member of our Compensation Committee had any relationship with the Company during 2016 requiring disclosure under Item 404 of Regulation S-K under the Securities Act of 1933.

During fiscal 2016, none of our executive officers served as a member of the board of directors or compensation committee (or other committee serving an equivalent function) of any entity that had one or more executive officers serving as a member of our board of directors or compensation committee.

***Director Independence***

Our Board of Directors has determined that Messrs. Pettinella, Rosenberger, Marvald, and Ms. Goodstein, as well as director nominee Mr. George, are each considered to be   independent directors   within the meaning of the NYSE s listing standards and applicable law. The Company does not have separate criteria for determining independence different from the NYSE listing standards.

Our Board of Directors reviews periodically the relationships that each director or nominee has with the Company (either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company). Those directors or nominees whom the Board of Directors affirmatively determines have no material relationship with the Company (either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company) as specified in the listing standards of the NYSE will be considered independent.

Because Mr. Manning holds a majority of the combined voting power of our capital stock through his ownership of 100% of our outstanding Class B common stock, we are considered a   controlled company   for the purposes of the NYSE listing requirements. As such, we are permitted to, and may, opt out of the NYSE listing requirements that would otherwise require our Board of Directors to be comprised of a majority of independent directors and require our Compensation Committee and Nominating and Corporate Governance Committee to be comprised entirely of independent directors.

***Board Leadership Structure and Factors Involved in Selecting Directors***

Our Board of Directors and management believe that the choice of whether the Chairman of our Board of Directors should be an executive of the Company, or a non-executive or independent director, depends upon a number of factors, taking into account the candidates for the position and the best interests of the Company and its stockholders. Currently, Mr. Manning is our Chairman. Mr. Manning s operating and leadership experience as an officer and director of Manning & Napier Advisors, LLC since it was founded, including in his role as the primary architect of its research and investment process, make him a compelling choice for Chairman. The Company currently does not have a lead independent director.

When seeking candidates for election and appointment to the Board of Directors, our Nominating and Corporate Governance Committee will consider candidates that possess the integrity, leadership skills and competency required to direct and oversee our management in the best interests of our stockholders, clients, employees, communities we serve and other affected parties, and consider the competency of the Board of Directors as a whole. With respect to the seven director nominees, the Nominating and Corporate Governance Committee focused on the information described in each of the Board of Directors members biographical information set forth above.

Stockholders may submit candidates for nomination to the Board of Directors based on the criteria set forth by the Nominating and Corporate Governance Committee and the Board of Directors in accordance with the procedures set forth in our Amended and Restated Bylaws. The Nominating and Corporate Governance Committee will evaluate candidates recommended by stockholders in the same manner as all other candidates.

***Executive Sessions***

Executive sessions of the Company s non-management directors are held in conjunction with each regular Board of Directors meeting and may be held at other times as circumstances warrant.

***Board s Role in Risk Management Oversight***

The Board of Directors oversees the process of risk management which may, from time to time, be delegated to a committee. Members of management, who bear responsibility for the management and assessment of risk at the Company, regularly communicate with the Board of Directors regarding the Company s risk exposure and its efforts to monitor and mitigate such risks. Even when the oversight of a specific area of risk has been delegated to a committee, the full Board of Directors may maintain oversight over such risks through the receipt of reports from the committee to the full Board of Directors. In addition, if a particular risk is material, or where otherwise appropriate, the full Board of Directors may assume oversight over a particular risk, even if the risk was initially overseen by a committee. Our Board of Directors believes that its leadership structure described above facilitates its oversight of risk management because it allows the Board of Directors, working through its committees, to appropriately participate in the oversight of management s actions.

The Company s Audit Committee maintains initial oversight of risks related to the integrity of the Company s financial statements, internal controls over financial reporting and disclosure controls and procedures (including the performance of the Company s internal audit function) and the performance of the Company s independent auditor.

The Company s Compensation Committee maintains initial oversight of risks related to the Company s compensation practices, including practices related to equity incentive programs, other executive or company-wide incentive programs and hiring and retention. The Compensation Committee also reviews the Company s compensation programs periodically for consistency and overall alignment with corporate goals and strategies.

In 2014, a Risk Oversight Committee was formed at the Manning & Napier Group, LLC ( Manning & Napier Group ) level to oversee risks related to our operating companies. This operating committee is comprised of a management team (President, Principal Financial Officer, Chief Legal Officer and Senior Vice President of Operations) along with other participants from the Finance, Internal Audit and Compliance departments, and it will report to the Company s Board of Directors when appropriate.

13

***Communications with the Board of Directors***

Stockholders and all other interested parties may communicate with the Board of Directors, committees of the Board of Directors, and the independent or non-management directors, each as a group, and individual directors by submitting their communications in writing to the attention of the Company s Secretary. All communications must identify the recipient(s), author, and state whether the author is a stockholder of the Company, and may be forwarded to the following address:

Manning & Napier, Inc.

290 Woodcliff Drive

Fairport, New York 14450

Attn: Secretary

The directors of the Company, including the non-management directors, have directed the Secretary not to forward to the intended recipient any communications that are reasonably determined in good faith by the Secretary to relate to improper or irrelevant topics or are substantially incomplete.

***Corporate Governance Guidelines***

We believe that good corporate governance helps to ensure that the Company is managed for the long-term benefit of our stockholders, and we continually review and consider our corporate governance policies and practices, the SEC s corporate governance rules and regulations, and the corporate governance listing standards of the NYSE, the stock exchange on which our Class A common stock is traded.

Our Board of Directors has adopted Corporate Governance Guidelines, which guide the Board of Directors in the performance of its responsibilities to serve the best interests of the Company and its stockholders, a copy of which is posted on the Company s website, *www.manning-napier.com*, under Investor Relations Governance and is available to any stockholder in writing upon request to the Company.

***Code of Business Conduct and Ethics***

Our Board of Directors has adopted a Code of Business Conduct and Ethics that applies to all of the Company s directors, officers and employees. The purpose and role of this code is to focus our directors, officers and employees on areas of ethical risk, provide guidance to help them recognize and deal with ethical issues, provide mechanisms to report unethical or unlawful conduct, and help enhance and formalize our culture of integrity, honesty and accountability. Our Code of Business Conduct and Ethics is posted on the Company s website, *www.manning-napier.com*, under Investor Relations Governance and is available to any stockholder in writing upon request to the Company.

***Hedging Policies***

Our Board of Directors has adopted an Insider Trading and Confidentiality Policy Statement that applies to all of the Company s directors, officers and employees. The purpose of this policy, in addition to addressing the treatment of material non-public information, is to address provisions in the Dodd-Frank Act that require disclosure of a company s hedging policies. Our policy includes prohibitions on transactions in options on and short sales of Company stock by our employees or directors. The policy specifically provides that entering into any contract or purchasing any instrument designed to hedge or offset any decrease in the market value of our stock owned by our employees and directors is not permitted. Our Insider Trading and Confidentiality Policy Statement is posted on the Company s website. *www.manning-napier.com*, under Investor Relations Governance and is available to any stockholder in writing upon request to the Company.

# EXECUTIVE COMPENSATION

## Compensation Committee Report

*Notwithstanding anything to the contrary set forth in any filings of Manning & Napier, Inc. under the Securities Act of 1933, as amended (the Securities Act ), or the Exchange Act, that might incorporate future filings, including this Proxy Statement, in whole or in part, the following Compensation Committee Report shall not be incorporated by reference into any such filings, and shall not be deemed soliciting material or filed under the Securities Act or the Exchange Act.*

The Compensation Committee has reviewed and discussed the Compensation Discussion & Analysis set forth below with management and, based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion & Analysis be included in this Proxy Statement.

Respectfully submitted:

Compensation Committee

Geoffrey Rosenberger, Chairman

Barbara Goodstein

Kenneth A. Marvald

Edward J. Pettinella

## Compensation Discussion and Analysis

This section summarizes the principles underlying our compensation policies relating to our named executive officers William Manning, Beth H. Galusha, Patrick Cunningham, James Mikolaichik, Ebrahim Busheri, Jeffrey Coons, and Charles H. Stamey. It generally describes the manner and context in which compensation is earned by, and awarded and paid to, our named executive officers and provides perspective on the tables and narratives that follow in this section. Our Compensation Committee is comprised solely of independent directors and reviews, in consultation with the Board of Directors, senior management, and with input from our shareholders, our executive compensation program, including the design of our annual cash incentive and equity incentive programs. We have determined that each director who sits on our Compensation Committee is qualified to serve in such position. The Compensation Committee will continue to evaluate the need for revisions to our executive compensation program to ensure it is competitive with the companies with which we compete for superior executive talent.

### *Executive Compensation Practices*

Below we highlight certain executive compensation practices that we employ to align executive compensation with strategic targets, and thereby stockholder interests. Also listed below are certain compensation practices we do not employ because we do not believe they would serve our stockholders long-term interests.

**<u>What We Do</u>**

**Pay for Performance**. We tie annual compensation to objective performance metrics with a focus on firm level business performance coupled with specific performance criteria related to assets under management. Currently, no portion of our executives potential compensation is guaranteed, but rather is a consequence of company performance.

**Assets Under Management.** Aligning interests of our named executive officers with those of our shareholders is an important objective of our compensation program, so assets under management are considered when determining cash incentive bonuses and equity awards for our named executive officers.

**Equity Award Retention Policy.** Executives are required to retain 50% of the net after-tax shares received from all equity awards for a period of five years after the scheduled vesting date.

**Vesting Period on Equity Awards**. Restricted stock unit awards granted under the 2011 Equity Compensation Plan have historically included three-year cliff vesting periods.

**Clawback Provision**. We can rescind and/or recover any associated gains on equity awards granted to named executive officers if the recipient s fraud or misconduct leads to a restatement of financial statements.

**<u>What We Don t Do</u>**

**No Severance Agreements**. Historically, we have not provided our named executive officers with employment agreements that provide compensation or duration terms, severance payments, medical or insurance benefits or any other perquisites in the event the executive is terminated or resigns.

**No Income Tax Gross-ups**. We have not historically provided income tax gross-ups for personal benefits other than broad-based benefits.

**No Established Program of Executive Perquisites**. We have no established program of perquisites to provide personal benefits to our named executive officers.

***Compensation Philosophy and Objectives***

We believe that to create long-term value for our stockholders we need a strong and seasoned management team that is focused on our business objectives of achieving profitable and sustainable financial results, expanding our investment capabilities through disciplined growth, continuing to diversify sources of revenue and delivering superior client service. Our named executive officers have strategic importance in supporting our business model of generating superior investment performance in high value-added investment strategies. We depend on our management team to execute on the strategic direction of the firm, recruit and manage our investment professionals, determine which investment strategies and products we launch, manage our distribution channels and provide the operational infrastructure that allows our investment professionals to focus on achieving attractive investment returns for our clients.

