Proto Labs Inc
Form 10-Q
November 04, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from__________ to__________

Commission File Number: 001-35435

Proto Labs, Inc.

(Exact name of registrant as specified in its charter)

Minnesota	**41-1939628**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5540 Pioneer Creek Drive **Maple Plain, Minnesota**	**55359**
(Address of principal executive offices)	(Zip Code)

(763) 479-3680

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 25,821,479 shares of Common Stock, par value $0.001 per share, were outstanding at October 31, 2014.

Proto Labs, Inc.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Proto Labs, Inc.

Consolidated Balance Sheets

(In thousands, except share and per share amounts)

	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	$ 34,268	$ 43,039
Short-term marketable securities	24,212	36,339
Accounts receivable, net of allowance for doubtful accounts of $105 and $90 as of September 30, 2014 and December 31, 2013, respectively	25,460	18,320
Inventory	5,705	5,166
Prepaid expenses and other current assets	4,278	3,569
Income taxes receivable	3,223	2,907
Deferred tax assets	452	455
Total current assets	97,598	109,795
Property and equipment, net	87,962	56,101
Goodwill	28,916	-
Other intangible assets, net	4,269	-
Long-term marketable securities	60,449	64,023
Other long-term assets	232	256
Total assets	$ 279,426	$ 230,175
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	$ 7,973	$ 6,455
Accrued compensation	8,154	6,196
Accrued liabilities and other	3,804	808
Current portion of long-term debt obligations	164	204
Total current liabilities	20,095	13,663
Long-term deferred tax liabilities	4,112	3,682
Long-term debt obligations	42	159
Other long-term liabilities	854	1,028

Total liabilities	25,103	18,532
Shareholders' equity		
Preferred stock, $0.001 par value, authorized 10,000,000 shares; issued and outstanding 0 shares as of each of September 30, 2014 and December 31, 2013	-	-
Common stock, $0.001 par value, authorized 150,000,000 shares; issued and outstanding 25,816,096 and 25,546,107 shares as of September 30, 2014 and December 31, 2013, respectively	26	26
Additional paid-in capital	178,767	166,861
Retained earnings	77,290	45,847
Accumulated other comprehensive income (loss)	(1,760)	(1,091)
Total shareholders' equity	254,323	211,643
Total liabilities and shareholders' equity	$ 279,426	$ 230,175

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

Proto Labs, Inc.

Consolidated Statements of Comprehensive Income

(In thousands, except share and per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Statements of Operations:				
Revenue	$54,574	$42,008	$153,514	$119,070
Cost of revenue	21,492	16,053	58,725	44,983
Gross profit	33,082	25,955	94,789	74,087
Operating expenses				
Marketing and sales	7,351	5,409	21,029	16,222
Research and development	4,555	3,026	11,925	8,405
General and administrative	5,733	4,118	15,970	12,035
Total operating expenses	17,639	12,553	48,924	36,662
Income from operations	15,443	13,402	45,865	37,425
Other income (expense), net	(56)	31	(19)	149
Income before income taxes	15,387	13,433	45,846	37,574
Provision for income taxes	5,003	4,561	14,404	11,804
Net income	$10,384	$8,872	$31,442	$25,770
Net income per share:				
Basic	$0.40	$0.35	$1.23	$1.03
Diluted	$0.40	$0.34	$1.20	$1.00
Shares used to compute net income per share:				
Basic	25,757,593	25,384,940	25,651,156	25,121,941
Diluted	26,200,741	26,002,240	26,109,539	25,794,950
Comprehensive Income (net of tax)				
Comprehensive income	$9,011	$9,678	$30,773	$25,471

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

Proto Labs, Inc.

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September 30, 2014	2013
Operating activities		
Net income	$31,442	$25,770
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,696	5,528
Stock-based compensation expense	3,561	2,595
Deferred taxes	487	(61)
Excess tax benefit from stock-based compensation	(4,383)	(8,198)
Loss on disposal of property and equipment	-	111
Amortization of held-to-maturity securities	1,194	1,007
Changes in operating assets and liabilities:		
Accounts receivable	(6,302)	(2,242)
Inventories	(339)	(380)
Prepaid expenses and other	(706)	1,545
Income taxes	4,032	6,099
Accounts payable	1,414	1,564
Accrued liabilities and other	1,908	1,562
Net cash provided by operating activities	40,004	34,900
Investing activities		
Purchases of property and equipment	(35,928)	(12,976)
Acquisitions, net of cash acquired	(33,864)	-
Purchases of marketable securities	(47,338)	(82,657)
Proceeds from sales and maturities of marketable securities	61,896	50,663
Net cash used in investing activities	(55,234)	(44,970)
Financing activities		
Payments on debt	(1,005)	(211)
Acquisition-related contingent consideration	(800)	-
Proceeds from exercises of stock options and other	3,962	4,635
Excess tax benefit from stock-based compensation	4,383	8,198
Net cash provided by financing activities	6,540	12,622
Effect of exchange rate changes on cash and cash equivalents	(81)	71
Net increase (decrease) in cash and cash equivalents	(8,771)	2,623

Cash and cash equivalents, beginning of period	43,039	36,759
Cash and cash equivalents, end of period	$34,268	$39,382

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

Note 1 – Basis of Presentation

The unaudited interim Consolidated Financial Statements of Proto Labs, Inc. (Proto Labs, the Company, we, us or our) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. These statements are unaudited but, in the opinion of management, reflect all adjustments necessary for a fair presentation of the Company's statement of financial position, results of operations and cash flows for the periods presented. Except as otherwise disclosed herein, these adjustments consist of normal, recurring items. Operating results for interim periods are not necessarily indicative of results that may be expected for the fiscal year as a whole.

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and the related disclosures at the date of the financial statements and during the reporting period. Actual results could materially differ from these estimates. For further information, refer to the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 as filed with the Securities and Exchange Commission (SEC) on February 28, 2014.

The accompanying Consolidated Balance Sheet as of December 31, 2013 was derived from the audited Consolidated Financial Statements but does not include all disclosures required by U.S. GAAP for a full set of financial statements. This Form 10-Q should be read in conjunction with the Company's Consolidated Financial Statements and Notes included in the Annual Report on Form 10-K filed on February 28, 2014 as referenced above.

Note 2 – Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue from the transfer of goods or services to customers in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. The Company is required to adopt the new pronouncement on January 1, 2017 using one of two retrospective application methods. The Company is evaluating the application method and the impact of this new standard on our financial statements.

In August 2014, the FASB issued ASU No. 2014-15*, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, to provide guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and to provide related footnote disclosures. The Company is required to adopt the new pronouncement for the annual period ending after December 15, 2016, with early adoption permitted. We believe the impact of ASU 2014-15 will not affect the Company.

There are no other new accounting pronouncements that are expected to have a significant impact on the Company's consolidated financial statements.

Note 3 – Business Combinations

On April 23, 2014, the Company acquired 100% of the outstanding shares of FineLine Prototyping, Inc. ("FineLine") for $33.9 million net cash consideration, which was funded with cash available in the United States and the sale of $15.5 million of held-to-maturity securities. The shares of FineLine acquired through the Stock Purchase Agreement ("Agreement") were initially issued in a private transaction exempt from the registration under the Securities Act of 1933 and the operations of FineLine will be integrated into the operations of the Company. Under the terms of the Agreement, the Company is obligated to make an additional cash payment of up to $3.0 million, contingent upon both the achievement of 2014 revenue goals and certain milestones relating to the integration of FineLine's operations with the Company.

FineLine is based in Raleigh, North Carolina and is a leading producer of parts using additive manufacturing technologies, often times referred to as 3D printing. FineLine produces high-quality parts using stereolithography (SLA), selective laser sintering (SLS) and direct metal laser sintering (DMLS) technologies to customers in a wide variety of industries, including medical, aerospace, computer/electronics, consumer products and industrial machinery, among others. Along with Protomold and Firstcut, the Company will offer these technologies to its customers under the Fineline product name.

Consistent with the provisions of Accounting Standards Codification (ASC) 805, *Business Combinations* (ASC 805), the Company accrued the contingent payment on the date of acquisition after determining its fair value of $3.0 million in arriving at $36.9 million of total consideration, net of cash acquired. The contingent consideration liability is reflected in *accrued liabilities and other* as of September 30, 2014 and continues to be remeasured to fair value at each reporting period with changes in fair value reflected in the *Consolidated Statements of Comprehensive Income*. To date as of September 30, 2014, the Company has made payments of $0.8 million related to the attainment of milestones and as of September 30, 2014, the contingent consideration balance totaled $2.2 million.

The fair value of the consideration paid for this acquisition was allocated to the assets purchased and liabilities assumed based on their estimated fair values as of the acquisition date, with any excess recorded as goodwill. The goodwill associated with the acquisition is deductible for tax purposes and represents the strategic and growth opportunities from strengthening the Company’s portfolio of rapid prototyping product offerings. The addition of additive manufacturing expands Proto Labs’ products to address a wider spectrum of need for the product developer. From concept models, to form and fit testing, to functional testing and short-run production, the acquisition of FineLine allows the Company to offer a broader range of quick-turn custom parts with speed, reliability and consistency.

The results of FineLine since the date of acquisition and pro forma disclosures of the consolidated results of the Company with the full year effects of FineLine have not been separately presented since the impact to the Company's results of operations was not material.

The acquisition has been accounted for under the acquisition method of accounting in accordance with ASC 805. As of September 30, 2014, this allocation for FineLine remains preliminary as it relates to the valuation of certain working capital accounts, intangible assets and taxes. The preliminary allocation of the purchase price to assets acquired and liabilities assumed is as follows:

(in thousands)	
Assets acquired:	
Current assets	$1,248
Intangible assets	4,580
Goodwill	28,916
Other long-term assets	3,849
Total assets acquired	38,593
Liabilities assumed:	
Current liabilities	1,729
Total liabilities assumed	1,729
Net assets acquired	36,864
Cash paid	34,468
Cash acquired	(604)
Net cash consideration	33,864
Contingent consideration	3,000
Total purchase consideration	$36,864

Note 4 – Goodwill and Other Intangible Assets

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

(in thousands)	**Nine Months Ended September 30, 2014**
Balance as of the beginning of the period	$ -
Goodwill acquired during the period	28,916
Balance as of the end of the period	$ 28,916

Intangible assets other than Goodwill at September 30, 2014 and December 31, 2013 were as follows:

	September 30, 2014			**December 31, 2013**				
(in thousands)	**Gross**	**Accumulated Amortization**	**Net**	**Gross**	**Accumulated Amortization**	**Net**	**Useful Life (in years)**	**Weighted Average Useful Life Remaining (in years)**
Intangible Assets with finite lives:								
Marketing assets	$930	$ (39)	$891	$-	$ -	$ -	10.0	9.6
Non-compete agreement	190	(40)	150	-	-	-	2.0	1.6
Trade secrets	250	(21)	229	-	-	-	5.0	4.6
Internally developed software	680	(94)	586	-	-	-	3.0	2.6
Customer relationships	2,530	(117)	2,413	-	-	-	9.0	8.6
Total intangible assets	$4,580	$ (311)	$4,269	$-	$ -	$ -		

Amortization expense for intangible assets for the three and nine months ended September 30, 2014 was $0.2 million and $0.3 million, respectively. There was no amortization expense in the same periods of the prior year.

Estimated aggregated amortization expense based on the current carrying value of the amortizable intangible assets is as follows:

(in thousands)	**Estimated Amortization Expense**
Remaining 2014	$ 186
2015	746
2016	682
2017	500
2018	424
Thereafter	1,731
Total estimated amortization expense	$ 4,269

Note 5 – Net Income per Common Share

Basic net income per share is computed based on the weighted-average number of common shares outstanding. Diluted net income per share is computed based on the weighted-average number of common shares outstanding, increased by the number of additional shares that would have been outstanding had the potentially dilutive common shares been issued and reduced by the number of shares the Company could have repurchased from the proceeds from issuance of the potentially dilutive shares. Potentially dilutive shares of common stock include stock options, restricted stock units and restricted stock awards granted under stock-based compensation plans and shares committed to be purchased under the employee stock purchase plan.