Our compensation program for our named executive officers is designed to meet the following objectives:

- support our business strategy;

- attract, motivate and retain top-tier professionals within the investment management industry, by rewarding past performance and encouraging future contributions to achieve our strategic goals and enhance stockholder value;

- link total compensation to individual, team and company performance on both a short-term and a long-term basis;

- align our named executive officers interests with those of our stockholders; and be flexible enough so we can respond to changing economic conditions.

Our compensation and equity participation programs provide opportunities, predominantly contingent upon performance, which we believe have assisted our ability to attract and retain highly qualified professionals. In the past we have used, and we will likely use in the future, a combination of cash compensation programs and equity participation.

We periodically evaluate the success of our compensation and equity participation programs in achieving these objectives and we expect that some of our policies and practices may change in order to enable us to better achieve these objectives. We also expect to create a larger set of performance-related data going forward in addition to assets under management.

***Determination of Compensation and Role of Directors and Executive Officers in Compensation Decisions***

Our Compensation Committee assists our Board of Directors in the discharge of its responsibilities relating to the compensation of our named executive officers. For a discussion of the Compensation Committee s role and responsibility, see Corporate Governance Board Committees Compensation Committee included earlier in this Proxy Statement. Our chief executive officer also works with the Compensation Committee and the Board of Directors to set the compensation of the named executive officers other than himself. Our Compensation Committee, with the oversight of the Board of Directors, has the delegated authority for: (i) overseeing our compensation policies and programs and setting the compensation of our chief executive officer and our Chairman, (ii) reviewing our achievements as a company and the achievements of our named executive officers, and (iii) providing input and guidance to our chief executive officer in the determination of the specific type and level of compensation of our other named executive officers and the rest of the senior management team.

Our 2011 Equity Compensation Plan (the Equity Plan ) gives us the flexibility to grant other types of equity-based compensation at the Manning & Napier Group level or the Manning & Napier, Inc. level. Base salary provides financial stability for certain of our named executive officers, although we expect base salaries to be a minority of total income over time. Annual cash bonus="bottom" BGCOLOR="#FFFFFF" style="padding-left:0pt;padding-Right:0.75pt;padding-Top:0.75pt;padding-Bottom:0pt;width:9.38%;white-space:nowrap;">

Current portion of long-term debt, net of unamortized discounts of $734 and $8,632

$

47,123

$

148,868

Client deposits

32,746

33,694

Trade accounts payable

25,348

43,392

Accrued employee compensation

58,941

59,607

Deferred revenue

48,959

41,907

Income taxes payable

2,234

8,962

Other current liabilities

17,260

22,980

Total current liabilities

232,611

359,410

Non-current liabilities:

Long-term debt, net of unamortized discounts of $24,169 and $4,738

329,581

130,262

Deferred revenue

7,726

9,828

Income taxes payable

4,392

4,413

Deferred income taxes

19

182

Other non-current liabilities

12,828

12,791

Total non-current liabilities

354,546

157,476

Total liabilities

587,157

516,886

Current portion of long-term debt conversion obligation

28,690

-

Stockholders' equity:

Preferred stock, par value $.01 per share; 10,000 shares authorized; zero shares issued and outstanding

-

-

Common stock, par value $.01 per share; 100,000 shares authorized; 32,317 and 32,555 shares outstanding

672

672

Common stock warrants; 2,851 and 2,851 warrants issued and outstanding

7,310

7,310

Additional paid-in capital

397,029

503,254

Treasury stock, at cost, 34,865 and 34,601 shares

(823,963

)

(814,437

)

Accumulated other comprehensive income (loss):

Unrealized loss on short-term investments, net of tax

(6

)

(97

)

Cumulative foreign currency translation adjustments

(36,721

)

(26,288

)

Accumulated earnings

707,950

675,431

Total stockholders' equity

252,271

345,845

Total liabilities, current portion of long-term debt conversion obligation and stockholders' equity

$

868,118

$

862,731

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

3

CSG SYSTEMS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME - UNAUDITED

(in thousands, except per share amounts)

| | Quarter Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| Revenues: | | | | |
| Cloud and related solutions | $151,217 | $ 143,887 | $451,023 | $ 429,009 |
| Software and services | 18,634 | 23,231 | 58,964 | 68,301 |
| Maintenance | 19,460 | 19,842 | 55,802 | 57,922 |
| Total revenues | 189,311 | 186,960 | 565,789 | 555,232 |
| Cost of revenues (exclusive of depreciation, shown separately below): | | | | |
| Cloud and related solutions | 70,150 | 67,428 | 206,578 | 201,455 |
| Software and services | 12,230 | 15,244 | 37,057 | 52,912 |
| Maintenance | 11,040 | 9,510 | 32,051 | 29,877 |
| Total cost of revenues | 93,420 | 92,182 | 275,686 | 284,244 |
| Other operating expenses: | | | | |
| Research and development | 23,572 | 24,941 | 71,479 | 76,567 |
| Selling, general and administrative | 32,508 | 34,247 | 101,539 | 102,261 |
| Depreciation | 3,398 | 3,723 | 10,423 | 11,268 |
| Restructuring and reorganization charges | (185) | 846 | (601) | 1,822 |
| Total operating expenses | 152,713 | 155,939 | 458,526 | 476,162 |
| Operating income | 36,598 | 31,021 | 107,263 | 79,070 |
| Other income (expense): | | | | |
| Interest expense | (4,398) | (2,526) | (11,876) | (8,431) |
| Amortization of original issue discount | (1,062) | (1,576) | (3,856) | (4,639) |
| Interest and investment income, net | 707 | 278 | 1,698 | 674 |
| Loss on repurchase of convertible notes | (332) | - | (8,651) | - |
| Other, net | (1,354) | 746 | (4,040) | 426 |
| Total other | (6,439) | (3,078) | (26,725) | (11,970) |
| Income before income taxes | 30,159 | 27,943 | 80,538 | 67,100 |
| Income tax provision | (12,265) | (11,196) | (30,303) | (28,201) |
| Net income | $17,894 | $ 16,747 | $50,235 | $ 38,899 |
| | | | | |
| Weighted-average shares outstanding: | | | | |
| Basic | 31,063 | 30,920 | 30,922 | 31,087 |
| Diluted | 32,639 | 33,287 | 33,041 | 33,241 |
| | | | | |
| Earnings per common share: | | | | |
| Basic | $0.58 | $ 0.54 | $1.62 | $ 1.25 |
| Diluted | 0.55 | 0.50 | 1.52 | 1.17 |
| | | | | |
| Cash dividends declared per common share | $0.19 | $ 0.18 | $0.56 | $ 0.53 |

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

4

CSG SYSTEMS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME - UNAUDITED

(in thousands)

| | Quarter Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| Net income | $17,894 | $ 16,747 | $50,235 | $ 38,899 |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustments | (1,393) | (8,755) | (10,433) | (10,367) |
| Unrealized holding gains (losses) on short-term investments arising during period | (566) | (6) | 91 | - |
| Other comprehensive loss, net of tax | (1,959) | (8,761) | (10,342) | (10,367) |
| Total comprehensive income, net of tax | $15,935 | $ 7,986 | $39,893 | $ 28,532 |

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

5

CSG SYSTEMS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(in thousands)

| | Nine Months Ended September 30, 2016 | September 30, 2015 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 50,235 | $ 38,899 |
| Adjustments to reconcile net income to net cash provided by operating activities- | | |
| Depreciation | 10,423 | 11,268 |
| Amortization | 19,921 | 22,353 |
| Amortization of original issue discount | 3,856 | 4,639 |
| (Gain) loss on short-term investments and other | (23) | 179 |
| Loss on repurchase of convertible notes | 8,651 | - |
| (Gain) loss on disposition of business operations | (6,611) | 767 |
| Deferred income taxes | (2,159) | (5,556) |
| Excess tax benefit of stock-based compensation awards | (4,622) | (2,174) |
| Stock-based compensation | 17,273 | 15,775 |
| Changes in operating assets and liabilities, net of acquired amounts: | | |
| Trade accounts receivable, net | (16,275) | (1,869) |
| Other current and non-current assets | 199 | (6,092) |
| Income taxes payable/receivable | (2,750) | 3,588 |
| Trade accounts payable and accrued liabilities | (23,628) | (3,703) |
| Deferred revenue | 5,016 | 6,272 |
| Net cash provided by operating activities | 59,506 | 84,346 |
| | | |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (11,542) | (16,776) |
| Purchases of short-term investments | (122,736) | (107,462) |
| Proceeds from sale/maturity of short-term investments | 107,816 | 127,766 |
| Acquisition of and investments in business, net of cash acquired | - | (962) |
| Acquisition of and investments in client contracts | (6,038) | (6,374) |
| Proceeds from the disposition of business operations | 8,850 | - |
| Net cash used in investing activities | (23,650) | (3,808) |
| | | |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock | 1,120 | 1,148 |
| Payment of cash dividends | (18,325) | (16,811) |
| Repurchase of common stock | (22,455) | (64,995) |
| Payments on acquired asset financing | - | (829) |
| Proceeds from long-term debt | 230,000 | 150,000 |
| Payments on long-term debt | (5,625) | (125,625) |
| Repurchase of convertible notes | (215,657) | - |
| Payments of deferred financing costs | (6,744) | (2,742) |
| Excess tax benefit of stock-based compensation awards | 4,622 | 2,174 |
| Net cash used in financing activities | (33,064) | (57,680) |

| | | |
|---|---|---|
| Effect of exchange rate fluctuations on cash | 4,798 | (4,405 ) |
| Net increase in cash and cash equivalents | 7,590 | 18,453 |
| Cash and cash equivalents, beginning of period | 132,631 | 81,712 |
| Cash and cash equivalents, end of period | $140,221 | $ 100,165 |
| | | |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for- | | |
| Interest | $11,165 | $ 7,484 |
| Income taxes | 35,260 | 30,998 |

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

CSG SYSTEMS INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. GENERAL

We have prepared the accompanying unaudited condensed consolidated financial statements as of September 30, 2016 and December 31, 2015, and for the quarters and nine months ended September 30, 2016 and 2015, in accordance with accounting principles generally accepted in the United States of America ("U.S.") ("GAAP") for interim financial information, and pursuant to the instructions to Form 10-Q and the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of our management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of our financial position and operating results have been included. The unaudited Condensed Consolidated Financial Statements (the "Financial Statements") should be read in conjunction with the Consolidated Financial Statements and notes thereto, together with Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), contained in our Annual Report on Form 10-K for the year ended December 31, 2015 (our "2015 10-K"), filed with the SEC. The results of operations for the quarter and nine months ended September 30, 2016 are not necessarily indicative of the expected results for the entire year ending third quarter.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reclassifications. Certain December 31, 2015 amounts have been reclassified to conform to the September 30, 2016 presentation, which are discussed further in the Accounting Pronouncements Adopted section below.