The table below sets forth the computation of basic and diluted net income per share:

(in thousands, except share and per share amounts)	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Net income	$10,384	$8,872	$31,442	$25,770
Basic - weighted-average shares outstanding:	25,757,593	25,384,940	25,651,156	25,121,941
Effect of dilutive securities:				
Employee stock options and other	443,148	617,300	458,383	673,009
Diluted - weighted-average shares outstanding:	26,200,741	26,002,240	26,109,539	25,794,950
Net income per share:				
Basic	$0.40	$0.35	$1.23	$1.03
Diluted	$0.40	$0.34	$1.20	$1.00

Note 6 – Fair Value Measurements

ASC 820, *Fair Value Measuremen*t (ASC 820), defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires classification based on observable and unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company’s cash consists of bank deposits. The Company’s cash equivalents measured at fair value consist of money market mutual funds. The Company determines the fair value of these investments using Level 1 inputs.

A summary of financial assets as of September 30, 2014 and December 31, 2013 measured at fair value on a recurring basis follows:

(in thousands)	**September 30, 2014**			**December 31, 2013**		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial Assets:						
Cash and cash equivalents						
Money market mutual fund	$4,917	$ -	$ -	$5,524	$ -	$ -
Total	$4,917	$ -	$ -	$5,524	$ -	$ -

Note 7 – Marketable Securities

The Company invests in short-term and long-term agency, municipal, corporate, commercial paper and other debt securities. The securities are categorized as held-to-maturity and are recorded at amortized cost. Categorization as held-to-maturity is based on the Company's ability and intent to hold these securities to maturity. Information regarding the Company's short-term and long-term marketable securities as of September 30, 2014 and December 31, 2013 is as follows:

(in thousands)	**September 30, 2014** Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government agency securities	$ 20,533	$ -	$ (48)	$ 20,485
Corporate debt securities	28,452	9	(61)	28,400
Commercial paper	1,999	-	-	1,999
U.S. municipal securities	28,268	54	(2)	28,320
Certificates of deposit/time deposits	5,409	6	(12)	5,403
Total marketable securities	$ 84,661	$ 69	$ (123)	$ 84,607

(in thousands)	**December 31, 2013** Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government agency securities	$ 21,713	$ 2	$ (22)	$ 21,693
Corporate debt securities	29,480	30	(20)	29,490
U.S. municipal securities	44,474	49	(22)	44,501
Certificates of deposit/time deposits	4,695	5	(8)	4,692
Total marketable securities	$ 100,362	$ 86	$ (72)	$ 100,376

Fair values for the corporate debt securities are primarily determined based on quoted market prices (Level 1). Fair values for the U.S. municipal securities, U.S. government agency securities, certificates of deposit and commercial paper are primarily determined using dealer quotes or quoted market prices for similar securities (Level 2).

The Company tests for other than temporary losses on a quarterly basis and has considered the unrealized losses indicated above to be temporary in nature. The Company intends to hold the investments to maturity and recover the full principal.

Classification of marketable securities as current or non-current is based upon the security's maturity date as of the date of these financial statements.

The September 30, 2014 balance of held-to-maturity debt securities by contractual maturity is shown in the following table at amortized cost. Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

(in thousands)	**September 30, 2014**
Due in one year or less	$ 24,212
Due after one year through five years	60,449
Total marketable securities	$ 84,661

Note 8 – Inventory

Inventory consists primarily of raw materials, which are recorded at the lower of cost or market using the average-cost method, which approximates first-in, first-out (FIFO) cost. The Company periodically reviews its inventory for slow-moving, damaged and discontinued items and provides allowances to reduce such items identified to their recoverable amounts.

The Company's inventory consists of the following:

(in thousands)	**September 30, 2014**	**December 31, 2013**
Raw materials	$ 5,384	$ 4,875
Work in process	505	410
Total inventory	5,889	5,285
Allowance for obsolescence	(184)	(119)
Inventory, net of allowance	$ 5,705	$ 5,166

Note 9 – Stock-Based Compensation

Under the 2012 Long-Term Incentive Plan (2012 Plan), the Company has the ability to grant stock options, stock appreciation rights (SARs), restricted stock, stock units, other stock-based awards and cash incentive awards. Awards under the 2012 Plan will have a maximum term of ten years from the date of grant. The compensation committee may provide that the vesting or payment of any award will be subject to the attainment of specified performance measures in addition to the satisfaction of any continued service requirements and the compensation committee will determine whether such measures have been achieved. The per share exercise price of stock options and SARs granted under the 2012 Plan generally may not be less than the fair market value of a share of our common stock on the date of the grant.

Employee Stock Purchase Plan

The Company's 2012 Employee Stock Purchase Plan (ESPP), allows eligible employees to purchase shares of the Company's common stock at a discount through payroll deductions of up to 15 percent of their eligible compensation, subject to plan limitations. The ESPP provides for six-month offering periods ending May 15 and November 15, respectively. At the end of each offering period, employees are able to purchase shares at 85 percent of the lower of the fair market value of the Company's common stock on the first trading day of the offering period or on the last trading day of the offering period.

Stock-Based Compensation Expense

Stock-based compensation expense was $1.4 million and $0.9 million for the three months ended September 30, 2014 and 2013, respectively, and $3.6 and $2.6 million for the nine months ended September 30, 2014 and 2013, respectively.

Stock Options

A summary of stock option activity for the nine months ended September 30, 2014 is as follows:

	Stock Options	Weighted-Average Exercise Price
Options outstanding at December 31, 2013	1,143,250	$ 19.03
Granted	109,530	72.72
Exercised	(247,127)	13.74
Forfeited	(6,619)	26.13
Options outstanding at September 30, 2014	999,034	$ 26.18
Exercisable at September 30, 2014	394,085	$ 15.46

The outstanding options generally have a term of ten years. For employees, options granted become exercisable ratably over the vesting period, which is generally a five-year period beginning on the first anniversary of the grant date, subject to the employee's continuing service to the Company. For directors, options generally become exercisable in full on the first anniversary of the grant date.

The weighted-average grant date fair value of options that were granted during the nine months ended September 30, 2014 was $32.76.

The following table provides the assumptions used in the Black-Scholes pricing model valuation of options during the nine months ended September 30, 2014 and 2013, respectively:

	Nine Months Ended September 30,	
	2014	**2013**
Risk-free interest rate	0.43 - 2.14%	1.03 - 1.98%
Expected life (years)	2.00 - 6.50	5.50 - 6.50
Expected volatility	47.82 - 49.30%	49.36 - 53.54%
Expected dividend yield	0%	0%

As of September 30, 2014, there was $8.1 million of unrecognized compensation expense related to unvested stock options, which is expected to be recognized over a weighted-average period of 3.2 years.

Restricted Stock

Restricted stock includes non-vested shares issued pursuant to grants of restricted stock awards (RSA) and grants of restricted stock units (RSU). During the nine months ended September 30, 2014, the Company granted both RSA and RSU.

Non-vested restricted stock as of September 30, 2014 and changes during the nine months ended September 30, 2014 were as follows:

	Restricted	**Weighted-Average Grant Date Fair Value Per Share**

	Stock Awards	
Nonvested restricted stock at December 31, 2013	-	$ -
Granted	74,467	69.45
Vested	(798)	62.68
Forfeited	-	-
Nonvested restricted stock at September 30, 2014	73,669	$ 69.52

As of September 30, 2014, there was $4.4 million of unrecognized compensation expense related to non-vested restricted stock, which is expected to be recognized over a weighted-average period of 3.8 years.

Employee Stock Purchase Plan

The following table presents the assumptions used to estimate the fair value of the ESPP during the nine months ended September 30, 2014 and 2013, respectively:

	Nine Months Ended September 30,	
	2014	**2013**
Risk-free interest rate	0.01 - 0.11%	0.11 - 0.13%
Expected life (months)	6.00	6.00
Expected volatility	39.16 - 39.80%	53.14% - 53.32%
Expected dividend yield	0%	0%

Note 10 – Accumulated Other Comprehensive Income

Other comprehensive income (loss) is comprised entirely of foreign currency translation adjustments. The following table presents the changes in accumulated other comprehensive income balances during the three and nine months ended September 30, 2014 and 2013, respectively:

(in thousands)	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Foreign currency translation adjustment, net of tax				
Balance at beginning of period	$(387)	$(2,033)	$(1,091)	$(928)
Other comprehensive income before reclassifications	(1,373)	806	(669)	(299)
Amounts reclassified from accumulated other comprehensive income	-	-	-	-
Net current-period other comprehensive income	(1,373)	806	(669)	(299)
Balance at end of period	$(1,760)	$(1,227)	$(1,760)	$(1,227)

Note 11 – Income Taxes

The Company is subject to income tax in multiple jurisdictions and the use of estimates is required to determine the provision for income taxes. For the three months ended September 30, 2014 and 2013 the Company recorded an income tax provision of $5.0 million and $4.6 million, respectively. For the nine months ended September 30, 2014 and 2013 the Company recorded an income tax provision of $14.4 million and $11.8 million, respectively. The income tax provision is based on the estimated annual effective tax rate for the year applied to pre-tax income. The effective income tax rate for the three months ended September 30, 2014 was 32.5 percent compared with 34.0 percent in the same period of the prior year. The effective income tax rate for each of the nine months ended September 30, 2014 and 2013 was 31.4 percent.

The effective income tax rate for the three and nine months ended September 30, 2014 differs from the U.S. federal statutory rate of 35 percent due primarily to the mix of revenue earned in domestic and foreign tax jurisdictions and deductions for which the Company qualifies.

The Company had liabilities related to unrecognized tax benefits totaling $0.9 million at September 30, 2014 and $0.7 million December 31, 2013, all of which, if recognized, would affect the Company’s effective tax rate. The Company recognizes interest and penalties related to income tax matters in income tax expense, and reports the liability in current or long-term income taxes payable as appropriate.

During the quarter ended September 30, 2014, the Company decreased its prior year uncertain tax positions by $0.4 million due to the expiration of the statutes of limitations on the Company’s 2010 federal income tax return. Also, during the quarter ended September 30, 2014, the Company increased its prior year and current year uncertain tax positions by $0.4 million and $0.5 million, respectively. The increase was due to certain tax positions not meeting the more-like-than-not standard for accounting for uncertain tax positions under the Company’s current facts and circumstances.

Based upon the information available as of September 30, 2014, the Company anticipates the amount of uncertain tax positions will change in the next twelve months; however, the change cannot be estimated.

Note 12 – Revenue and Geographic Information

The Company's revenue is derived from its Protomold molding, Firstcut computer numerical control (CNC) machining and Fineline additive manufacturing (3D printing) product lines. Total revenue by product line is as follows:

(in thousands)	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Revenue:				
Protomold	$35,655	$29,534	$104,604	$84,338
Firstcut	15,549	12,474	43,407	34,732
Fineline	3,370	-	5,503	-
Total revenue	$54,574	$42,008	$153,514	$119,070

Revenue to external customers based on the billing location of the end user customer and long-lived assets by geographic region are as follows:

(in thousands)	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Revenue:				
United States	$40,822	$30,561	$113,810	$88,816
International	13,752	11,447	39,704	30,254
Total revenue	$54,574	$42,008	$153,514	$119,070

(in thousands)	September 30, 2014	December 31, 2013
Long-lived assets:		
United States	$ 73,082	$ 48,381
International	14,880	7,720

Total long-lived assets	$ 87,962	$ 56,101

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2013.

Forward-Looking Statements

Statements contained in this report regarding matters that are not historical or current facts are "forward-looking statements" within the meaning of The Private Securities Litigation Reform Act of 1995. In some cases, you can identify forward-looking statements by the following words: "may," "will," "could," "would," "should," "expect," "intend," "p "anticipate," "believe," "estimate," "predict," "project," "potential," "continue," "ongoing" or the negative of these terms or ot comparable terminology, although not all forward-looking statements contain these words. These statements involve known and unknown risks, uncertainties and other factors which may cause our results to be materially different than those expressed or implied in such statements. Certain of these risk factors and others are described in Item 1A. "Risk Factors" of our Annual Report on Form 10-K as filed with the SEC. Other unknown or unpredictable factors also could have material adverse effects on our future results. We cannot guarantee future results, levels of activity, performance or achievements. Accordingly, you should not place undue reliance on these forward-looking statements. Finally, we expressly disclaim any intent or obligation to update any forward-looking statements to reflect subsequent events or circumstances.

Overview

We are a leading online and technology-enabled manufacturer of quick-turn additive-manufactured (3D printed), CNC-machined and molded custom parts for prototyping and short-run production. We provide "Real Parts, Really Fast" to product developers worldwide, who are under increasing pressure to bring their finished products to market faster than their competition. We believe low-volume manufacturing has historically been an underserved market due to the inefficiencies inherent in the quotation, equipment set-up and non-recurring engineering processes required to produce custom parts. Our proprietary technology eliminates most of the time-consuming and expensive skilled labor conventionally required to quote and manufacture parts in low volumes, and our customers conduct nearly all of their business with us over the Internet. We target our services to the millions of product developers who use three-dimensional computer-aided design (3D CAD) software to design products across a diverse range of end-markets. Our primary manufacturing products currently include Fineline, which is our additive-manufacturing (3D printing) product line, Firstcut, which is our CNC machining product line, and Protomold, which is our molding product line.

Key Financial Measures and Trends

Revenue

The Company’s operations are comprised of three geographic business units in the United States, Europe and Japan. Revenue within each of our business units is derived from our Fineline, Firstcut and Protomold product lines. Fineline revenue consists of sales of additive-manufactured custom parts, often referred to as 3D printed parts. Firstcut revenue consists of sales of CNC-machined custom parts. Protomold revenue consists of sales of custom molds and molded parts. Our historical and current efforts to increase revenue have been directed at gaining new customers and selling to our existing customer base by:

- increasing marketing and selling activities;
- offering additional services such as the acquisition in April 2014 of FineLine Prototyping, Inc. leading to the offering of Fineline additive manufacturing technologies, often times referred to as 3D printing;
- introducing our Firstcut product line in 2007;
- expanding internationally such as the opening of our Japanese plant in 2009;
- improving the usability of our services such as our web-centric applications; and
- expanding the breadth and scope of our products such as by adding more sizes and materials to our offerings such as liquid silicon rubber (LSR) and metal injection molding (MIM).

Excluding product developers we gained through the acquisition of FineLine, during the three months ended September 30, 2014, we served approximately 8,700 unique product developers, an increase of 19% over the same period in 2013. Excluding product developers we gained through the acquisition of FineLine, during the nine months ended September 30, 2014, we served approximately 15,900 unique product developers, an increase of 19% over the same period in 2013.

Cost of Revenue, Gross Profit and Gross Margin

Cost of revenue consists primarily of raw materials, equipment depreciation, employee salaries, benefits, stock-based compensation, bonuses and overhead allocations associated with the manufacturing process for molds and custom parts. We expect cost of revenue to increase in absolute dollars, but remain relatively constant as a percentage of total revenue.

We define gross profit as our revenue less our cost of revenue, and we define gross margin as gross profit expressed as a percentage of revenue. Our gross profit and gross margin are affected by many factors, including pricing, sales volume and manufacturing costs, the costs associated with increasing production capacity, the mix between domestic and foreign revenue sources and foreign exchange rates.

Operating Expenses

Operating expenses consist of marketing and sales, research and development and general and administrative. Personnel-related costs are the most significant component of the marketing and sales, research and development and general and administrative expense categories.

Our recent growth in operating expenses is mainly due to higher headcounts to support our growth and expansion, and we expect that trend to continue. Our business strategy is to continue to be a leading online and technology-enabled manufacturer of quick-turn additive-manufactured (3D printing), CNC-machined and molded custom parts for prototyping and short-run production. For us to achieve our goals, we anticipate continued substantial investments in technology and personnel, resulting in increased operating expenses.

Marketing and sales. Marketing and sales expense consists primarily of employee compensation, benefits, commissions, stock-based compensation, marketing programs such as print and pay-per-click advertising, trade shows, direct mail and other related overhead. We expect sales and marketing expense to increase in the future as we increase the number of marketing and sales professionals and marketing programs targeted to increase our customer base.

Research and development. Research and development expense consists primarily of employee compensation, benefits, stock-based compensation, depreciation on equipment, outside services and other related overhead. All of our research and development costs have been expensed as incurred. We expect research and development expense to increase in the future as we seek to enhance and expand our service offerings.

General and administrative. General and administrative expense consists primarily of employee compensation, benefits, stock-based compensation, professional service fees related to accounting, tax and legal services, amortization of intangibles and other related overhead. We expect general and administrative expense to increase on an absolute basis as we continue to grow and expand our operations.

Other Income (Expense), Net

Other income (expense), net primarily consists of foreign currency-related gains and losses, interest income on cash balances and investments, and interest expense on borrowings. Our foreign currency-related gains and losses will vary depending upon movements in underlying exchange rates. Our interest income will vary each reporting period depending on our average cash balances during the period, composition of our marketable security portfolio and the current level of interest rates. Our interest expense will vary based on borrowings and interest rates.

Provision for Income Taxes

Provision for income taxes is comprised of federal, state, local and foreign taxes based on pre-tax income. We expect income taxes to increase as our taxable income increases and our effective tax rate to remain relatively constant.

Results of Operations

The following table sets forth a summary of our results of operations and the related changes for the periods indicated. The results below are not necessarily indicative of the results for future periods.

(dollars in thousands)	Three Months Ended September 30, 2014		2013		Change $	%	Nine Months Ended September 30, 2014		2013		Change $
Revenue	$54,574	100.0%	$42,008	100.0%	$12,566	29.9%	$153,514	100.0%	$119,070	100.0%	$34,444
Cost of revenue	21,492	39.4	16,053	38.2	5,439	33.9	58,725	38.3	44,983	37.8	13,742
Gross profit	33,082	60.6	25,955	61.8	7,127	27.5	94,789	61.7	74,087	62.2	20,702
Operating expenses:											
Marketing and sales	7,351	13.5	5,409	12.9	1,942	35.9	21,029	13.7	16,222	13.6	4,807
Research and development	4,555	8.3	3,026	7.2	1,529	50.5	11,925	7.8	8,405	7.1	3,520
General and administrative	5,733	10.5	4,118	9.8	1,615	39.2	15,970	10.4	12,035	10.1	3,935
Total operating expenses	17,639	32.3	12,553	29.9	5,086	40.5	48,924	31.9	36,662	30.8	12,262
Income from operations	15,443	28.3	13,402	31.9	2,041	15.2	45,865	29.9	37,425	31.4	8,440
Other income (expense), net	(56)	(0.1)	31	0.1	(87)	*	(19)	-	149	0.1	(168
Income before income taxes	15,387	28.2	13,433	32.0	1,954	14.5	45,846	29.9	37,574	31.5	8,272
Provision for income taxes	5,003	9.2	4,561	10.9	442	9.7	14,404	9.4	11,804	9.9	2,600
Net income	$10,384	19.0 %	$8,872	21.1 %	$1,512	17.0%	$31,442	20.5 %	$25,770	21.6 %	$5,672

* Percentage change not meaningful

Stock-based compensation expense included in the statements of operations data above is as follows:

(dollars in thousands)	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Stock options and restricted stock	$1,192	$756	$3,252	$2,310
Employee stock purchase plan	121	103	309	285
Total stock-based compensation expense	$1,313	$859	$3,561	$2,595
Cost of revenue	$103	$89	$282	$233
Operating expenses:				
Marketing and sales	250	154	685	455
Research and development	287	201	770	555
General and administrative	673	415	1,824	1,352
Total stock-based compensation expense	$1,313	$859	$3,561	$2,595

Comparison of Three Months Ended September 30, 2014 and 2013

Revenue

Revenue by product line and the related changes for the three months ended September 30, 2014 and 2013 were as follows:

	Three Months Ended September 30,									
	2014			**2013**			**Change**			
(dollars in thousands)	**$**	**% of Total Revenue**		**$**	**% of Total Revenue**		**$**	**%**		
Revenue										
Protomold	$35,655	65.3	%	$29,534	70.3	%	$6,121	20.7	%	
Firstcut	15,549	28.5		12,474	29.7		3,075	24.7		
Fineline	3,370	6.2		-	-		3,370	100.0		
Total revenue	$54,574	100.0	%	$42,008	100.0	%	$12,566	29.9	%	

Revenue by geographic region, based on the billing location of the end customer, is summarized as follows:

	Three Months Ended September 30,								
	2014			**2013**			**Change**		
(dollars in thousands)	**$**	**% of Total Revenue**		**$**	**% of Total Revenue**		**$**	**%**	
Revenue									
United States	$40,822	74.8	%	$30,561	72.8	%	$10,261	33.6	%
International	13,752	25.2		11,447	27.2		2,305	20.1	
Total revenue	$54,574	100.0	%	$42,008	100.0	%	$12,566	29.9	%

Our revenue increased $12.6 million, or 29.9%, for the three months ended September 30, 2014 compared with the same period in 2013. This revenue growth was driven by a 33.6% increase in United States revenue, 20.1% increase in international revenue, 20.7% increase in Protomold revenue, 24.7% increase in Firstcut revenue and $3.4 million increase in revenue from the FineLine acquisition, in all cases for the three months ended September 30, 2014 compared with the same period in 2013.

Within our legacy Firstcut and Protomold product lines, our revenue growth in the three months ended September 30, 2014 was the result of increased number and spending of the product developers we served. During the three months ended September 30, 2014, excluding product developers who purchased Fineline products, we served approximately 8,700 unique product developers, an increase of 18.8% over the same period in 2013. Average revenue per product developer, excluding product developers who only purchased Fineline products, also increased 2.6% during the three months ended September 30, 2014 compared to the same period in 2013.

Excluding revenue gained through the acquisition of FineLine, our revenue increases were primarily driven by increases in sales personnel and marketing activities. Our sales personnel focus on gaining new customer accounts and expanding the depth and breadth into existing customer accounts. Our marketing personnel focus on trade show and marketing activities that have proven to result in the greatest number of customer leads to support sales activity. International revenue was favorably impacted by $0.6 million in the three months ended September 30, 2014 compared to the same period in 2013 due to weakening of the United States dollar relative to certain foreign currencies, particularly the British Pound. The effect of pricing changes on revenue was immaterial for the three months ended September 30, 2014 compared to the same period in 2013.

Cost of Revenue, Gross Profit and Gross Margin

Cost of Revenue. Cost of revenue increased $5.4 million, or 33.9%, for the three months ended September 30, 2014 compared to the same period in 2013, which was faster than the rate of revenue increase of 29.9% for the three months ended September 30, 2014 compared to the same period in 2013. The increase in cost of revenue was due to raw material and production cost increases of $1.5 million to support increased sales volumes, equipment and facility-related cost increases of $0.9 million and an increase in direct labor headcount resulting in personnel and related cost increases of $3.0 million.

Gross Profit and Gross Margin. Gross profit increased to $33.1 million, or 60.6% of revenues, for the three months ended September 30, 2014 from $26.0 million, or 61.8% of revenues, for the three months ended September 30, 2013 due to increases in revenue offset by the cost of revenue as discussed above. Gross margin decreased primarily as a result of our Fineline product line having a lower gross margin than our legacy Firstcut and Protomold product lines.

Operating Expenses, Other Income (Expense), net and Provision for Income Taxes

Marketing and Sales. Marketing and sales expense increased $1.9 million, or 35.9%, for the three months ended September 30, 2014 compared to the same period in 2013 due primarily to an increase in headcount resulting in personnel and related cost increases of $1.3 million and marketing program cost increases of $0.6 million. The increase in marketing program costs is the result of our focus and concentration on funding those programs which have proven to be the most effective in growing our business.

Research and Development. Our research and development expense increased $1.5 million, or 50.5%, for the three months ended September 30, 2014 compared to the same period in 2013 due to an increase in headcount resulting in personnel and related cost increases of $1.3 million and operating cost increases of $0.2 million.

General and Administrative. Our general and administrative expense increased $1.6 million, or 39.2%, for the three months ended September 30, 2014 compared to the same period in 2013 due to an increase in headcount resulting in personnel and related cost increases of $0.7 million, stock-based compensation costs increases of $0.3 million, administrative cost increases of $0.2 million, intangible amortization expense cost increases of $0.2 and professional services cost increases of $0.2 million.

Other Income (Expense), net. Other income, net decreased $0.1 million for the three months ended September 30, 2014 compared to the same period in 2013 due to changes in foreign currency rates.