Cash and Cash Equivalents. We consider all highly liquid investments with original maturities of three months or less at the date of the purchase to be cash equivalents. As of September 30, 2016 and December 31, 2015, our cash equivalents consist primarily of institutional money market funds, commercial paper, and time deposits held at major banks.

As of September 30, 2016 and December 31, 2015, we had $4.3 million and $5.0 million, respectively, of restricted cash that serves to collateralize outstanding letters of credit. This restricted cash is included in cash and cash equivalents in our Condensed Consolidated Balance Sheets ("Balance Sheets" or "Balance Sheet").

Short-term Investments and Other Financial Instruments. Our financial instruments as of September 30, 2016 and December 31, 2015 include cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and debt. Because of their short maturities, the carrying amounts of cash equivalents, accounts receivable, and accounts payable approximate their fair value.

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

Primarily all short-term investments held by us as of September 30, 2016 and December 31, 2015 have contractual maturities of less than two years from the time of acquisition. Our short-term investments as of September 30, 2016 and December 31, 2015 consisted almost entirely of fixed income securities. Proceeds from the sale/maturity of short-term investments for the nine months ended September 30, 2016 and 2015 were $107.8 million and $127.8 million, respectively.

7

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

| | September 30, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Total | Level 1 | Level 2 | Total |
| Assets: | | | | | | |
| Cash equivalents: | | | | | | |
| Money market funds | $22,253 | $— | $22,253 | $35,730 | $— | $35,730 |
| Commercial paper | — | 20,492 | 20,492 | — | 17,245 | 17,245 |
| Short-term investments: | | | | | | |
| Corporate debt securities | — | 83,978 | 83,978 | — | 77,898 | 77,898 |
| Corporate equity securities | — | 2,476 | 2,476 | — | — | — |
| Municipal bonds | — | 1,410 | 1,410 | — | 2,763 | 2,763 |
| U.S. government agency bonds | — | 26,540 | 26,540 | — | 16,201 | 16,201 |
| Asset-backed securities | — | 11,513 | 11,513 | — | 11,443 | 11,443 |
| Total | $22,253 | $146,409 | $168,662 | $35,730 | $125,550 | $161,280 |

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

We have chosen not to measure our debt at fair value, with changes recognized in earnings each reporting period. The following table indicates the carrying value (par value for convertible debt) and estimated fair value of our debt as of the indicated periods (in thousands):

| | September 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Credit agreement (carrying value including current maturities) | $136,875 | $136,875 | $142,500 | $142,500 |
| 2010 Convertible debt | 34,732 | 63,990 | 150,000 | 237,900 |
| 2016 Convertible debt | 230,000 | 250,988 | — | — |

The fair value for our credit agreement was estimated using a discounted cash flow methodology, while the fair value for our convertible debt was estimated based upon quoted market prices or recent sales activity, both of which are considered Level 2 inputs. See Note 4 for additional discussion regarding our convertible debt.

Accounting Pronouncements Adopted. In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-03, Interest-Imputation of Interest (Subtopic 835-30). This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a reduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU is effective in fiscal years beginning after December 15, 2015 and must be applied retrospectively. We adopted this ASU retrospectively on January 1, 2016, which resulted in the reclassification of $5.4 million of debt issuance costs from other assets to long-term debt on our December 31, 2015 Balance Sheet.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740), requiring that all deferred tax liabilities and assets be classified as noncurrent. Prior guidance required us to record deferred tax balances as either current or non-current in accordance with the classification of the underlying attributes. This ASU is effective in fiscal years beginning after December 15, 2016, with early adoption permitted and may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. We adopted this ASU retrospectively on January 1, 2016, which resulted in a decrease of $18.1 million in current deferred income tax assets, an increase in non-current deferred income tax assets of $9.1 million and a decrease in non-current deferred income tax liabilities of $9.0 million on our December 31, 2015 Balance Sheet.

Accounting Pronouncement Issued But Not Yet Effective. The FASB has issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU is a single comprehensive model which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. Under the new guidance, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the FASB issued ASU 2015-14 Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date which defers the effective date of ASU 2014-09 for one year. The updated accounting guidance is now effective for annual and interim reporting periods in fiscal years beginning after December 15, 2017. Early adoption is permitted. An entity may choose to adopt this ASU either retrospectively or through a cumulative effect adjustment as of the start of the first period for which it applies the standard. We are currently in the process of evaluating the impact that this new guidance will have on our Financial Statements and our method of adoption.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This ASU requires lessees to recognize a lease liability and a right-to-use asset for all leases, including operating leases, with a term greater than twelve months on its balance sheet. This ASU is effective in annual and interim periods in fiscal years beginning after December 15, 2018, with early adoption permitted, and requires a modified retrospective transition method. We are currently in the process of evaluating the impact that this new guidance will have on our Financial Statements.

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718). This ASU simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The methods of adoption for this ASU vary by amendment. We are currently in the process of evaluating the impact that this new guidance will have on our Financial Statements.

In October 2016, the FASB issued ASU 2016-16, Intra-Entity Transfers of Assets Other Than Inventory (Topic 740). This ASU requires entities to recognize at the transaction date the income tax consequences of intercompany asset transfers. This ASU is effective in annual and interim periods in fiscal years beginning after December 15, 2017, with early adoption permitted, and requires a modified retrospective transition method. We are currently in the process of evaluating the impact that this new guidance will have on our Financial Statements.

3. LONG-LIVED ASSETS

Goodwill. The changes in the carrying amount of goodwill for the nine months ended September 30, 2016, were as follows (in thousands):

| | |
|---|---|
| January 1, 2016 balance | $219,724 |
| Adjustments related to prior acquisitions | (45) |
| Effects of changes in foreign currency exchange rates | (12,792) |
| September 30, 2016 balance | $206,887 |

Other Intangible Assets. Our intangible assets subject to ongoing amortization consist primarily of client contracts and software. As of September 30, 2016 and December 31, 2015, the carrying values of these assets were as follows (in thousands):

| | September 30, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Amount | Gross Carrying Amount | Accumulated Amortization | Net Amount |
| Client contracts | $129,992 | $ (94,297) | $35,695 | $127,628 | $ (87,890) | $39,738 |
| Software | 131,541 | (101,176) | 30,365 | 130,189 | (95,094) | 35,095 |
| Total | $261,533 | $ (195,473) | $66,060 | $257,817 | $ (182,984) | $74,833 |

The total amortization expense related to intangible assets for the third quarters of 2016 and 2015 were $6.3 million and $6.8 million, respectively, and for the nine months ended September 30, 2016 and 2015 were $18.2 million and $20.1 million, respectively. Based on the September 30, 2016 net carrying value of our intangible assets, the estimated total amortization expense for each of the five succeeding fiscal years ending December 31 are: 2016 – $24.3 million; 2017 – $20.3 million; 2018 – $15.1 million; 2019 – $10.6 million; and 2020 – $6.2 million.

4. DEBT

Our long-term debt, as of September 30, 2016 and December 31, 2015, was as follows (in thousands):

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Credit Agreement: | | |
| Term loan, due February 2020, interest at adjusted LIBOR plus 1.75% (combined rate of 2.59% at September 30, 2016) | $ 136,875 | $ 142,500 |
| Less - deferred financing costs | (3,800) | (4,738) |
| Term loan, net of unamortized discounts | 133,075 | 137,762 |
| $200 million revolving loan facility, due February 2020, interest at adjusted LIBOR plus applicable margin | — | — |
| Convertible Notes: | | |
| 2016 Convertible Notes – Senior convertible notes; due March 15, 2036; cash interest at 4.25% | 230,000 | — |
| Less – unamortized original issue discount | (14,612) | — |
| Less – deferred financing costs | (5,757) | — |
| 2016 Convertible Notes, net of unamortized discounts | 209,631 | — |
| 2010 Convertible Notes – Senior subordinated convertible notes; due March 1, 2017; cash interest at 3.0% | 34,732 | 150,000 |
| Less – unamortized original issue discount | (674) | (7,923) |
| Less – deferred financing costs | (60) | (709) |
| 2010 Convertible Notes, net of unamortized discounts | 33,998 | 141,368 |
| Total debt, net of unamortized discounts | 376,704 | 279,130 |
| Current portion of long-term debt, net of unamortized discounts | (47,123) | (148,868) |
| Long-term debt, net of unamortized discounts | $ 329,581 | $ 130,262 |

Credit Agreement.

During the nine months ended September 30, 2016, we made $5.6 million of principal repayments on our 2015 Term Loan. As of September 30, 2016, our interest rate on the 2015 Term Loan is 2.59% (adjusted LIBOR plus 1.75% per annum), effective through December 30, 2016, and our commitment fee on the unused 2015 Revolver is 0.25%. As of September 30, 2016, we had no borrowing outstanding on our 2015 Revolver and had the entire $200.0 million available to us.

Convertible Notes.

2016 Convertible Notes. In March 2016, we completed an offering of $230 million of 4.25% senior convertible notes due March 15, 2036 (the “2016 Convertible Notes”) to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The 2016 Convertible Notes are unsecured obligations and will pay 4.25% annual cash interest, payable semiannually in arrears on March 15 and September 15 of each year, beginning on September 15, 2016.

The 2016 Convertible Notes will be convertible at the option of the note holders upon the satisfaction of specified conditions and during certain periods. During the period from, and including, December 15, 2021 to the close of business on the business day immediately preceding March 15, 2022 and on or after December 15, 2035, holders may convert all or any portion of their 2016 Convertible Notes at the conversion rate then in effect at any time regardless of these conditions. The 2016 Convertible Notes will be convertible at an initial conversion rate of 17.4642 shares of our common stock per $1,000 principal amount of the 2016 Convertible Notes, which is equivalent to an initial conversion price of approximately $57.26 per share of our common stock. We will settle conversions of the 2016 Convertible Notes by paying or delivering, as the case may be, cash, shares of our common stock, or a combination thereof, at our election. It is our current intent and policy to settle our conversion obligations as follows: (i) pay cash for 100% of the par value of the 2016 Convertible Notes that are converted; and (ii) to the extent the value of our conversion obligation exceeds the par value, we can satisfy the remaining conversion obligation in our common stock, cash or a combination thereof.