Provision for Income Taxes. Our effective tax rate of 32.5% for the three months ended September 30, 2014 decreased 1.5% when compared to 34.0% for the same period in 2013. The decrease in the effective tax rate is primarily due to our foreign rate differential and an increase in tax benefit from the domestic manufacturing deduction projected for the tax year ending December 31, 2014. As a result of increased income attributable to the fluctuations described above, our income tax provision increased by $0.4 million to $5.0 million for the three months ended September 30, 2014 compared to our income tax provision of $4.6 million for the three months ended September 30, 2013.

Comparison of Nine Months Ended September 30, 2014 and 2013

Revenue

Revenue by product line and the related changes for the nine months ended September 30, 2014 and 2013 were as follows:

	Nine Months Ended September 30,								
	2014			**2013**			**Change**		
(dollars in thousands)	**$**	**% of Total Revenue**		**$**	**% of Total Revenue**		**$**	**%**	
Revenue									
Protomold	$104,604	68.1	%	$84,338	70.8	%	$20,266	24.0	%
Firstcut	43,407	28.3		34,732	29.2		8,675	25.0	
Fineline	5,503	3.6		-	-		5,503	100.0	
Total revenue	$153,514	100.0	%	$119,070	100.0	%	$34,444	28.9	%

Revenue by geographic region, based on the billing location of the end customer, is summarized as follows:

	Nine Months Ended September 30,								
	2014			2013			Change		
(dollars in thousands)	$	% of Total Revenue		$	% of Total Revenue		$	%	
Revenue									
United States	$113,810	74.1	%	$88,816	74.6	%	$24,994	28.1	%
International	39,704	25.9		30,254	25.4		9,450	31.2	
Total revenue	$153,514	100.0	%	$119,070	100.0	%	$34,444	28.9	%

Our revenue increased $34.4 million, or 28.9%, for the nine months ended September 30, 2014 compared with the same period in 2013. This revenue growth was driven by a 28.1% increase in United States revenue, 31.2% increase in international revenue, 24.0% increase in Protomold revenue, 25.0% increase in Firstcut revenue and $5.5 million in revenue from the FineLine acquisition, in each case for the nine months ended September 30, 2014 compared with the same period in 2013.

Within our legacy Firstcut and Protomold product lines, our revenue growth in the nine months ended September 30, 2014 was the result of increased number and spending of the product developers we served. During the nine months ended September 30, 2014, excluding product developers who purchased Fineline products, we served approximately 15,900 unique product developers, an increase of 18.8% over the same period in 2013. Average revenue per product developer, excluding product developers who only purchased Fineline products, also increased 4.6% during the nine months ended September 30, 2014 compared to the same period in 2013.

Excluding revenue gained through the acquisition of FineLine, our revenue increases were primarily driven by increases in sales personnel and marketing activities. Our sales personnel focus on gaining new customer accounts and expanding the depth and breadth into existing customer accounts. Our marketing personnel focus on trade show and marketing activities that have proven to result in the greatest number of customer leads to support sales activity. International revenue was favorably impacted by $1.7 million in the nine months ended September 30, 2014 compared to the same period in 2013 due to the weakening of United States dollar relative to certain foreign currency, particularly the British Pound. The effect of pricing changes on revenue was immaterial for the nine months ended September 30, 2014 compared to the same period in 2013.

Cost of Revenue, Gross Profit and Gross Margin

Cost of Revenue. Cost of revenue increased $13.7 million, or 30.5%, for the nine months ended September 30, 2014 compared to the same period in 2013, which was higher than the rate of revenue increase of 28.9% for the nine months ended September 30, 2014. The increase in cost of revenue was due to raw material and production cost increases of $3.8 million to support increased sales volumes, equipment and facility-related cost increases of $2.3 million and an increase in direct labor headcount resulting in personnel and related cost increases of $7.6 million.

Gross Profit and Gross Margin. Gross profit increased to $94.8 million, or 61.7% of revenues, for the nine months ended September 30, 2014 from $74.1 million, or 62.2% of revenues, for the nine months ended September 30, 2013 due to increases in revenue offset by the cost of revenue as discussed above. Gross margin decreased primarily as a result of our Fineline product line having a lower gross margin than our legacy Firstcut and Protomold product lines and the move to our new facility in Plymouth, Minnesota.

Operating Expenses, Other Income (Expenses), Net and Provision for Income Taxes

Marketing and Sales. Marketing and sales expense increased $4.8 million, or 29.6%, for the nine months ended September 30, 2014 compared to the same period in 2013 due primarily to an increase in headcount resulting in personnel and related cost increases of $3.5 million and marketing program cost increases of $1.3 million. The increase in marketing program costs is the result of our focus and concentration on funding those programs which have proven to be the most effective in growing our business.

Research and Development. Our research and development expense increased $3.5 million, or 41.9%, for the nine months ended September 30, 2014 compared to the same period in 2013 due to an increase in headcount resulting in personnel and related cost increases of $2.9 million and operating cost increases of $0.6 million.

General and Administrative. Our general and administrative expense increased $3.9 million, or 32.7%, for the nine months ended September 30, 2014 compared to the same period in 2013 due to an increase in headcount resulting in personnel and related cost increases of $1.5 million, professional services cost increases of $1.1 million, stock-based compensation costs increases of $0.5 million, administrative cost increases of $0.5 million, and intangible amortization expense cost increases of $0.3 million.

Other Income (Expense), Net. Our other income, net decreased $0.2 million for the nine months ended September 30, 2014 compared to the same period in 2013 due to foreign currency change decreases of $0.3 million, which were partially offset by investment interest income increases of $0.1 million.

Provision for Income Taxes. Our effective tax rate of 31.4% for the nine months ended September 30, 2014 was unchanged from our effective tax rate of 31.4% for the same period in 2013. Refer to Note 11 for additional information. As a result of the increased income attributable to the fluctuations described above, our income tax provision increased by $2.6 million to $14.4 million for the nine months ended September 30, 2014 compared to our income tax provision of $11.8 million for the nine months ended September 30, 2013.

Liquidity and Capital Resources

Cash Flows

The following table summarizes our cash flows for the nine months ended September, 2014 and 2013:

(dollars in thousands)	Nine Months Ended September 30, 2014	2013
Net cash provided by operating activities	$40,004	$34,900
Net cash used in investing activities	(55,234)	(44,970)
Net cash provided by financing activities	6,540	12,622
Effect of exchange rates on cash and cash equivalents	(81)	71
Net increase (decrease) in cash and cash equivalents	$(8,771)	$2,623

Sources of Liquidity

Historically we have financed our operations and capital expenditures primarily through cash flow from operations and, to a lesser extent, lease financing. We had cash and cash equivalents of $34.3 million as of September 30, 2014, a decrease of $8.8 million from December 31, 2013. The decrease in our cash was primarily due to the purchase of FineLine Prototyping, Inc. as discussed in Note 3 to the consolidated financial statements appearing in Part I, Item 1 in this Quarterly Report on Form 10-Q.

Cash Flows from Operating Activities

Cash provided by operating activities was $40.0 million for the nine months ended September 30, 2014. We had net income of $31.4 million, which included non-cash charges consisting of $7.7 million in depreciation and amortization, $3.6 million in stock-based compensation, $1.2 million in amortization of held-to-maturity securities and $0.5 million in deferred taxes, partially offset by $4.4 million of excess tax benefit on stock-based compensation. Other uses of cash in operating activities had no net impact on cash provided by operating activities, which included an increase in accounts receivable of $6.3 million, increase in inventory of $0.3 million and increase in prepaid expenses and other of $0.7 million, which were fully offset by an increase in accrued liabilities and other of $1.9 million, increase in accounts payable of $1.4 million and income taxes-related activity of $4.0 million resulting from the excess tax benefit described above partially offset by the increase in income taxes receivable. These operating cash increases in accounts receivable, accounts payable, inventories and other reflect increases in revenue and the growth of our business.

Cash provided by operating activities was $34.9 million for the nine months ended September 30, 2013. We had net income of $25.8 million, which included non-cash charges consisting of $5.5 million in depreciation, $2.6 million in stock-based compensation, $1.0 million in amortization of held-to-maturity securities and $0.1 million in loss on the disposal of property and equipment, offset by $8.2 million of excess tax benefit on stock-based compensation and $0.1 million of deferred taxes. Other sources of cash in operating activities totaled $8.2 million, which included an increase in income taxes payable of $6.1 million, increase in prepaid expenses and other of $1.5 million, increase in accounts payable of $1.6 million and increase in accrued liabilities and other of $1.6 million, which were partially offset by an increase in accounts receivable of $2.2 million and increase in inventories of $0.4 million. These operating cash increases in accounts receivable, accounts payable, inventories and other reflect increases in revenue and the growth of our business.

Cash Flows from Investing Activities

Cash used in investing activities was $55.2 million for the nine months ended September 30, 2014, consisting of $35.9 million for the purchase of property and equipment, $33.9 million for the payments on business acquisitions and $47.3 million for the purchase of marketable securities, which were partially offset by $61.9 million in proceeds from the maturities, sales and call redemptions of marketable securities.

Cash used in investing activities was $45.0 million for the nine months ended September 30, 2013, consisting of $13.0 million for the purchase of property and equipment and $82.7 million for the purchase of marketable securities, which were partially offset by $50.7 million in proceeds from the maturities and call redemptions of marketable securities.

Cash Flows from Financing Activities

Cash provided by financing activities was $6.5 million for the nine months ended September 30, 2014, consisting of proceeds from exercises of stock options of $3.9 million and $4.4 million in excess tax benefit on stock-based compensation, which were partially offset by $1.0 million for payments of debt and $0.8 million for payments of acquisition-related contingent consideration.

Cash provided by financing activities was $12.6 million for the nine months ended September 30, 2013, consisting of excess tax benefit on stock-based compensation of $8.2 million and $4.6 million in proceeds from exercises of stock options, partially offset by $0.2 million for payments of debt.

Off-Balance Sheet Arrangements

Since our inception, we have not engaged in any off-balance sheet arrangements, including the use of structured finance, special purpose entities or variable interest entities.

Critical Accounting Policies and Use of Estimates

We have adopted various accounting policies to prepare the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Our significant accounting policies are disclosed in Note 2 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2013. There were no material changes in our significant accounting policies, with the following change made to goodwill and intangible assets during the nine months ended September 30, 2014.

Goodwill

We recognize goodwill in accordance with ASC 350, *Intangibles - Goodwill and Other* (ASC 350). Goodwill is the excess of cost of an acquired entity over the amounts assigned to assets acquired and liabilities assumed in a business combination. Goodwill is not amortized. Goodwill is tested for impairment annually in the fourth quarter of each year, and is tested for impairment between annual tests if an event occurs or circumstances change that would indicate the carrying amount may be impaired. An impairment charge for goodwill is recognized only when the estimated fair value of a reporting unit, including goodwill, is less than its carrying amount.

Other Intangible Assets

We recognize other intangibles assets in accordance with ASC 350, *Intangibles - Goodwill and Other* (ASC 350). Other intangible assets include internally developed software, customer relationships and other intangible assets acquired from an independent party. Other intangible assets with a definite life are amortized over a period ranging from two to 10 years on a straight line basis. Other intangible assets with a definite life are tested for impairment whenever events or circumstances indicate that the carrying amount of an asset (asset group) may not be recoverable. An impairment loss is recognized when the carrying amount of an asset exceeds the estimated undiscounted cash flows used in determining the fair value of the asset. The amount of the impairment loss recorded is calculated by the excess of the asset's carrying value over its fair value.

Recent Accounting Pronouncements

For information on recent accounting pronouncements, see Note 2 to the consolidated financial statements appearing in Part I, Item 1 in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Risk

As a result of our foreign operations, we have revenue and expenses, assets and liabilities that are denominated in foreign currencies. A number of our employees are located in Europe and Japan. Therefore, a portion of our payrolls and operating expenses are paid and incurred in the British Pound, Euro and Yen. Our operating results and cash flows are adversely impacted when the U.S. dollar depreciates relative to other foreign currencies. We have not used any forward contracts or currency borrowings to hedge our exposure to foreign currency exchange risk. Foreign currency risk can be quantified by estimating the change in cash flows resulting from a hypothetical 10% adverse change in foreign exchange rates. We believe such a change would not have a material impact on our results of operations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (Exchange Act)) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this quarterly report, our disclosure controls and procedures are effective and provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported accurately and within the time frames specified in the SEC’s rules and forms and accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are subject to various legal proceedings and claims that arise in the ordinary course of our business activities. Although the results of litigation and claims cannot be predicted with certainty, as of the date of these financial statements, we do not believe we are party to any litigation the outcome of which, if determined adversely to us, would individually or in the aggregate be reasonably expected to have a material adverse effect on our business.

Item 1A. Risk Factors

The risk factor discussed below updates the risk factors we previously disclosed in Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013.

Our acquisition of FineLine Prototyping, Inc. presents risks to our business and could harm our operating results and financial condition.

On April 23, 2014, we entered into a stock purchase agreement for the purchase of all of the outstanding shares of capital stock of FineLine Prototyping, Inc. At the closing, we paid cash consideration of $34.5 million to the sellers, which amount is subject to adjustment based on FineLine’s indebtedness and net working capital as of the closing date and FineLine’s expenses in connection with the transactions contemplated by the stock purchase agreement. The stock purchase agreement also provides that we will pay the sellers up to an additional $3 million if FineLine’s revenue for 2014 exceeds certain amounts and if certain milestones relating to the integration of FineLine’s and our businesses are achieved. FineLine provides additive manufacturing (3D printing) services. Our acquisition of FineLine subjects us to certain risks, including:

- We have not previously provided additive manufacturing services and the complexity of our operations therefore has increased, and we may not be able to maintain or grow the newly acquired portion of our business as quickly or significantly as anticipated, or at all;
- Integrating FineLine’s operations with our historic operations could divert management’s attention and cause our results of operations to suffer;
- We may be unable to integrate successfully FineLine’s business and realize the anticipated benefits of the acquisition;

Our acquisition of FineLine includes significant goodwill, which could result in future impairment charges that would reduce our earnings;
Our acquisition of FineLine and the integration of its business may involve unexpected costs, unexpected liabilities or unexpected delays; and
Our acquisition of FineLine may harm relationships with FineLine’s customers, suppliers and employees.

Any failure to successfully address these challenges or risks could disrupt our business and harm our operating results and financial condition.

Item 6. Exhibits

The following documents are filed as part of this report:

Exhibit Number	**Description of Exhibit**
3.1(1)	Third Amended and Restated Articles of Incorporation of Proto Labs, Inc.
3.2(2)	Amended and Restated By-Laws of Proto Labs, Inc.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act
32.1	Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act
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

(1) Previously filed as Exhibit 3.2 to the Company’s Registration Statement on Form S-1/A (File No. 333-175745), filed with the Commission on February 13, 2012, and incorporated by reference herein.

(2) Previously filed as Exhibit 3.4 to the Company’s Registration Statement on Form S-1/A (File No. 333-175745), filed with the Commission on February 13, 2012, and incorporated by reference herein.

SIGNATURE

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.

Proto Labs, Inc.

Date: November 4, 2014

/s/ Victoria M. Holt
Victoria M. Holt
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 4, 2014

/s/ John R. Judd
John R. Judd
Chief Financial Officer
(Principal Financial Officer)

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nd the future periods in which such obligations are expected to be settled in cash (in thousands).

	Total	Less than 1 year	Years 2-3	Years 4-5	More than 5 Years
Long-term debt	$309,939	$ 22,978	$ 59,333	$ 227,628	$ -
Leases	89,536	15,550	24,732	20,226	29,028
Purchase obligations	200,510	65,877	101,773	22,450	10,410
Other obligations	28,720	5,744	11,488	11,488	-
Total	$628,705	$ 110,149	$ 197,326	$ 281,792	$ 39,438

Our long-term debt obligations are discussed in more detail in Note 6 to our Financial Statements. The contractual obligation amounts reflected for our long-term debt is based upon the following assumptions:

(i) our 2010 Convertible Notes are outstanding through their maturity date of March 1, 2017; upon settlement, our cash obligation will not exceed their principal amount; and interest paid through their life is at a rate of 3.0% per annum;
(ii) as it relates to our Credit Agreement, we make no more than the mandatory quarterly amortization payments on the term loan; there are no mandatory prepayments required on the term loan; and the interest paid throughout the life of the term loan is based upon the interest rate applicable as of December 31, 2013, as impacted by the interest rate

swap contracts (discussed in Note 7 to our Financial Statements).

The operating leases are discussed in Note 11 to our Financial Statements. Our purchase obligations consist primarily of our expected minimum base fees under the Infocrossing service agreement (discussed in Note 11 to our Financial Statements), and data communication and business continuity planning services.

The other obligations reflect the requirement for us to pay cash of approximately $29 million ratably over five years related to the deferred income tax liabilities associated with our repurchase of the 2004 Convertible Debt Securities as discussed in Note 9 to our Financial Statements.

Of the total contractual obligations and commercial commitments above, approximately $334 million is reflected on our Balance Sheet.

Off-Balance Sheet Arrangements

None

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 December 31, 2013, we had cash, cash equivalents, and short-term investments of $210.8 million, of which approximately 88% is in U.S. Dollars and held in the U.S. We have $4.5 million of restricted cash, used primarily to collateralize outstanding letters of credit. For the remainder of the monies denominated in foreign currencies and/or located outside the U.S., we do not anticipate any material amounts being unavailable for use in running our business.
- Operating Cash Flows. As described in the Liquidity section above, we believe we have the ability to consistently generate strong cash flows to fund our operating activities and act as a source of funds for our capital resource needs.
- Revolving Loan Facility. We have a $100 million senior secured revolving loan facility with a syndicate of financial institutions that expires in November 2017 (or December 2016 if certain conditions exist—see Note 6 to our Financial Statements for additional details). As of the date of this filing, we have $100 million of the revolving loan facility available to us.

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

- Common Stock Repurchases. We have made repurchases of our common stock in the past under our Stock Repurchase Program. During the year ended December 31, 2013, we repurchased 0.5 million shares of our common stock for $10.1 million (weighted-average price of $20.23 per share) under our Stock Repurchase Program. As of December 31, 2013, we have 2.1 million shares authorized for repurchase remaining under our Stock Repurchase Program. Our Credit Agreement places certain limitations on our ability to repurchase our common stock. We continue to evaluate the best use of our capital going forward, which from time-to-time, may include additional share repurchases as market and business conditions warrant.
- Cash Dividends. On June 25, 2013, our Board approved the initiation of a quarterly cash dividend to be paid to our stockholders. During the year ended December 31, 2013, the Board approved dividend payments totaling $15.2 million, of which $14.5 million had been paid through December 31, 2013 (with the remaining amount attributed to unvested incentive shares to be paid upon vesting). In February 2014, our Board approved the next quarterly cash dividend payment of $0.15 per share of common stock to be paid on March 27, 2014. 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. Most recently, in December 2013, we acquired certain key assets of Volubill where we paid cash related to the transaction of approximately $3 million.
- Capital Expenditures. During 2013, we spent $30.1 million on capital expenditures. At this time, we expect our 2014 capital expenditures to be relatively consistent with that of 2013. As of December 31, 2013, we have made no significant capital expenditure commitments.
- Investments in Client Contracts. In the past, we have provided incentives to new or existing U.S. processing clients to convert their customer accounts to, or retain their customer's accounts on, our customer care and billing solutions. During the year ended December 31, 2013, we made client incentive payments of $7.1 million. As of December 31, 2013, we had commitments to make $6 million of client incentive payments, $3.0 million in 2014 and $1.5 million in 2015 and 2016, respectively.
- Long-Term Debt Service. As of December 31, 2013, our long-term debt consisted of: (i) 2010 Convertible Notes with a par value of $150.0 million; and (ii) Credit Agreement term loan borrowings of $135 million. During the next twelve months, there are no scheduled conversion triggers on our 2010 Convertible Notes,

and therefore, our expected cash debt service at this time related to the 2010 Convertible Notes is the $4.5 million of interest payments. Over the next 12 months, the mandatory repayments and the cash interest expense (based upon current interest rates) for our Credit Agreement are approximately $15.0 million and $3.5 million, respectively. We have the ability to make prepayments on our Credit Agreement without penalty.

- We continue to evaluate the best use of our capital going forward, which from time-to-time, may include common stock repurchases, repurchases of our 2010 Convertible Notes, and/or prepayments on our Credit Agreement, as market and business conditions warrant.

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the potential loss arising from adverse changes in market rates and prices. As of December 31, 2013, 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.

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

The interest rates under our Credit Agreement are based upon an adjusted LIBOR rate plus an applicable margin, or an alternate base rate plus an applicable margin. Refer to Note 6 to our Financial Statements for further details of our long-term debt.

As of December 31, 2013, we are a party to an interest rate swap contract with the objective of managing our exposure to fluctuations in interest rate movements, thereby eliminating the variability of cash flows on a certain portion of the interest payments related to our variable-rate debt. See Note 7 to our Financial Statements for further details on the interest rate swap contract.

As a result of the interest rate swap contract, as of December 31, 2013, we were exposed to fluctuations in interest rate movements on $95.0 million of our Term Loan. We expect our exposure amount to fluctuate as the interest rate swap contract expires and the balance due under the Credit Agreement is repaid through mandatory repayments or prepayments.

A hypothetical adverse change of 10% in the December 31, 2013 adjusted LIBOR rate would not have had a material impact upon our results of operations.

Market Risk Related to Cash Equivalents and Short-term Investments.

Our cash and cash equivalents as of December 31, 2013 and 2012 were $82.7 million and $133.7 million, respectively. Certain of our cash balances are “swept” into overnight money market accounts on a daily basis, and at times, any excess funds are invested in low-risk, somewhat longer term, cash equivalent instruments and short-term investments. Our cash equivalents are invested primarily in institutional money market funds, commercial paper, and time deposits held at major banks. We have minimal market risk for our cash and cash equivalents due to the relatively short maturities of the instruments.

Our short-term investments as of December 31, 2013 and 2012 were $128.2 million and $35.6 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 of Directors. Under these guidelines, short-term investments are limited to certain acceptable investments with: (i) a maximum maturity; (ii) a maximum concentration and diversification; and (iii) a minimum acceptable credit quality. At this time, we believe we have minimal liquidity risk associated with the short-term investments included in our portfolio.

Foreign Currency Exchange Rate Risk.

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

During the year ended December 31, 2013, we generated approximately 87% 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 December 31, 2013 and 2012, 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):

	December 31, 2013		December 31, 2012	
	Monetary Liabilities	Monetary Assets	Monetary Liabilities	Monetary Assets
Pounds sterling	$(39)	$3,075	$(36)	$1,439
Euro	(41)	5,618	(40)	5,090
U.S. Dollar	(191)	18,996	(94)	23,719
Other	(8)	2,686	(20)	3,311
Totals	$(279)	$30,375	$(190)	$33,559

A hypothetical adverse change of 10% in the December 31, 2013 exchange rates would not have had a material impact upon our results of operations.

Item 8. Financial Statements and Supplementary Data
CSG SYSTEMS INTERNATIONAL, INC.

CONSOLIDATED FINANCIAL STATEMENTS

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Management’s Report on Internal Control Over Financial Reporting

Management of CSG Systems International, Inc. and subsidiaries (the “Company”) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) or 15d-15(f) under the Securities Exchange Act of 1934, as amended. The Company’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. The Company’s internal control over financial reporting includes those policies and procedures that:

(i) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
(ii) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
(iii) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (1992).

Based on our assessment, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2013.