Holders may require CSG to repurchase the 2016 Convertible Notes for cash on each of March 15, 2022, March 15, 2026, and March 15, 2031, or upon the occurrence of a fundamental change (as defined in the 2016 Convertible Notes Indenture (“2016 Notes Indenture”)) in each case at a purchase price equal to the principal amount thereof plus accrued and unpaid interest.

We may not redeem the 2016 Convertible Notes prior to March 20, 2020. On or after March 20, 2020, we may redeem for cash all or part of the 2016 Convertible Notes if the last reported sale price of our common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which CSG provides notice of redemption. On or after March 15, 2022, we may redeem for cash all or part of the 2016 Convertible Notes regardless of the sales price condition described in the preceding sentence. In each case, the redemption price will equal the principal amount of the 2016 Convertible Notes to be redeemed, plus accrued and unpaid interest.

The 2016 Notes Indenture includes customary terms and covenants, including certain events of default after which the 2016 Convertible Notes may be due and payable immediately. The Notes Indenture contains customary affirmative covenants, including compliance with terms of certain other indebtedness of the Company over a defined threshold amount.

The net proceeds from the sale of the 2016 Convertible Notes were approximately $223 million after deducting the initial purchasers' discount and estimated offering expenses payable by us. As of September 30, 2016, we repurchased approximately $115 million aggregate principal amount of our 2010 Convertible Notes for $215.6 million (see additional discussion in 2010 Convertible Notes below) with the net proceeds from the offering of the 2016 Convertible Notes. The remainder of the net proceeds will be used to settle the outstanding 2010 Convertible Notes.

The original issue discount ("OID") related to the 2016 Convertible Notes of $15.9 million, as a result of an effective interest rate of the liability component of 5.63% compared to the cash interest rate of 4.25%, is being amortized to interest expense through December 15, 2021, the first date the 2016 Convertible Notes can be put back to us by the holders.

2010 Convertible Notes.

As of September 30, 2016, we made the following repurchases of our 2010 Convertible Notes (in millions):

| Date | Aggregate Principal Amount Repurchased | Total Purchase Price | Loss on Repurchases (1) |
|---|---|---|---|
| March 15, 2016 | $ 40.0 | $ 72.6 | $ 3.2 |
| April 8, 2016 | 66.2 | 125.8 | 5.1 |
| September 2, 2016 | 9.1 | 17.2 | 0.3 |
| Totals | $ 115.3 | $ 215.6 | $ 8.6 |

(1) Loss on the repurchases includes the write-off of unamortized deferred financing costs and OID.

In addition, during the third quarter of 2016, we had holders convert $40,000 aggregate principal amount of the 2010 Convertible Notes for a total price of $0.1 million. As of September 30, 2016, the principal outstanding on the 2010 Convertible Notes was $34.7 million.

As the result of our declaring a cash dividend in August 2016 (see Note 8), the previous conversion rate for the 2010 Convertible Notes of 43.9954 shares of our common stock for each $1,000 in principal amount of the 2010 Convertible Notes (equivalent to a conversion price of $22.73 per share of our common stock) has been adjusted to 44.1816 shares of our common stock for each $1,000 in principal amount of the 2010 Convertible Notes (equivalent to a conversion price of $22.63 per share of our common stock).

Prior to September 1, 2016, holders of the 2010 Convertible Notes could convert their securities at any time in the fiscal quarter following the period in which the price of our common stock trades over 130% of the conversion price for at least 20 consecutive trading days in the last 30 trading days of a fiscal quarter. On or after September 1, 2016, the holders of the 2010 Convertible Notes can elect to convert their securities at any time, with settlement occurring on March 1, 2017. As of March 16, 2016, the closing price of our common stock exceeded 130% of the conversion price for the required period, thus allowing the 2010 Convertible Notes to be converted at the holder's option during the quarter beginning April 1, 2016 and ending June 30, 2016. In addition, as of June 16, 2016, the closing price of our common stock exceeded the 130% of the conversion price for the required period, thus allowing the 2010 Convertible Notes to continue to be convertible at the holder's option through August 31, 2016. Accordingly, as of September 30, 2016, we classified the $35 million principal amount of the 2010 Convertible Notes as a current liability and reclassified the difference between the principal amount payable in cash upon conversion and the total settlement value of the 2010 Convertible Notes, or the intrinsic value of the conversion obligation, of approximately $29 million from stockholders' equity to current portion of long-term debt conversion obligation on our Balance Sheet.

Upon any conversion of the 2010 Convertible Notes, we will settle our conversion obligation as follows: (i) we are required to 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 can satisfy the remaining conversion obligation in our common stock, cash or any combination of our common stock and cash, at our discretion.

## 5. RESTRUCTURING AND REORGANIZATION CHARGES

During the third quarter of 2016 and 2015, we recorded restructuring and reorganization charges of ($0.2) million and $0.8 million, respectively, and for the nine months ended September 30, 2016 and 2015 recorded restructuring and reorganization charges of ($0.6) million and $1.8 million.

Our restructuring activities during the nine months ended September 30, 2016 are primarily made up of the following:

- We reduced our workforce by approximately 60 employees, primarily in North America, as a result of organizational changes and the realignment of our workforce. As a result, we incurred restructuring charges of $6.5 million during the nine months ended September 30, 2016.
- In September 2015 we entered into an agreement (the "Agreement") with certain former management personnel for the sale of our cyber-security business marketed under the Invotas brand. In February 2016, this business was acquired by a third-party. Based on the terms of the Agreement, we received additional consideration contingent upon a liquidation event, as defined in the Agreement. This resulted in an additional gain on the sale of $6.6 million in the first quarter of 2016, which reduced restructuring and reorganization charges.

The activity in the business restructuring and reorganization reserves during the nine months ended September 30, 2016 was as follows (in thousands):

| | Termination Benefits | Facilities Abandonment | Business Operations | Other | Total |
|---|---|---|---|---|---|
| January 1, 2016 balance | $ 1,637 | $ 1,357 | $ — | $— | $2,994 |
| Charged to expense during period | 6,471 | 246 | (6,611 ) | (707) | (601 ) |
| Cash payments | (4,890 ) | (339 ) | — | — | (5,229) |
| Adjustment for the gain on the disposition of business operations | — | — | 6,611 | — | 6,611 |
| Adjustment for asset impairment | — | (194 ) | — | — | (194 ) |
| Other | 362 | 86 | — | 707 | 1,155 |
| September 30, 2016 balance | $ 3,580 | $ 1,156 | $ - | $- | $4,736 |

## 6. COMMITMENTS, GUARANTEES AND CONTINGENCIES

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

Historically, we have incurred minimal warranty costs, and as a result, do not maintain a warranty reserve.

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

Claims for Company Non-performance. Our arrangements with our clients typically cap our liability for breach to a specified amount of the direct damages incurred by the client resulting from the breach. From time-to-time, these arrangements may also include provisions for possible liquidated damages or other financial remedies for our non-performance, or in the case of certain of our outsourced customer care and billing solutions, provisions for damages related to service level performance requirements. The service level performance requirements typically relate to system availability and timeliness of service delivery. As of September 30, 2016, we believe we have adequate reserves, based on our historical experience, to cover any reasonably anticipated exposure as a result of our nonperformance for any past or current arrangements with our clients.

Indemnifications Related to Officers and the Board of Directors. We have agreed to indemnify members of our Board of Directors (the "Board") and certain of our officers if they are named or threatened to be named as a party to any proceeding by reason of the fact that they acted in such capacity. We maintain directors' and officers' (D&O) insurance coverage to protect against such losses. We have not historically incurred any losses related to these types of indemnifications, and are not aware of any pending or threatened actions or claims against any officer or member of our Board. As a result, we have not recorded any liabilities related to such indemnifications as of September 30, 2016. 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.

Income Taxes. Our U.S. federal income tax returns for the fiscal years ended December 31, 2010 through 2012 are currently under examination by the Internal Revenue Service (IRS). The IRS' primary focus is on the approximately $18.1 million of aggregated allowable federal research and experimentation credits utilized by us over the three years under examination. Any subsequent potential adjustments relating to the audits of these fiscal periods could have a material adverse effect on our consolidated results of operations.

7. EARNINGS PER COMMON SHARE

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

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

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Basic weighted-average common shares | 31,063 | 30,920 | 30,922 | 31,087 |
| Dilutive effect of restricted common stock | 525 | 571 | 620 | 598 |
| Dilutive effect of 2010 Convertible Notes | 706 | 1,664 | 1,171 | 1,454 |
| Dilutive effect of Stock Warrants | 345 | 132 | 328 | 102 |
| Diluted weighted-average common shares | 32,639 | 33,287 | 33,041 | 33,241 |

The Convertible Notes have a dilutive effect only in those quarterly periods in which our average stock price exceeds the current effective conversion price (see Note 4).

The Stock Warrants have a dilutive effect only in those quarterly periods in which our average stock price exceeds the exercise price of $26.68 per warrant (under the treasury stock method), and are not subject to performance vesting conditions (see Note 8).

Potentially dilutive common shares related to non-participating unvested restricted stock excluded from the computation of diluted EPS, as the effect was antidilutive, were not material in any period presented.

8. STOCKHOLDERS' EQUITY AND EQUITY COMPENSATION PLANS

Stock Repurchase Program. We currently have a stock repurchase program, approved by our Board, authorizing us to repurchase our common stock from time-to-time as market and business conditions warrant (the "Stock Repurchase Program"). During the nine months ended September 30, 2016 and 2015 we repurchased 0.3 million shares of our common stock for $9.5 million (weighted-average price of $36.07 per share) and 0.3 million shares of our common stock for $7.0 million (weighted-average price of $27.06 per share), respectively, under a SEC Rule 10b5-1 Plan.

As of September 30, 2016, the total remaining number of shares available for repurchase under the Stock Repurchase Program totaled 6.8 million shares.

Stock Repurchases for Tax Withholdings. In addition to the above mentioned stock repurchases, during the nine months ended September 30, 2016 and 2015, we repurchased and then cancelled 0.3 million shares of common stock for $13.0 million and 0.3 million shares of common stock for $8.0 million, respectively, in connection with minimum tax withholding requirements resulting from the vesting of restricted common stock under our stock incentive plans.

Cash Dividends. During the third quarter of 2016, the Board approved a quarterly cash dividend of $0.185 per share of common stock, totaling $6.0 million. During the third quarter of 2015, the Board approved a quarterly cash dividend of $0.175 per share of common stock, totaling $5.7 million. Dividends declared for the nine months ended September 30, 2016 and 2015 totaled $18.0 million and $17.2 million, respectively.