The Company’s independent registered public accounting firm, KPMG LLP, has issued an attestation report on the effectiveness of the Company’s internal control over financial reporting as of December 31, 2013. That report appears immediately following.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

CSG Systems International, Inc.:

We have audited CSG Systems International, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). CSG Systems International Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, CSG Systems International, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CSG Systems International, Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2013, and our report dated February 28, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Omaha, Nebraska

February 28, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

CSG Systems International, Inc.:

We have audited the accompanying consolidated balance sheets of CSG Systems International, Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CSG Systems International, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CSG Systems International, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2014 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Omaha, Nebraska

February 28, 2014

CSG SYSTEMS INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

	December 31, 2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	$82,686	$133,747
Short-term investments	128,151	35,574
Total cash, cash equivalents and short-term investments	210,837	169,321
Trade accounts receivable:		
Billed, net of allowance of $2,359 and $3,147	178,511	191,943
Unbilled	38,365	28,463
Deferred income taxes	15,085	22,244
Income taxes receivable	3,815	6,469
Other current assets	28,762	21,915
Total current assets	475,375	440,355
Non-current assets:		
Property and equipment, net of depreciation of $129,522 and $120,643	35,061	39,429
Software, net of amortization of $77,504 and $68,496	43,565	38,372
Goodwill	233,599	233,365
Client contracts, net of amortization of $75,382 and $182,182	55,191	75,303
Deferred income taxes	7,447	2,596
Income taxes receivable	1,930	1,291
Other assets	16,812	16,230
Total non-current assets	393,605	406,586
Total assets	$868,980	$846,941
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$15,000	$15,000
Client deposits	30,431	33,807
Trade accounts payable	33,376	30,473
Accrued employee compensation	58,434	61,083
Deferred revenue	47,131	47,691
Income taxes payable	2,814	2,116
Other current liabilities	19,620	21,562
Total current liabilities	206,806	211,732
Non-current liabilities:		
Long-term debt, net of unamortized original issue discount of $19,950 and $25,302	250,050	259,698
Deferred revenue	9,221	6,504
Income taxes payable	1,909	1,168
Deferred income taxes	20,274	21,674
Other non-current liabilities	14,616	19,526
Total non-current liabilities	296,070	308,570

Total liabilities	502,876	520,302
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; 5,441 and 6,904 shares reserved		
for employee stock purchase plan and stock incentive plans; 33,745 and 33,734 shares outstanding	658	653
Additional paid-in capital	473,190	461,497
Treasury stock, at cost, 32,030 and 31,530 shares	(738,372)	(728,243)
Accumulated other comprehensive income (loss):		
Unrealized gain on short-term investments, net of tax	41	3
Unrecognized pension plan losses and prior service costs, net of tax	-	(1,761)
Unrecognized loss on change in fair value of interest rate swap contracts, net of tax	(98)	(658)
Cumulative foreign currency translation adjustments	1,674	2,274
Accumulated earnings	629,011	592,874
Total stockholders' equity	366,104	326,639
Total liabilities and stockholders' equity	$868,980	$846,941

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

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CSG SYSTEMS INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

	Year Ended December 31,		
	2013	2012	2011
Revenues:			
Processing and related services	$537,453	$544,649	$524,666
Software and services	118,988	124,242	118,835
Maintenance	91,027	87,975	91,230
Total revenues	747,468	756,866	734,731
Cost of revenues (exclusive of depreciation, shown separately below):			
Processing and related services	253,756	258,380	244,776
Software and services	84,222	85,562	82,834
Maintenance	39,187	39,874	38,040
Total cost of revenues	377,165	383,816	365,650
Other operating expenses:			
Research and development	110,008	112,938	111,142
Selling, general and administrative	152,553	138,783	128,346
Depreciation	18,633	22,286	25,435
Restructuring charges	12,405	2,469	7,873
Total operating expenses	670,764	660,292	638,446
Operating income	76,704	96,574	96,285
Other income (expense):			
Interest expense	(11,621)	(15,983)	(17,026)
Amortization of original issue discount	(5,352)	(4,954)	(5,206)
Interest and investment income, net	689	855	764
Other, net	1,099	732	1,155
Total other	(15,185)	(19,350)	(20,313)
Income before income taxes	61,519	77,224	75,972
Income tax provision	(10,168)	(28,345)	(33,690)
Net income	$51,351	$48,879	$42,282
Weighted-average shares outstanding - Basic:			
Common stock	32,117	32,142	32,624
Participating restricted stock	-	17	189
Total	32,117	32,159	32,813
Weighted-average shares outstanding - Diluted:			
Common stock	32,873	32,459	32,833
Participating restricted stock	-	17	189
Total	32,873	32,476	33,022
Earnings per common share:			
Basic	$1.60	$1.52	$1.29

Diluted	$1.56	$1.51	$1.28

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

CSG SYSTEMS INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Year Ended December 31,		
	2013	2012	2011
Net income	$51,351	$48,879	$42,282
Other comprehensive income, net of tax:			
Foreign currency translation adjustments	(600)	4,272	(2,866)
Unrealized holding gains (losses) on short-term investments arising during period	38	2	(3)
Defined benefit pension plan:			
Net loss arising from period (net of tax effect of $(119), $(62), and $(629))	(183)	(119)	(972)
Amortization of net actuarial loss included in net periodic pension cost (net of tax effect of $28, $97, and $48)	43	152	75
Final settlement of pension plan liability (net of tax effect of $1,214, $0, and $0)	1,901	-	-
Net change in defined benefit pension plan	1,761	33	(897)
Cash flow hedges:			
Unrealized gains (losses) on change in fair value of interest rate swap contracts (net of tax effect of $724, $128, and $(387))	1,140	200	(684)
Reclassification adjustment for gains (losses) included in net income (net of tax effect of $(368), $(153), and $41)	(580)	(240)	66
Net change in cash flow hedges	560	(40)	(618)
Other comprehensive income (loss), net of tax	1,759	4,267	(4,384)
Total comprehensive income, net of tax	$53,110	$53,146	$37,898

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

CSG SYSTEMS INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

	Year Ended December 31,		
	2013	2012	2011
Common stock:			
Balance, beginning of period	$653	$645	$641
Issuance of restricted common stock pursuant to employee stock-based compensation plans	8	8	7
Cancellation of restricted common stock pursuant to employee stock-based compensation plans	-	-	(1)
Repurchase and cancellation of common stock pursuant to employee stock-based compensation plans	(3)	-	(2)
Balance, end of period	658	653	645
Paid-in capital:			
Balance, beginning of period	461,497	449,376	439,712
Issuance of common stock pursuant to employee stock purchase plan	1,347	1,394	1,442
Exercise of stock options	244	502	44
Repurchase and cancellation of common stock pursuant to employee stock-based compensation plans	(5,346)	(3,208)	(4,433)
Issuance of restricted common stock pursuant to employee stock-based compensation plans	(8)	(8)	(7)
Cancellation of unvested restricted common stock pursuant to employee stock-based compensation plans	-	-	1
Stock-based compensation expense	14,796	13,431	12,152
Stock-based compensation income tax benefits	660	10	465
Balance, end of period	473,190	461,497	449,376
Treasury Stock:			
Balance, beginning of period	(728,243)	(714,893)	(704,963)
Repurchase of common stock pursuant to Board-approved stock repurchase program	(10,129)	(13,350)	(9,930)
Balance, end of period	(738,372)	(728,243)	(714,893)
Accumulated Earnings:			
Balance, beginning of period	592,874	543,995	501,713
Net Income	51,351	48,879	42,282
Declaration of cash dividends	(15,214)	-	-
Balance, end of period	629,011	592,874	543,995
Accumulated Other Comprehensive Income:			
Balance, beginning of period	(142)	(4,409)	(25)

Net unrealized gains (losses) on short-term investments	38	2	(3)
Net unrealized gains (losses) on pension plan and prior service costs	1,761	33	(897)
Net unrealized gains (losses) on change in fair value of interest rate swap contracts	560	(40)	(618)
Foreign currency translation	(600)	4,272	(2,866)
Balance, end of period	1,617	(142)	(4,409)
Total stockholders' equity:			
Balance, end of period	$366,104	$326,639	$274,714
Shares:			
Balance, beginning of period	33,734	33,822	34,121
Repurchase of common stock pursuant to Board-approved stock repurchase program	(500)	(823)	(750)
Issuance of common stock pursuant to employee stock purchase plan	68	94	103
Exercise of stock options	20	40	3
Issuance of restricted common stock pursuant to employee stock-based compensation plans	840	873	746
Cancellation of unvested restricted common stock pursuant to employee stock-based compensation plans	(153)	(77)	(170)
Repurchase and cancellation of common stock pursuant to employee stock-based compensation plans	(264)	(195)	(231)
Balance, end of period	33,745	33,734	33,822

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

CSG SYSTEMS INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2013	2012	2011
Cash flows from operating activities:			
Net income	$51,351	$48,879	$42,282
Adjustments to reconcile net income to net cash provided by operating activities-			
Depreciation	18,633	22,286	25,435
Amortization	37,819	44,178	42,173
Amortization of original issue discount	5,352	4,954	5,206
Impairment of client contract	-	3,783	-
(Gain) loss on short-term investments and other	910	(107)	(60)
Loss on disposition of business operations	3,017	-	-
Loss on termination of pension plan	3,221	-	-
Deferred income taxes	(1,764)	(10,707)	3,977
Excess tax benefit of stock-based compensation awards	(677)	(415)	(828)
Stock-based employee compensation	14,796	13,431	12,152
Changes in operating assets and liabilities, net of acquired amounts:			
Trade accounts receivable, net	(2,319)	(9,481)	(30,141)
Other current and non-current assets	(7,163)	(1,715)	1,799
Income taxes payable/receivable	4,556	(6,543)	7,573
Trade accounts payable and accrued liabilities	(994)	18,474	(20,074)
Deferred revenue	(104)	425	(28,535)
Net cash provided by operating activities	126,634	127,442	60,959
Cash flows from investing activities:			
Purchases of property and equipment	(30,076)	(33,221)	(22,197)
Purchases of short-term investments	(183,575)	(65,355)	(37,798)
Proceeds from sale/maturity of short-term investments	89,688	42,063	43,450
Acquisition of businesses, net of cash acquired	(2,926)	(19,085)	-
Acquisition of and investments in client contracts	(7,092)	(4,629)	(9,133)
Proceeds from the disposition of business operations	4,530	-	-
Net cash used in investing activities	(129,451)	(80,227)	(25,678)
Cash flows from financing activities:			
Proceeds from issuance of common stock	1,591	1,896	1,486
Payment of cash dividends	(14,454)	-	-
Repurchase of common stock	(15,478)	(16,558)	(14,365)
Payments on acquired equipment financing	(2,723)	(1,698)	(1,587)
Proceeds from long-term debt	-	150,000	-
Payments on long-term debt	(15,000)	(190,000)	(70,149)
Payments of deferred financing costs	-	(2,450)	(205)

Excess tax benefit of stock-based compensation awards	677	415	828
Net cash used in financing activities	(45,387)	(58,395)	(83,992)
Effect of exchange rate fluctuations on cash	(2,857)	(1,806)	(2,414)
Net decrease in cash and cash equivalents	(51,061)	(12,986)	(51,125)
Cash and cash equivalents, beginning of period	133,747	146,733	197,858
Cash and cash equivalents, end of period	$82,686	$133,747	$146,733
Supplemental disclosures of cash flow information:			
Cash paid during the period for-			
Interest	$9,440	$13,124	$13,921
Income taxes	6,149	43,739	22,836

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General

CSG Systems International, Inc. (the “Company”, “CSG”, or forms of the pronoun “we”), a Delaware corporation, was formed in October 1994 and is based in Englewood, Colorado. We are a business support solutions provider primarily serving the communications industry. 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 expanding needs of communications service providers to provide a differentiated, real-time, and personal experience for their consumers. Our suite of solutions includes revenue management, content management and monetization, customer interaction management, as well as analytics and intelligence. We are a S&P SmallCap 600 company.

The accompanying Consolidated Financial Statements (“Financial Statements”) are prepared in conformity with accounting principles generally accepted (“GAAP”) in the United States (“U.S.”).

2. Summary of Significant Accounting Policies

Principles of Consolidation. Our Financial Statements include all of our accounts and our subsidiaries’ accounts. All material intercompany accounts and transactions have been eliminated.

Reclassifications. Maintenance revenues, as well as the cost of maintenance revenues, previously included in software, maintenance and service revenues and software, maintenance and services costs of revenues, respectively, have been presented separately in the Consolidated Statements of Income (“Income Statements” or “Income Statement”) for each of the years in the three-year period ended December 31, 2013. In addition, certain other 2012 and 2011 amounts have been reclassified to conform to the 2013 presentation.

Translation of Foreign Currency. Our foreign subsidiaries use the local currency of the countries in which they operate as their functional currency. Their assets and liabilities are translated into U.S. dollars at the exchange rates in effect at the balance sheet date. Revenues, expenses, and cash flows are translated at the average rates of exchange prevailing during the period. Foreign currency translation adjustments are included in comprehensive income in stockholders’ equity. Foreign currency transaction gains and losses are included in the determination of net income.

Use of Estimates in Preparation of Our Financial Statements. The preparation of our Financial Statements 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 period. Actual results could differ from those estimates. The more critical estimates and related assumptions that affect our financial position and results of operations are in the areas of: (i) revenue recognition; (ii) allowance for doubtful accounts receivable; (iii) impairment assessments of goodwill and other long-lived assets; (iv) income taxes; (v) business combinations and asset purchases; and (vi) loss contingencies.

Revenue Recognition. We use various judgments and estimates in connection with the determination of the amount of revenues to be recognized in each accounting period. Our primary revenue recognition criteria include: (i) persuasive evidence of an arrangement; (ii) delivery; (iii) fixed or determinable fees; and (iv) collectibility of fees.

Processing and Related Services.

Our processing and related services revenue relates to: (i) the outsourced, customer care and billing processing and related services provided to our North American cable and satellite clients; and (ii) the managed services provided to clients which utilize our software. Under managed services agreements, we may operate certain of our software products on behalf of our clients: (i) out of a client's data center; (ii) out of a data center we own and operate; or (iii) out of a third-party data center we contract with for such services. Managed services can also include us providing other services, such as transitional services, fulfillment, remittance processing, operational consulting, back office, and end user billing services.

We contract for our processing and related services using long-term agreements whose terms have typically ranged from three to ten years. The long-term processing agreements include multiple services delivered each month, to include such things as: (i) billing and data processing services; (ii) credit management and collection services; and (iii) customer statement invoice printing and mailing services. The fees for these deliverables typically are billed to our clients monthly based upon actual monthly volumes and/or usage of services (e.g., the number of client customers processed on our systems, the number of transactions processed on our systems, and/or the quantity and content of the monthly statements and mailings processed through our systems) or on a fixed monthly fee. We recognize processing and related services revenue on a monthly basis as we provide the services.

Software, services, and maintenance.

Our software and services revenue relates primarily to: (i) software license sales; and (ii) professional services to implement the software. Our maintenance revenue relates primarily to support of our software once it has been implemented.

The accounting for software license arrangements, especially when software is sold in a multiple-element arrangement, can be complex and requires considerable judgment. Key factors considered in accounting for software license and related services include the following criteria: (i) the identification of the separate elements of the arrangement; (ii) the determination of whether any undelivered elements are essential to the functionality of the delivered elements; (iii) the assessment of whether the software, if hosted, should be accounted for as a services arrangement and thus outside the scope of the software revenue recognition literature; (iv) the determination of vendor specific objective evidence ("VSOE") of fair value for the undelivered element(s) of the arrangement; (v) the assessment of whether the software license fees are fixed or determinable; (vi) the determination as to whether the fees are considered collectible; and (vii) the assessment of whether services included in the arrangement represent significant production, customization or modification of the software. The evaluation of these factors, and the ultimate revenue recognition decision, requires significant judgments to be made by us. The judgments made in this area could have a significant effect on revenues recognized in any period by changing the amount and/or the timing of the revenue recognized. In addition, because software licenses typically have little or no direct, incremental costs related to the recognition of the revenue, these judgments could also have a significant effect on our results of operations.

The initial sale of software products generally requires significant production, modification or customization and thus falls under the guidelines of contract accounting. In these software license arrangements, the elements of the arrangements are typically a software license, professional services, and maintenance. When we have VSOE of fair value for the maintenance, which we generally do, we allocate a portion of the total arrangement fee to the maintenance element based on its VSOE of fair value, and the balance of the arrangement fee is subject to contract accounting using the percentage-of-completion ("POC") method of accounting. Under the POC method of accounting, software license and professional services revenues are typically recognized as the professional services related to the software implementation project are performed. We are using hours performed on the project as the measure to determine the percentage of the work completed.

In certain instances, we sell software license volume upgrades, which provide our clients the right to use our software to process higher transaction volume levels. In these instances, if: (i) maintenance is the only undelivered element of the software arrangement; (ii) we have VSOE of fair value for the maintenance related to the volume upgrade; and (iii) we meet the other revenue recognition criteria, we recognize the software license revenue on the effective date of the volume upgrade.

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

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

Revenues from professional services contracts billed on a time-and-materials basis are recognized as the services are performed and as amounts due from clients are deemed collectible and contractually non-refundable.

Maintenance revenues are recognized ratably over the software maintenance period. Our maintenance consists primarily of client and product support, technical updates (e.g., bug fixes, etc.), and unspecified upgrades or enhancements to our software products.. If specified upgrades or enhancements are offered in an arrangement, which is rare, they are accounted for as a separate element of the software arrangement.

Deferred Revenue and Unbilled Accounts Receivable. Client payments and billed amounts due from clients in excess of revenue recognized are recorded as deferred revenue. Deferred revenue amounts expected to be recognized within the next twelve months are classified as current liabilities. Revenue recognized prior to the scheduled billing date is recorded as unbilled accounts receivable.

Postage. We pass through to our clients the cost of postage that is incurred on behalf of those clients, and typically require an advance payment on expected postage costs. These advance payments are included in client deposits in the accompanying Consolidated Balance Sheets ("Balance Sheets" or "Balance Sheet") and are classified as current liabilities regardless of the contract period. We net the cost of postage against the postage reimbursements for those clients where we require advance deposits, and include the net amount in processing and related services revenues.

Cash and Cash Equivalents. We consider all highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents. As of December 31, 2013 and 2012, our cash equivalents consist primarily of institutional money market funds, commercial paper, and time deposits held at major banks.

As of December 31, 2013 and 2012, we had $4.5 million and $3.5 million, respectively, of restricted cash that serves to collateralize outstanding letters of credit. This restricted cash is included in cash and cash equivalents in our Balance Sheet.

Short-term Investments and Other Financial Instruments. Our financial instruments as of December 31, 2013 and 2012 include cash and cash equivalents, short-term investments, accounts receivable, accounts payable, interest rate swap contracts, 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 December 31, 2013 and 2012 have contractual maturities of less than two years from the time of acquisition. Our short-term investments at December 31, 2013 and 2012 consisted almost entirely of fixed income securities. Proceeds from the sale/maturity of short-term investments in 2013, 2012, and 2011 were $89.7 million, $42.1 million, and $43.5 million, respectively.

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

	December 31, 2013			December 31, 2012		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Cash equivalents:						
Money market funds	$ 13,761	$ —	$ 13,761	$23,119	$—	$23,119
Commercial paper	—	19,629	19,629	—	35,856	35,856
Short-term investments:						
Corporate debt securities	—	76,786	76,786	—	34,826	34,826
Municipal bonds	—	29,106	29,106	—	—	—

U.S. government agency bonds	—	18,050	18,050	—	748	748
Asset-backed securities	—	4,209	4,209	—	—	—
Total	$ 13,761	$147,780	$161,541	$23,119	$71,430	$94,549
Liabilities:						
Interest rate swap contracts (1)	$ —	$154	$154	$—	$1,069	$1,069
Total	$ —	$ 154	$154	$—	$1,069	$1,069

(1) As of December 31, 2013, the fair value of the interest rate swap contract was classified on our Balance Sheet in other current liabilities. As of December 31, 2012, the fair value of the interest rate swap contracts were classified on our Balance Sheet in other non-current liabilities.

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

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

	December 31, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Credit Agreement (carrying value including current maturities)	$135,000	$135,000	$150,000	$150,000
Convertible debt (par value)	150,000	199,800	150,000	158,400

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.

Concentrations of Credit Risk. In the normal course of business, we are exposed to credit risk. The principal concentrations of credit risk relate to cash deposits, cash equivalents, short-term investments, and accounts receivable. We regularly monitor credit risk exposures and take steps to mitigate the likelihood of these exposures resulting in a loss. We hold our cash deposits, cash equivalents, and short-term investments with financial institutions we believe to be of sound financial condition.

We generally do not require collateral or other security to support accounts receivable. We evaluate the credit worthiness of our clients in conjunction with our revenue recognition processes, as well as through our ongoing collectibility assessment processes for accounts receivable. We maintain an allowance for doubtful accounts receivable based upon factors surrounding the credit risk of specific clients, historical trends, and other information. We use various judgments and estimates in determining the adequacy of the allowance for doubtful accounts receivable. See Note 4 for additional details of our concentration of accounts receivable.

The activity in our allowance for doubtful accounts receivable is as follows (in thousands):

	2013	2012	2011
Balance, beginning of year	$3,147	$2,421	$1,837
Additions (reductions) to expense	(354)	1,039	844
Write-offs	(280)	(174)	(239)
Other	(154)	(139)	(21)
Balance, end of year	$ 2,359	$3,147	$2,421

Property and Equipment. Property and equipment are recorded at cost (or at estimated fair value if acquired in a business combination) and are depreciated over their estimated useful lives ranging from three to ten years. Leasehold improvements are depreciated over the shorter of their economic life or the lease term. Depreciation expense is computed using the straight-line method for financial reporting purposes, with the exception of certain statement production equipment, which is depreciated using the units-of-production method. Depreciation expense for all property and equipment is reflected in our accompanying Income Statements separately in the aggregate and is not included in the cost of revenues or the other components of operating expenses. Depreciation for income tax purposes is computed using accelerated methods.

Software. We expend substantial amounts on R&D, particularly for new products and services, or for enhancements of existing products and services. For development of software products that are to be licensed by us, we expense all costs related to the development of the software until technological feasibility is established. For development of software to be used internally (e.g., processing systems software), we expense all costs prior to the application development stage.

During 2013, 2012, and 2011, we expended $110.0 million, $112.9 million, and $111.1 million, respectively, on R&D projects. We did not capitalize any R&D costs in 2013, 2012, or 2011, as the costs subject to capitalization during these periods were not material. We did not have any capitalized R&D costs included in our December 31, 2013 or 2012 Balance Sheets.

Realizability of Long-Lived Assets. We evaluate our long-lived assets, other than goodwill, for possible impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. A long-lived asset is impaired if estimated future undiscounted cash flows associated with that asset are insufficient to recover the carrying amount of the long-lived asset. If deemed impaired, the long-lived asset is written down to its fair value.

Goodwill. We evaluate our goodwill for impairment on an annual basis. In addition, we evaluate our goodwill on a more periodic basis (e.g., quarterly) if events occur or circumstances change that could indicate a potential impairment may have occurred. Goodwill is considered impaired if the carrying value of the reporting unit which includes the goodwill is greater than the estimated fair value of the reporting unit.

Contingencies. We accrue for a loss contingency when: (i) it is probable that an asset has been impaired, or a liability has been incurred; and (ii) the amount of the loss can be reasonably estimated. The determination of accounting for loss contingencies is subject to various judgments and estimates. We do not record the benefit from a gain contingency until the benefit is realized.

Earnings Per Common Share (“EPS”). Basic and diluted EPS amounts are presented on the face of our Income Statements.

Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. Unvested restricted stock awards under our stock incentive plans, granted prior to August 2008, contain nonforfeitable rights to cash dividends. As a result, basic EPS is computed by dividing net income available to common stockholders and participating securities (the numerators) by the respective weighted-average number of shares outstanding during the period (the denominators) using the two-class method. Under the two-class method, undistributed earnings are allocated among each class of common stock and participating security prior to the calculation of EPS. Diluted EPS is calculated similarly, except that the calculation includes the effect of potentially dilutive stock options and non-participating restricted stock awards.

The amounts attributed to both common stock and participating restricted stock used as the numerators in both the basic and diluted EPS calculations are as follows (in thousands):

	2013	2012	2011
Net income attributed to:			
Common stock	$ 51,351	$48,853	$42,040
Participating common restricted stock	—	26	242
Total	$ 51,351	$48,879	$42,282

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

	2013	2012	2011
Weighted-average shares outstanding – Basic:			
Common stock	32,117	32,142	32,624
Participating common restricted stock	—	17	189
Total	32,117	32,159	32,813
Weighted-average shares outstanding – Diluted:			
Common stock	32,873	32,459	32,833
Participating common restricted stock	—	17	189
Total	32,873	32,476	33,022

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

	2013	2012	2011
Basic weighted-average common shares	32,117	32,142	32,624

Dilutive effect of common stock options	1	11	19
Dilutive effect of non-participating restricted common stock	550	306	190
Dilutive effect of 2010 Convertible Notes	205	—	—
Diluted weighted-average common shares	32,873	32,459	32,833

Potentially dilutive common shares related to stock options and non-participating unvested incentive shares of restricted stock of zero, 0.3 million, and 0.2 million, respectively, in each of the years 2013, 2012, and 2011, were excluded from the computation of diluted EPS as their effect was antidilutive.