Warrants. In 2014, in conjunction with the execution of an amendment to our current agreement with Comcast Corporation ("Comcast"), we issued stock warrants (the "Warrant Agreement") for the right to purchase up to approximately 2.9 million shares of our common stock (the "Stock Warrants") as an additional incentive for Comcast to convert customer accounts onto our Advanced Convergent Platform ("ACP") based on various milestones. The Stock Warrants have a 10-year term and an exercise price of $26.68 per warrant. As of September 30, 2016, approximately 1.0 million Stock Warrants have vested.

Upon vesting, the Stock Warrants are recorded as a client incentive asset with the corresponding offset to stockholders' equity. The client incentive asset related to the Stock Warrants is amortized as a reduction in cloud and related solutions revenues over the remaining term of the Comcast amended agreement. As of September 30, 2016, we recorded a client incentive asset related to these Stock Warrants of $7.3 million and have amortized $3.1 million as a reduction in cloud and related solutions revenues.

In October 2016, following Comcast's most recent migration of customer accounts to ACP, a cumulative total of 5.8 million customer accounts have been migrated to ACP since the inception of the Warrant Agreement triggering another milestone for the Stock Warrants vesting. As such, under the terms of the Warrant Agreement, approximately 0.5 million Stock Warrants vested at that time.

The remaining unvested Stock Warrants will be accounted for as client incentive assets in the period the performance conditions necessary for vesting have been met. As of September 30, 2016, none of the Stock Warrants had been exercised.

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

| | Quarter Ended September 30, 2016 | | Nine Months Ended September 30, 2016 | |
|---|---|---|---|---|
| | Shares | Weighted-Average Grant Date Fair Value | Shares | Weighted-Average Grant Date Fair Value |
| Unvested awards, beginning | 1,744 | $ 30.51 | 2,124 | $ 26.03 |
| Awards granted | 39 | 42.47 | 523 | 39.06 |
| Awards forfeited/cancelled | (116 ) | 31.04 | (278 ) | 29.63 |
| Awards vested | (230 ) | 27.09 | (932 ) | 24.08 |
| Unvested awards, ending | 1,437 | $ 31.34 | 1,437 | $ 31.34 |

Included in the awards granted during the nine months ended September 30, 2016 are performance-based awards for 0.1 million restricted common stock shares issued to members of executive management, which vest in equal installments over three years upon meeting either pre-established financial performance objectives or pre-established total shareholder return objectives. The performance-based awards become fully vested upon a change in control, as defined, and the subsequent involuntary termination of employment.

All other restricted common stock shares granted during the quarter and nine months ended September 30, 2016 are time-based awards, which vest annually primarily over four years with no restrictions other than the passage of time. Certain shares of the restricted common stock become fully vested upon a change in control, as defined, and the subsequent involuntary termination of employment.

We recorded stock-based compensation expense for the third quarters of 2016 and 2015 of $5.2 million and $5.3 million, respectively, and for the nine months ended September 30, 2016 and 2015 of $17.3 million and $15.8 million, respectively.

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

The information contained in this MD&A should be read in conjunction with the Financial Statements and Notes thereto included in this Form 10-Q and the audited consolidated financial statements and notes thereto in our 2015 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 of this report and in Part I Item 1A. Risk Factors of our 2015 10-K. Readers are strongly encouraged to review those sections closely in conjunction with MD&A.

Company Overview

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

Our solutions help service providers streamline and scale operations, introduce and adapt products and services to meet 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, digital services management and monetization, and customer interaction management platforms.

We generate approximately 70% of our revenues from the North American cable and satellite markets, approximately 20% of our revenues from wireline and wireless communication providers, and the remainder from a variety of other verticals, such as financial services, logistics, and transportation. Additionally, during the nine months ended September 30, 2016 we generated approximately 86% of our revenues from the Americas region, approximately 9% of our revenues from the Europe, Middle East and Africa region, and approximately 5% of our revenues from the Asia Pacific region.

We are a S&P Small Cap 600 company.

Management Overview of Quarterly Results

Third Quarter Highlights. A summary of our results of operations for the third quarter of 2016, when compared to the third quarter of 2015, is as follows (in thousands, except per share amounts and percentages):

| | Quarter Ended | |
|---|---|---|
| | September 30, 2016 | September 30, 2015 |
| Revenues | $189,311 | $ 186,960 |

| | | | | |
|---|---|---|---|---|
| Operating Results: | | | | |
| Operating income | 36,598 | | 31,021 | |
| Operating income margin | 19.3 | % | 16.6 | % |
| Diluted EPS | $0.55 | | $ 0.50 | |
| Supplemental Data: | | | | |
| Restructuring and reorganization charges | $(185 | ) | $ 846 | |
| Stock-based compensation (1) | 5,364 | | 5,387 | |
| Amortization of acquired intangible assets | 2,116 | | 3,049 | |
| Amortization of OID | 1,062 | | 1,576 | |
| Loss on repurchase of convertible notes | 332 | | — | |

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

15

Revenues. Our revenues for the third quarter of 2016 were $189.3 million, a 1% increase when compared to revenues of $187.0 million for the third quarter of 2015. The year-over-year increase in revenues can be primarily attributed to the growth in our cloud and related solutions revenues, resulting primarily from the conversion of customer accounts onto ACP over the past year, which more than offset the decline in our software and services revenues.

Operating Results. Operating income for the third quarter of 2016 was $36.6 million, or a 19.3% operating income margin percentage, compared to $31.0 million, or a 16.6% operating income margin percentage for the third quarter of 2015, with the increase mainly attributed to the scale benefits from adding more customer accounts to our cloud solutions, and operational cost improvements.

Diluted EPS. Diluted EPS for the third quarter of 2016 was $0.55 compared to $0.50 for the third quarter of 2015, with the increase mainly due to the higher operating income margin, discussed above.

Cash and Cash Flows. As of September 30, 2016, we had cash, cash equivalents and short-term investments of $266.1 million, as compared to $286.7 million as of June 30, 2016 and $240.9 million as of as of December 31, 2015. Our cash flows from operating activities for the quarter ended September 30, 2016 were $8.7 million, and were negatively impacted by the increase in accounts receivable, primarily related to the timing around certain recurring client payments that were delayed at quarter-end. See the Liquidity section below for further discussion of our cash flows.

Significant Client Relationships

Charter/Time Warner Transaction. In May 2016, Charter Communications, Inc. (“Charter”), our then fourth largest client, received final approval from regulators and closed on its acquisition of Time Warner Cable, Inc. (“Time Warner”), which was previously our third largest client.

Consequently, the Time Warner customer accounts currently being serviced by us are now owned by Charter. As a result, Charter now receives more favorable volume-tier pricing terms due to the larger, combined business with us. The anticipated negative effect on our 2016 revenue and profitability from this more favorable volume-tier pricing (post acquisition), is estimated to be approximately $5 million. Although there are no assurances, we may have the opportunity to offset some or all of this reduction in revenues with future, additional business from Charter.

Subsequent to this acquisition, Charter is our second largest client.

Client Concentration. A large percentage of our historical revenues have been generated from our largest clients, which are Comcast, DISH Network Corporation (“DISH”), and now the combined Charter/Time Warner entity. To provide a consistent basis of comparison, the Charter and Time Warner revenues and accounts receivable balances are combined in the following tables for all periods prior to the acquisition without adjustment.

Revenues from these clients represented the following percentages of our total revenues for the indicated periods:

| | Quarter Ended | | |
|---|---|---|---|
| | September 30, 2016 | June 30, 2016 | September 30, 2015 |
| Comcast | 27% | 25% | 24% |
| Charter/Time Warner (combined for all periods) | 21% | 22% | 21% |
| DISH | 13% | 14% | 14% |

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

As of

| | September 30, 2016 | June 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|---|
| Comcast | 24% | 25 | % | 30 | % |
| Charter/Time Warner (combined for all periods) | 26% | 14 | % | 13 | % |
| DISH | 11% | 13 | % | 13 | % |

See our 2015 10-K for additional discussion of our business relationships and contractual terms with Comcast, DISH, and Time Warner.

Risk of Client Concentration. We expect to continue to generate a significant percentage of our future revenues from our largest clients mentioned above. There are inherent risks whenever a large percentage of total revenues are concentrated with a limited

16

number of clients. Should a significant client: (i) terminate or fail to renew their contracts with us, in whole or in part, for any reason; (ii) significantly reduce the number of customer accounts processed on our solutions, the price paid for our services, or the scope of services that we provide; or (iii) experience significant financial or operating difficulties, it could have a material adverse effect on our financial condition and results of operations.

Critical Accounting Policies

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

We have identified the most critical accounting policies that affect our financial position and the results of our operations. Those critical accounting policies were determined by considering the accounting policies that involve the most complex or subjective decisions or assessments. The most critical accounting policies identified relate to the following items: (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 discussed in our 2015 10-K.

Results of Operations

Total Revenues. Total revenues for the: (i) third quarter of 2016 were $189.3 million, a 1% increase when compared to $187.0 million for the third quarter of 2015; and (ii) nine months ended September 30, 2016 were $565.8 million, a 2% increase when compared to $555.2 million for the nine months ended September 30, 2015. The year-over-year increases in revenues can be primarily attributed to continued growth in our cloud and related solutions revenues, which more than offset the decline in our software and services revenues.

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

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues: | | | | |
| Cloud and related solutions | $151,217 | $143,887 | $451,023 | $429,009 |
| Software and services | 18,634 | 23,231 | 58,964 | 68,301 |
| Maintenance | 19,460 | 19,842 | 55,802 | 57,922 |
| Total revenues | $189,311 | $186,960 | $565,789 | $555,232 |

We use the location of the client as the basis of attributing revenues to individual countries. Revenues by geographic regions for the third quarters and nine months ended September 30, 2016 and 2015 were as follows (in thousands):

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Americas (principally the U.S.) | $162,985 | $157,246 | $487,373 | $469,633 |
| Europe, Middle East, and Africa | 17,893 | 19,842 | 49,911 | 57,962 |
| Asia Pacific | 8,433 | 9,872 | 28,505 | 27,637 |
| Total revenues | $189,311 | $186,960 | $565,789 | $555,232 |

Cloud and Related Solutions Revenues. Cloud and related solutions revenues for the (i) third quarter of 2016 were $151.2 million, a 5% increase when compared to $143.9 million for the third quarter of 2015; and (ii) nine months ended September 30, 2016 were $451.0 million, a 5% increase when compared to $429.0 million for the nine months ended September 30, 2015. The increases in cloud and related solutions revenues are due primarily to the conversion of customer accounts onto ACP, to include adding approximately two million customer accounts onto ACP during the second half of 2015, an additional 600,000 during the second quarter of 2016, and approximately one million during the third quarter of 2016.

Software and Services Revenues. Software and services revenues for the: (i) third quarter of 2016 were $18.6 million, a 20% decrease when compared to $23.2 million for the third quarter of 2015; and (ii) nine months ended September 30, 2016 were $59.0 million, a 14% decrease when compared to $68.3 million for the nine months ended September 30, 2015. The decrease in software and services revenues can be attributed mainly to continued low market demand for large transformational software and service deals.

Maintenance Revenues. Maintenance revenues for the: (i) third quarter of 2016 were $19.5 million, a slight decrease when compared to $19.8 million for the third quarter of 2015; and (ii) nine months ended September 30, 2016 were $55.8 million, a 4% decrease when compared to $57.9 million for the nine months ended September 30, 2015. These variances are due mainly to foreign currency movements along with the timing of maintenance renewals and related revenue recognition.

Total Expenses. Our operating expenses for the: (i) third quarter of 2016 were $152.7 million, a 2% decrease when compared to $155.9 million for the third quarter of 2015; and (ii) nine months ended September 30, 2016 were $458.5 million, a 4% decrease when compared to $476.2 million for the nine months ended September 30, 2015. The year-over-year decreases in total expenses are mainly due to the cost savings initiatives we began to implement in early 2015, and favorable foreign currency movements.

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

Cost of Revenues. See our 2015 10-K for a description of the types of costs that are included in the individual line items for cost of revenues.

Cost of Cloud and Related Solutions (Exclusive of Depreciation). The cost of cloud and related solutions for the: (i) third quarter of 2016 increased 4% to $70.2 million, from $67.4 million for the third quarter of 2015; and (ii) nine months ended September 30, 2016 increased 3% to $206.6 million, from $201.5 million for the nine months ended September 30, 2015. These cost increases are reflective of the increases we experienced in revenues and are primarily due to increased ACP data processing costs and the reassignment of personnel and the related costs from other areas of the business to client directed and funded work on our ACP platform. Total cloud and related solutions cost as a percentage of cloud and related solutions revenues for the: (i) third quarters of 2016 and 2015 were 46.4% and 46.9%, respectively; and (ii) nine months ended September 30, 2016 and 2015 were 45.8% and 47.0%, respectively.

Cost of Software and Services (Exclusive of Depreciation). The cost of software and services for the: (i) third quarter of 2016 decreased 20% to $12.2 million, from $15.2 million for the third quarter of 2015; and (ii) nine months ended September 30, 2016 decreased 30% to $37.1 million, from $52.9 million for the nine months ended September 30, 2015. These decreases are mainly due to targeted efficiencies and cost improvements within our professional services practice. Additionally, a large portion of the year-to-date decrease can be attributed to a $5 million provision recorded in the first quarter of 2015 for estimated cost overruns related to a large software and services implementation project (substantially completed in the third quarter of 2016). Total software and services cost as a percentage of our software and services revenues for the: (i) third quarters of 2016 and 2015 were 65.6% for both periods; and (ii) nine months ended September 30, 2016 and 2015 were 62.8% and 77.5%, respectively.

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

Cost of Maintenance (Exclusive of Depreciation). The cost of maintenance for the: (i) third quarter of 2016 was $11.0 million, a 16% increase when compared to $9.5 million for the third quarter of 2015; and (ii) nine months ended September 30, 2016 was $32.1 million, a 7% increase when compared to $29.9 million for the nine months ended September 30, 2015. These increases can be primarily attributed to the reassignment of personnel and the related costs to maintenance projects from other projects, and an increase in third party maintenance costs. Total cost of maintenance as a percentage of our maintenance revenues for the: (i) third quarters of 2016 and 2015 were 56.7% and 47.9%, respectively; and (ii) nine months ended September 30, 2016 and 2015 were 57.4% and 51.6%, respectively.

R&D Expense. R&D expense for the: (i) third quarter of 2016 decreased 5% to $23.6 million, from $24.9 million for the third quarter of 2015; and (ii) nine months ended September 30, 2016 decreased 7% to $71.5 million, from $76.6 million for the nine months ended September 30, 2015, with the decrease primarily attributed to the reassignment of personnel and the related costs previously allocated to development projects to other areas of the business. As a percentage of total revenues, R&D expense for the third quarters of 2016 and 2015 was 12.5% and 13.3%, respectively.

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 introducing new digital products and services. 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. While we expect our R&D focus in the near-term will be relatively consistent with previous quarters, we anticipate the level of R&D investment to trend up, consistent with the opportunities that we see in our markets.

SG&A Expense. SG&A expense for the: (i) third quarter of 2016 was $32.5 million, a 5% decrease when compare to $34.2 million for the third quarter of 2015; and (ii) nine months ended September 30, 2016 was $101.5 million, a 1% decrease when compared to $102.3

million for the nine months ended September 30, 2015. These decreases are reflective of the restructuring activities we have undertaken over the past year, our focus on cost management, and foreign currency movements. Our SG&A costs as a percentage of total revenues for the third quarters of 2016 and 2015 were 17.2% and 18.3%, respectively.

Restructuring and Reorganization Charges. Restructuring and reorganization charges for the: (i) third quarters of 2016 and 2015 were $(0.2) million and $0.8 million, respectively; and (ii) nine months ended September 30, 2016 and 2015 were $(0.6) million and $1.8 million, respectively. For the nine months ended September 30, 2016, we incurred restructuring and reorganization charges due to an organizational realignment completed during the second quarter of 2016, which were offset by the gain on the sale of our cyber-security business marketed under the Invotas brand. During 2015, we sold Invotas to certain former management personnel, and in February 2016, the business was acquired by a third-party. As a result, we received additional consideration which was contingent upon a liquidation event, resulting in an additional gain on the sale of $6.6 million, which reduced our restructuring and reorganization charges for the nine months ended September 30, 2016.

The restructuring activities during the second quarter of 2016 were focused mainly on improving our organizational and management structure to align with our longer-term strategy, and resulted in the elimination of approximately 60 positions during the quarter. The ongoing savings from these actions will be reinvested back into the business during the remainder of 2016.

Operating Income. Operating income for the: (i) third quarter of 2016 was $36.6 million, or 19.3% of total revenues, compared to $31.0 million, or 16.6% of total revenues for the third quarter of 2015; and (ii) nine months ended September 30, 2016 was $107.3 million, or 19.0% of total revenues, compared to $79.1 million, or 14.2% of total revenues for the nine months ended September 30, 2015. The increases in operating income and operating income margin percentage for both the quarter and year-to-date can be mainly attributed to the overall reduction in operating expenses as discussed above, and to a lesser degree, the scale benefits from adding more customer accounts to our cloud solutions and higher revenues.

At this time, we expect our operating income and operating margin percentage to trend downward over the next several quarters from our current level, as we look to increase our strategic investments in R&D, our go-to-market programs, and the operating environments for our cloud solutions (e.g., resiliency, security, etc.).

Interest Expense. Interest expense for the: (i) third quarter of 2016 was $4.4 million, a $1.9 million increase from $2.5 million for the third quarter of 2015; and (ii) nine months ended September 30, 2016 was $11.9 million, a $3.5 million increase when compared to $8.4 million for the nine months ended September 30, 2015. These increases are primarily due to the interest on the 2016 Convertible Notes, which were issued in March 2016, discussed below.

Loss on Repurchase of Convertible Notes. During the third quarter of 2016, we repurchased $9.1 million aggregate principal amount of our 2010 Convertible Notes for an aggregated purchase price of $17.3 million and recognized a loss on the repurchase of $0.3 million. For the nine months ended September 30, 2016, we have purchased $115.3 million aggregate principal amount of the 2010 Convertible Notes for an aggregated purchase price of $215.7 million and recognized a loss on the repurchases of $8.7 million.

Income Tax Provision. The effective income tax rates for the third quarters and nine months ended September 30, 2016 and 2015 were as follows:

| Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|
| 2016 | 2015 | 2016 | 2015 |
| 41 % | 40 % | 38 % | 42 % |

The quarter and nine months ended September 30, 2015 effective income tax rate excluded any benefits from R&D tax credits, as Congressional approval for this program was not passed until the fourth quarter of 2015.

For the full-year 2016 we are currently estimating an effective income tax rate of approximately 37%.

Our U.S. federal income tax returns for the fiscal years ended December 31, 2010 through 2012 are currently under examination by the IRS. The IRS' primary focus is on the approximately $18.1 million of aggregated allowable federal research and experimentation credits utilized by us over the three years under examination. Any subsequent potential adjustments relating to the audits of these fiscal periods could have a material adverse effect on our consolidated results of operations.

Liquidity

Cash and Liquidity

As of September 30, 2016, our principal sources of liquidity included cash, cash equivalents, and short-term investments of $266.1 million as compared to $286.7 million as of June 30, 2016 and $240.9 million as of as of December 31, 2015. We generally invest our excess cash balances in low-risk, short-term investments to limit our exposure to market and credit risks.

As part of our 2015 Credit Agreement, we have a $200 million senior secured revolving loan facility with a syndicate of financial institutions that expires in February 2020. As of September 30, 2016, there were no borrowings outstanding on the 2015 Revolver. The 2015 Credit Agreement contains customary affirmative covenants and financial covenants. As of September 30, 2016, and the date of this filing, we believe that we are in compliance with the provisions of the 2015 Credit Agreement.

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

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Americas (principally the U.S.) | $ 210,912 | $ 199,117 |
| Europe, Middle East and Africa | 46,938 | 36,396 |
| Asia Pacific | 8,288 | 5,423 |
| Total cash, equivalents and short-term investments | $ 266,138 | $ 240,936 |

We generally have ready access to substantially all of our cash, cash equivalents, and short-term investment balances, but may face limitations on moving cash out of certain foreign jurisdictions due to currency controls. As of September 30, 2016, we had $4.3 million of cash restricted as to use primarily to collateralize outstanding letters of credit.

Cash Flows From Operating Activities

We calculate our cash flows from operating activities in accordance with GAAP, beginning with net income, adding back the impact of non-cash items or non-operating activity (e.g., depreciation, amortization, amortization of OID, impairments, deferred income taxes, stock-based compensation, etc.), and then factoring in the impact of changes in operating assets and liabilities. See our 2015 10-K for a description of the primary uses and sources of our cash flows from operating activities.

Our 2016 and 2015 net cash flows from operating activities, broken out between operations and changes in operating assets and liabilities, for each of the three quarters ended are as follows (in thousands):

| | Operations | Changes in Operating Assets and Liabilities | Net Cash Provided by Operating Activities – Totals |
|---|---|---|---|
| Cash Flows from Operating Activities: | | | |
| 2016 | | | |

| | | | |
|---|---|---|---|
| March 31 | $ 36,755 | $ (26,081 ) | $ 10,674 |
| June 30 | 28,880 | 11,211 | 40,091 |
| September 30 | 31,309 | (22,568 ) | 8,741 |
| Total | $ 96,944 | $ (37,438 ) | $ 59,506 |
| 2015 | | | |
| March 31 | $ 26,193 | $ (7,257 ) | $ 18,936 |
| June 30 | 26,770 | 12,806 | 39,576 |
| September 30 | 33,187 | (7,353 ) | 25,834 |
| Total | $ 86,150 | $ (1,804 ) | $ 84,346 |

Cash flows from operating activities for the first quarter of 2016 and 2015 reflect the negative impacts of the payment of the 2015 and 2014 year-end accrued employee incentive compensation in the first quarter subsequent to the year-end accrual for these items. In addition, cash flows from operations for the first quarter of 2016 were negatively impacted by a prospective change in the timing of payment terms for a key vendor related to postage costs. For the third quarter of 2016, cash flows from operating activities were negatively impacted by the increase in the accounts receivable balance primarily related to the timing around certain recurring client payments that were delayed at quarter-end.

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

Significant fluctuations in key operating assets and liabilities between 2016 and 2015 that impacted our cash flows from operating activities are as follows:

Billed Trade Accounts Receivable

Management of our billed accounts receivable is one of the primary factors in maintaining consistently strong quarterly cash flows from operating activities. Our billed trade accounts receivable balance includes significant billings for several non-revenue items (primarily postage, sales tax, and deferred revenue items). As a result, we evaluate our performance in collecting our accounts receivable through our calculation of days billings outstanding ("DBO") rather than a typical days sales outstanding ("DSO") calculation. DBO is calculated by taking the average monthly net trade accounts receivable balance for the period divided by the billings for the period (including non-revenue items).

Our gross and net billed trade accounts receivable and related allowance for doubtful accounts receivable ("Allowance") as of the end of the indicated quarterly periods, and the related DBOs for the quarters then ended, are as follows (in thousands, except DBOs):

| Quarter Ended | Gross | Allowance | Net Billed | DBOs |
|---|---|---|---|---|
| 2016: | | | | |
| March 31 | $185,297 | $ (3,647 ) | $181,650 | 61 |
| June 30 | 182,640 | (3,726 ) | 178,914 | 63 |
| September 30 | 204,516 | (2,906 ) | 201,610 | 69 |
| 2015: | | | | |
| March 31 | $183,283 | $ (3,187 ) | $180,096 | 64 |
| June 30 | 176,206 | (3,937 ) | 172,269 | 65 |
| September 30 | 181,225 | (3,878 ) | 177,347 | 62 |

The increase in gross and net billed accounts receivable at September 30, 2016 is primarily related to the timing around certain recurring client payments that were delayed at quarter-end, thus negatively impacting our DBO for the third quarter of 2016.

As a global provider of software and professional services, a portion of our accounts receivable balance relates to clients outside the U.S. As a result, this diversity in the geographic composition of our client base may adversely impact our DBOs as longer billing cycles (i.e., billing terms and cash collection cycles) are an inherent characteristic of international software and professional services transactions. For example, our ability to bill (i.e., send an invoice) and collect arrangement fees may be dependent upon, among other things: (i) the completion of various client administrative matters, local country billing protocols and processes (including local cultural differences), and/or non-client administrative matters; (ii) us meeting certain contractual invoicing milestones; or (iii) the overall project status in certain situations in which we act as a subcontractor to another vendor on a project.

Unbilled Trade Accounts Receivable

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

| | 2016 | 2015 |
|---|---|---|
| March 31 | $39,236 | $44,281 |
| June 30 | 34,518 | 47,216 |
| September 30 | 33,934 | 46,795 |

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

Trade Accounts Payable

Trade accounts payable decreased $18.1 million to $25.3 million as of September 30, 2016, from $43.4 million as of December 31, 2015, due primarily to a prospective change in the timing of payment terms for a key vendor related to postage costs and normal fluctuations in the timing of payments.

Deferred Revenue

Deferred revenue (current and non-current) increased $5.0 million to $56.7 million as of December 31, 2015, from $51.7 million as of December 31, 2015, primarily as a result of annual recurring services that are typically billed in the first half of each year.

Cash Flows From Investing Activities

Our typical investing activities consist of purchases/sales of short-term investments, purchases of property and equipment, and investments in client contracts, which are discussed below.

Purchases/Sales of Short-term Investments. For the nine months ended September 30, 2016 and 2015, we purchased $122.7 million and $107.5 million, respectively, and sold (or had mature) $107.8 million and $127.8 million, respectively, of short-term investments. We continually evaluate the appropriate mix of our investment of excess cash balances between cash equivalents and short-term investments in order to maximize our investment returns and will likely purchase and sell additional short-term investments in the future.

Property and Equipment/Client Contracts. Our capital expenditures for the nine months ended September 30, 2016 and 2015, for property and equipment, and investments in client contracts were as follows (in thousands):

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| Property and equipment | $11,542 | $16,776 |
| Client contracts | 6,038 | 6,374 |

Our property and equipment expenditures for these periods consisted principally of investments in: (i) computer hardware, software, and related equipment; and (ii) statement production equipment.

Our investments in client contracts for the nine months ended September 30, 2016 and 2015 relate primarily to client incentive payments ($1.5 million and $1.5 million, respectively), and the deferral of costs related to conversion/set-up services provided under long-term service contracts ($4.5 million and $4.9 million, respectively).

Proceeds from the Disposition of Business Operations. During the nine months ended September 30, 2016, we received additional cash proceeds totaling $8.9 million related to the sale of our cyber-security business marketed under the Invotas brand. The proceeds were contingent on a liquidation event, as defined in the sale agreement.

Cash Flows From Financing Activities

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

Cash Dividends Paid on Common Stock. During the nine months ended September 30, 2016 and 2015, the Board approved dividend payments totaling $18.0 million and $17.2 million, respectively. During the nine months ended

September 30, 2016 and 2015, we paid dividends of $18.3 million and $16.8 million, respectively (with the additional amounts attributed to dividends for incentive shares paid upon vesting).

Repurchase of Common Stock. During the nine months ended September 30, 2016 and 2015, we repurchased approximately 0.3 million shares of our common stock during each period under the guidelines of our Stock Repurchase Program for $9.5 million and $7.0 million, respectively. Additionally, in the first quarter of 2015, we entered into an ASR Agreement to repurchase $50 million of our common stock, which was paid to a counterparty in March 2015.

Outside of our Stock Repurchase Program, during the nine months ended September 30, 2016 and 2015, we repurchased from our employees and then cancelled approximately 0.3 million of our common stock during each period for $13.0 million and $8.0 million, respectively, in connection with minimum tax withholding requirements resulting from the vesting of restricted common stock under our stock incentive plans.

Long-term Debt. During the nine months ended September 30, 2016, we completed an offering of $230 million of 4.25% senior subordinated convertible notes due March 15, 2036 (the “2016 Convertible Notes”), paid $6.7 million of deferred financing costs, and repurchased $115.3 million aggregate principal amount of the 2010 Convertible Notes for a total purchase price of $215.7 million.

During the nine months ended September 30, 2015, we amended our 2012 Credit Agreement and as a result, we repaid the outstanding principal balance of $120.0 million and borrowed $150.0 million under the 2015 Credit Agreement, resulting in a net increase of available cash of $30 million. As part of the refinancing, we paid $2.7 million of deferred financing costs.

Additionally, during the nine months ended September 30, 2016 and 2015, we made principal repayments of $5.6 million during each period, respectively. See Note 4 to our Financial Statements for additional discussion of our long-term debt.

Capital Resources

The following are the key items to consider in assessing our sources and uses of capital resources:

Current Sources of Capital Resources.

- Cash, Cash Equivalents and Short-term Investments. As of September 30, 2016, we had cash, cash equivalents, and short-term investments of $266.1 million, of which approximately 76% is in U.S. Dollars and held in the U.S. We have $4.3 million of restricted cash, used primarily to collateralize outstanding letters of credit. For the remainder of the monies denominated in foreign currencies and/or located outside the U.S., we do not anticipate any material amounts being unavailable for use in running our business.

In March 2016, we made the decision to refinance our 2010 Convertible Notes with the issuance of $230 million dollars of the 2016 Convertible Notes. To date, we have used $216 million of the proceeds from the 2016 Convertible Notes to repurchase close to 77% of our previously outstanding aggregate principal amount of the 2010 Convertible Notes. We will continue to monitor and evaluate how best to settle this remaining aggregate principal amount, which had a settlement value of approximately $58 million on October 31, 2016 and a maturity date of March 1, 2017.

- Operating Cash Flows. As described in the Liquidity section above, we believe we have the ability to generate strong cash flows to fund our operating activities and act as a source of funds for our capital resource needs.
- Revolving Loan Facility. As of September 30, 2016, we had a $200 million revolving loan facility, the 2015 Revolver, with a syndicate of financial institutions. As of September 30, 2016, we had no borrowing outstanding on our 2015 Revolver and had the entire $200 million available to us. The 2015 Credit Agreement provides us with additional capital capacity, and greater flexibility to manage our capital structure over the next five years. Our long-term debt obligations are discussed in more detail in Note 4 to our Financial Statements.

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

- Common Stock Repurchases. We have made repurchases of our common stock in the past under our Stock Repurchase Program. As of September 30, 2016, we had 6.8 million shares authorized for repurchase remaining under our Stock Repurchase Program. Our 2015 Credit Agreement places certain limitations on our ability to repurchase our common stock.

During the nine months ended September 30, 2016, we repurchased 0.3 million shares of our common stock for $9.5 million (weighted-average price of $36.07 per share).

Under our Stock Repurchase Program, we may repurchase shares in the open market or a privately negotiated transaction, including through an ASR plan or under a SEC Rule 10b5-1 plan. The actual timing and amount of the share repurchases will be dependent on the then current market conditions and other business-related factors. Our common stock repurchases are discussed in more detail in Note 8 to our Financial Statements.

- Cash Dividends. During the nine months ended September 30, 2016, the Board declared dividends totaling $18.0 million. Going forward, we expect to pay cash dividends each year in March, June, September, and December, with the amount and timing subject to the Boards' approval.
- Acquisitions. As part of our growth strategy, we are continually evaluating potential business and/or asset acquisitions and investments in market share expansion with our existing and potential new clients.

23

- Capital Expenditures. During the nine months ended September 30, 2016, we spent $11.5 million on capital expenditures. At this time, we expect our 2016 capital expenditures to be relatively consistent with that of 2015. As of September 30, 2016, we have made no significant capital expenditure commitments.
- Investments in Client Contracts. In the past, we have provided incentives to new or existing clients to convert their customer accounts to, or retain their customer's accounts on, our customer care and billing solutions. During the nine months ended September 30, 2016, we made investments in client contracts of $6.0 million. As of September 30, 2016, we had commitments to make approximately $1.6 million of client incentive payments in 2016.

We have issued stock warrants to Comcast (the "Warrant Agreement") for the right to purchase up to approximately 2.9 million shares of our common stock (the "Stock Warrants") as an additional incentive for Comcast to convert customer accounts to ACP. Once vested, Comcast may exercise the Stock Warrants and elect either physical delivery of common shares or net share settlement (cashless exercise). Alternatively, the exercise of the Stock Warrants may be settled with cash based solely on our approval, or if Comcast were to beneficially own or control in excess of 19.99% of the common stock or voting of the Company. As of September 30, 2016, approximately 1 million Stock Warrants had vested based on the terms of the Warrant Agreement, and none of these Stock Warrants have been exercised to date. In October 2016, approximately 0.5 million Stock Warrants vested based on the terms of the Warrant Agreement. The Stock Warrants are discussed in more detail in Note 8 to our Financial Statements.

- Long-Term Debt. As discussed above, in March 2016, we completed an offering of $230 million of 4.25% senior subordinated convertible notes due March 15, 2036 (the 2016 Convertible Notes). As of September 30, 2016, our long-term debt consisted of the following: (i) 2016 Convertible Notes with a par value of $230 million; (ii) 2010 Convertible Notes with a par value of $34.7 million; and (ii) 2015 Credit Agreement term loan borrowings of $136.9 million.

2016 Convertible Notes

The net proceeds from the sale of the 2016 Convertible Notes were approximately $223 million after deducting the initial purchasers' discount and estimated financing costs payable by us. As of September 30, 2016, we have repurchased approximately $115 million aggregate principal amount of our 2010 Convertible Notes for a total purchase price of approximately $216 million with the net proceeds from the offering of the 2016 Convertible Notes. After these repurchases, the remaining aggregate principal outstanding on the 2010 Convertible Notes is $34.7 million. The remainder of the net proceeds will be used to settle the outstanding 2010 Convertible Notes.

During the next twelve months, there are no scheduled conversion triggers on our 2016 Convertible Notes. As a result, we expect our required debt service cash outlay during the next twelve months for the 2016 Convertible Notes to be limited to interest payments of $9.8 million.

2010 Convertible Notes

On or after September 1, 2016, holders of the 2010 Convertible Notes can elect to convert their securities at any time with settlement occurring on March 1, 2017. Upon any conversion of the 2010 Convertible Notes, we will settle our conversion obligation as follows: (i) we are required to 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 can satisfy the remaining conversion obligation in our common stock, cash or any combination of our common stock and cash, at our discretion. As of October 31, 2016 and based on our October 31, 2016 closing stock price of $38.03 per share, the $34.7 million principal amount of the 2010 Convertible Notes would have had a total settlement value of approximately $58 million.

If none of the 2010 Convertible Notes are converted prior to maturity, we expect our debt service cash outlay for the next twelve months for the 2010 Convertible Notes will be $0.5 million of interest payments, with the remaining aggregate principal of $34.7 million due March 1, 2017.

2015 Credit Agreement

Our 2015 Credit Agreement mandatory repayments and the cash interest expense (based upon current interest rates) for the next twelve months is $13.1 million, and $4.0 million, respectively. We have the ability to make prepayments on our 2015 Credit Agreement without penalty.

Our long-term debt obligations are discussed in more detail in Note 4 to our Financial Statements.

In summary, we expect to continue to have material needs for capital resources going forward, as noted above. We believe that our current cash, cash equivalents and short-term investments balances and our 2015 Revolver, together with cash expected to be generated in the future from our current operating activities, will be sufficient to meet our anticipated capital resource requirements for at least the next 12 months. We also believe we could obtain additional capital through other debt sources which may be available to us if deemed appropriate.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the potential loss arising from adverse changes in market rates and prices. As of September 30, 2016, we are exposed to various market risks, including changes in interest rates, fluctuations and changes in the market value of our cash equivalents and short-term investments, and changes in foreign currency exchange rates. We have not historically entered into derivatives or other financial instruments for trading or speculative purposes.

Interest Rate Risk

Long-Term Debt. The interest rates on our 2016 Convertible Notes and our 2010 Convertible Notes are fixed, and thus, as it relates to our convertible debt borrowings, we are not exposed to changes in interest rates.

The interest rates under our 2015 Credit Agreement are based upon an adjusted LIBOR rate plus an applicable margin, or an alternate base rate plus an applicable margin. Refer to Note 4 to our Financial Statements for further details of our long-term debt.

A hypothetical adverse change of 10% in the September 30, 2016 adjusted LIBOR rate would not have had a material impact upon our results of operations.

Market Risk

Cash Equivalents and Short-term Investments. Our cash and cash equivalents as of September 30, 2016 and December 31, 2015 were $140.2 million and $132.6 million, respectively. Certain of our cash balances are “swept” into overnight money market accounts on a daily basis, and at times, any excess funds are invested in low-risk, somewhat longer term, cash equivalent instruments and short-term investments. Our cash equivalents are invested primarily in institutional money market funds, commercial paper, and time deposits held at major banks. We have minimal market risk for our cash and cash equivalents due to the relatively short maturities of the instruments.

Our short-term investments as of September 30, 2016 and December 31, 2015 were $125.9 million and $108.3 million, respectively. Currently, we utilize short-term investments as a means to invest our excess cash only in the U.S. The day-to-day management of our short-term investments is performed by a large financial institution in the U.S., using strict and formal investment guidelines approved by our Board. Under these guidelines, short-term investments are limited to certain acceptable investments with: (i) a maximum maturity; (ii) a maximum concentration and diversification; and (iii) a minimum acceptable credit quality. At this time, we believe we have minimal liquidity risk associated with the short-term investments included in our portfolio.

Long-Term Debt. The fair value of our convertible debt is exposed to market risk. We do not carry our convertible debt at fair value but present the fair value for disclosure purposes (see Note 2 to our Financial Statements). Generally, the fair value of our convertible debt is impacted by changes in interest rates and changes in the price and volatility of our common stock. As of September 30, 2016, the fair value of the 2016 Convertible Notes and the 2010 Convertible Notes was estimated at $251.0 million and $64.0 million, respectively, using quoted market prices.

Foreign Currency Exchange Rate Risk.

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

During the nine months ended September 30, 2016, we generated approximately 90% of our revenues in U.S. dollars. We expect that, in the foreseeable future, we will continue to generate a very large percentage of our revenues in U.S. dollars.

As of September 30, 2016 and December 31, 2015, the carrying amounts of our monetary assets and monetary liabilities on the books of our non-U.S. subsidiaries in currencies denominated in a currency other than the functional currency of those non-U.S. subsidiaries are as follows (in thousands, in U.S. dollar equivalents):

| | September 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Monetary Liabilities | Monetary Assets | Monetary Liabilities | Monetary Assets |
| Pounds sterling | $ - | $ 2,401 | $ - | $ 2,646 |
| Euro | (36) | 11,831 | (179) | 10,063 |
| U.S. Dollar | (169) | 21,747 | (346) | 18,551 |
| Other | (82) | 3,209 | (53) | 3,709 |
| Totals | $ (287) | $ 39,188 | $ (578) | $ 34,969 |

25

A hypothetical adverse change of 10% in the September 30, 2016 exchange rates would not have had a material impact upon our results of operations based on the monetary assets and liabilities as of September 30, 2016.

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures

As required by Rule 13a-15(b), our management, including the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), conducted an evaluation as of the end of the period covered by this report of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e). Based on that evaluation, the CEO and CFO concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) Internal Control Over Financial Reporting

As required by Rule 13a-15(d), our management, including the CEO and CFO, also conducted an evaluation of our internal control over financial reporting, as defined by Rule 13a-15(f), to determine whether any changes occurred during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.  Based on that evaluation, the CEO and CFO concluded that there has been no such change during the quarter covered by this report.

CSG SYSTEMS INTERNATIONAL, INC.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

A discussion of our risk factors can be found in Item 1A. Risk Factors in our 2015 Form 10-K. As a result of Charter's acquisition of Time Warner in May 2016, we updated a risk factor in our Quarterly Report on Form 10-Q for the period ended June 30, 2016 ("Q2-16 Form 10-Q") to reflect the impact of this transaction to our business. There were no material changes to the risk factors disclosed in our 2015 Form 10-K and Q2-16 Form 10-Q during the third quarter of 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table presents information with respect to purchases of company common stock made during the third quarter of 2016 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) (2) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2) | Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plan or Programs (2) |
|---|---|---|---|---|
| July 1 - July 31 | 1,156 | $ 40.47 | - | 6,795,796 |

| | | | | |
|---|---|---|---|---|
| August 1 - August 31 | 70,894 | 40.90 | - | 6,795,796 |
| September 1 - September 30 | 358 | 43.19 | - | 6,795,796 |
| Total | 72,408 | $ 40.91 | - | |

(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 8 to our Financial Statements for additional information regarding our share repurchases.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

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

SIGNATURES

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

Dated: November 3, 2016

CSG SYSTEMS INTERNATIONAL, INC.

/s/ Bret C. Griess
Bret C. Griess
President and Chief Executive Officer
(Principal Executive Officer)

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

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

CSG SYSTEMS INTERNATIONAL, INC.

INDEX TO EXHIBITS

| Exhibit Number | Description |
|---|---|
| 10.23AR* | Fifty-Second Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and DISH Network L.L.C. |
| 10.23AS* | Fifty-Third Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and DISH Network L.L.C. |
| 10.23AT* | Fifty-Fourth Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and DISH Network L.L.C. |
| 10.24BD* | One Hundred Fifth Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Charter Communications Holding Company, LLC |
| 10.24BE* | One Hundred Seventh Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Time Warner Cable Inc. |
| 10.24BF* | One Hundred Eighth Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Charter Communications Holding Company, LLC. |
| 10.25CD* | Eighty-ninth Amendment to the Amended and Restated CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Charter Communications Holding Company, LLC |
| 10.25CE* | Ninety-first Amendment to the Amended and Restated CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Charter Communications Holding Company, LLC |
| 10.25CF* | Ninety-second Amendment to the Amended and Restated CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Charter Communications Holding Company, LLC |
| 31.01 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.02 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.01 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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

29