The 2010 Convertible Notes have a dilutive effect in those quarterly periods in which our average stock price exceeds the current effective conversion price (see Note 6).

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Stock-Based Compensation. Stock-based compensation represents the cost related to stock-based awards granted to employees and non-employee directors. We measure stock-based compensation cost at the grant date of the award, based on the estimated fair value of the award and recognize the cost (net of estimated forfeitures) over the requisite service period. Benefits of tax deductions in excess of recognized compensation expense, if any, are reported as a financing cash inflow rather than as an operating cash inflow.

Income Taxes. We account for income taxes using the asset and liability method. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year. In addition, deferred tax assets and liabilities are recognized for expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

3. Acquisitions

Ascade

On July 13, 2012, we acquired Ascade Holdings AB (“Ascade”) for approximately $19 million in cash (the “Ascade Acquisition”). Ascade was an independent Swedish software company which provided trading and routing software solutions to telecommunications companies globally. Ascade’s trading and routing software solution, has been combined with our Wholesale Business Management Solution (“WBMS”) suite to strengthen our global leadership position in the telecommunications wholesale marketplace.

Summary of Purchase Price Allocation. The application of the acquisition method of accounting for business combinations requires the use of significant estimates and assumptions in the determination of the fair value of assets acquired and liabilities assumed.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition for the Ascade acquisition (in thousands):

Trade accounts receivable	$3,049
Other current assets	2,701
Fixed assets	137
Acquired customer relationships and other intangible assets	5,640
Acquired technology assets	3,590
Goodwill	8,955
Total assets acquired	24,072
Accounts payable and accrued employee compensation	2,294
Deferred revenue	2,154
Other current liabilities	380
Total liabilities assumed	4,828
Net assets acquired	$19,244

Unaudited Pro Forma Information. The results of operations for the Ascade businesses are included in the accompanying Income Statements for the periods subsequent to the respective acquisition dates.

Pro forma information on our historical results of operations to reflect the acquisition of Ascade is not presented as Ascade's results of operations during prior periods are not material to our results of operations.

Volubill

On December 3, 2013, we acquired certain key assets of Volubill, including the shares of two Volubill subsidiaries, for approximately $3 million. Volubill was an independent global company and leading supplier of integrated real-time policy and charging solutions to mobile, satellite, and fixed broadband operators. The products acquired from Volubill will enhance the Company's existing offerings in revenue management, service personalization, and customer management provided to the telecommunications marketplace.

Summary of Purchase Price Allocation. The application of the acquisition method of accounting for business combinations requires the use of significant estimates and assumptions in the determination of the fair value of assets acquired and liabilities assumed.

The estimated fair values of the assets acquired and liabilities assumed from Volubill at the date of acquisition are provisional and have not been finalized as of December 31, 2013; however, we do not anticipate that any such values will be material to our Balance Sheet.

Unaudited Pro Forma Information. The results of the Volubill operations acquired are included in the accompanying Income Statement for the period subsequent to the acquisition date.

Pro forma information on our historical results of operations to reflect the Volubill acquisition is not presented as the results of operations related to the Volubill acquisition were not material to our results of operations.

4. Segment Reporting and Significant Concentration

Segment Information. We have evaluated how our chief operating decision maker has organized our company for purposes of making operating decisions and assessing performance, and have concluded that as of December 31, 2013, we have one reportable segment.

Products and Services. Our products and services help companies with complex transaction-centric business models manage the opportunities and challenges associated with accurately capturing, managing, generating, and optimizing the revenue associated with the immense volumes of customer interactions and then manage the intricate nature of those customer relationships. Our core billing and customer care and business optimization platform, Advanced Convergent Platform (“ACP”), is a pre-integrated platform, delivered in an outsourced managed services environment. We generate a substantial percentage of our revenues by providing our ACP processing and Customer Interaction Management solutions, and related software products (e.g., Advanced Customer Service Representative, Workforce Express, etc.) to the North American cable and satellite markets. Additionally, we license certain software products (e.g., WBMS, Total Service Mediation, and Singleview) and provide our professional services to implement these software products, increase the efficiency and productivity of our clients’ operations, and allow clients to effectively roll out new products as well as attract and retain customers.

Geographic Regions. For 2013 and 2012, 85% and 87%, respectively, of our revenues were attributable to our operations in the Americas. We use the location of the client as the basis of attributing revenues to individual regions.

Financial information relating to our operations by geographic region is as follows (in thousands):

Total Revenues:

	2013	2012	2011
Americas (principally the U.S.)	$ 633,163	$652,008	$627,231
Europe, Middle East and Africa (principally Europe)	80,527	73,113	75,938
Asia Pacific	33,778	31,745	31,562
Total revenues	$ 747,468	$756,866	$734,731

Property and Equipment:	As of December 31,	
	2013	2012
Americas (principally the U.S.)	$27,115	$34,796
Europe, Middle East and Africa	4,280	2,238
Asia Pacific	3,666	2,395
Total property and equipment	$ 35,061	$39,429

Significant Clients and Industry Concentration. A large percentage of our historical revenues have been generated from our three largest clients, which are Comcast Corporation ("Comcast"), DISH Network Corporation ("DISH"), and Time Warner Cable Inc. ("Time Warner").

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

	2013	2012	2011
Comcast	19 %	20 %	19 %
DISH	15 %	14 %	13 %
Time Warner	11 %	10 %	10 %

As of December 31, 2013 and 2012, the percentage of net billed accounts receivable balances attributable to these clients were as follows:

	As of December 31,	
	2013	2012
Comcast	21 %	19 %
DISH	14 %	19 %
Time Warner	9 %	14 %

We expect to continue to generate a significant percentage of our future revenues from a limited number of clients, including Comcast, DISH, and Time Warner. There are inherent risks whenever a large percentage of total revenues are concentrated with a limited number of clients. Should a significant client: (i) terminate or fail to renew their contracts with us, in whole or in part for any reason; (ii) significantly reduce the number of customer accounts processed on our solutions, the price paid for our services, or the scope of services that we provide; or (iii) experience significant financial or operating difficulties, it could have a material adverse effect on our financial position and results of operations.

5. Long-Lived Assets

Property and Equipment. Property and equipment at December 31 consisted of the following (in thousands, except years):

	Useful Lives (years)	2013	2012
Computer equipment	3-5	$ 89,605	$76,924
Leasehold improvements	5-10	15,793	14,415
Operating equipment	3-5	48,759	58,684
Furniture and equipment	3-8	10,426	9,990
Capital projects in process	—	—	59
		164,583	160,072
Less—accumulated depreciation		(129,522)	(120,643)
Property and equipment, net		$ 35,061	$39,429

Goodwill. We do not have any intangible assets with indefinite lives other than goodwill. A rollforward of goodwill in 2013 and 2012 is as follows (in thousands):

January 1, 2012 balance	$ 220,013
Goodwill acquired during period	8,955
Revisions related to prior acquisitions	(59)
Effects of changes in foreign currency exchange rates	4,456
December 31, 2012 balance	233,365
Adjustments for the dispositions of business operations	(1,967)
Revisions related to prior acquisitions	(164)
Effects of changes in foreign currency exchange rates	2,365
December 31, 2013 balance	$ 233,599

The goodwill acquired in 2012 is related to the Ascade Acquisition discussed in Note 3. On July 1, 2013, we sold a small print operation, which resulted in an adjustment to our goodwill balance of $1.4 million. The net proceeds from this disposition were $1.7 million and the gain from the sale was not material. Additionally, on December 31, 2013, we sold our marketing analytics business, which resulted in an adjustment to our goodwill balance of $0.6

million. The net proceeds from this disposition were $2.8 million and the loss from the sale was approximately $3 million.

Other Intangible Assets. Our intangible assets subject to ongoing amortization consist of client contracts and software.

Client Contracts

Client contracts consist of the following: (i) investments in client contracts; (ii) direct and incremental costs that we have capitalized related to contractual arrangements where we have deferred revenues to convert or set-up client customers onto our outsourced solutions; and (iii) client contracts acquired in business combinations.

As of December 31, 2013 and 2012, the carrying values of these assets were as follows (in thousands):

	2013 Gross Carrying Amount	Accumulated Amortization	Net Amount	2012 Gross Carrying Amount	Accumulated Amortization	Net Amount
Investments in client contracts (1)	$ 27,370	$ (20,345)	$ 7,025	$ 118,473	$ (112,225)	$ 6,248
Capitalized costs (2)	5,003	(3,340)	1,663	16,288	(11,054)	5,234
Acquired client contracts (3)	98,200	(51,697)	46,503	122,724	(58,903)	63,821
Total client contracts	$ 130,573	$ (75,382)	$ 55,191	$ 257,485	$ (182,182)	$ 75,303

The decrease in the gross carrying amount and accumulated amortization of our client contracts between 2012 and 2013 is due primarily to the removal of fully-amortized assets related to client incentives for the Comcast and Time Warner contracts that came to end of term during the first quarter of 2013.

The aggregate amortization related to client contracts included in our operations for 2013, 2012, and 2011, was as follows (in thousands):

	2013	2012	2011
Investments in client contracts (1)	$ 6,181	$ 7,591	$ 7,521
Capitalized costs (2)	2,365	4,172	3,296
Acquired client contracts (3)	14,999	17,017	17,126
Total client contracts	$ 23,545	$ 28,780	$ 27,943

(1) Investments in client contracts consist principally of incentives provided to new or existing clients to convert their customer accounts to, or retain their customer's accounts on, our customer care and billing systems. Investments in client contracts related to client incentives are amortized ratably over the lives of the respective client contracts, which as of December 31, 2013, have termination dates that range from 2014 through 2020. Amortization of the investments in client contracts related to client incentives is reflected as a reduction in processing and related services revenues in our Income Statements.

(2) Capitalized costs related to client conversion/set-up services related to long-term processing or managed services arrangements are generally amortized proportionately over the contract period that the processing or managed services are expected to be provided, and are primarily reflected in cost of processing and related services in our Income Statements.

(3) Acquired client contracts represent assets acquired in our prior business acquisitions. Acquired client contracts are being amortized over their estimated useful lives ranging from five to ten years based on the approximate pattern in which the economic benefits of the intangible assets are expected to be realized. Classification of the amortization of acquired client contracts generally follows where the acquired business' cost of revenues are categorized in our

Income Statements.

The weighted-average remaining amortization period of client contracts as of December 31, 2013 was approximately 74 months. Based on the December 31, 2013 net carrying value of these intangible assets, the estimated amortization for each of the five succeeding fiscal years ending December 31 will be: 2014 – $18.6 million; 2015 – $10.8 million; 2016 – $8.1 million; 2017 – $6.4 million; and 2018 – $4.4 million.

Software

Software consists of: (i) software and similar intellectual property rights from various business combinations; and (ii) internal use software.

As of December 31, 2013 and 2012, the carrying values of these assets were as follows (in thousands):

	2013 Gross Carrying Amount	Accumulated Amortization	Net Amount	2012 Gross Carrying Amount	Accumulated Amortization	Net Amount
Acquired software (4)	$ 67,975	$ (53,820)	$ 14,155	$ 67,088	$ (51,724)	$ 15,364
Internal use software (5)	53,094	(23,684)	29,410	39,780	(16,772)	23,008
Total software	$ 121,069	$ (77,504)	$ 43,565	$ 106,868	$ (68,496)	$ 38,372

The aggregate amortization related to software included in our operations for 2013, 2012, and 2011, was as follows (in thousands):

	2013	2012	2011
Acquired software (4)	$ 4,221	$ 5,700	$ 5,595
Internal use software (5)	7,633	6,985	5,637
Total software	$ 11,854	$ 12,685	$ 11,232

(4) Acquired software represents the software intangible assets acquired in our prior business acquisitions, which are being amortized over their estimated useful lives ranging from five to ten years.

(5) Internal use software represents: (i) third-party software licenses; and (ii) the internal and external costs related to the implementation of the third-party software licenses. Internal use software is amortized over its estimated useful life ranging from twelve months to ten years.

The weighted-average remaining amortization period of the software intangible assets as of December 31, 2013 was approximately 84 months. Based on the December 31, 2013 net carrying value of these intangible assets, the estimated amortization for each of the five succeeding fiscal years ending December 31 will be: 2014 – $10.7 million; 2015 – $7.9 million; 2016 – $6.0 million; 2017 – $5.0 million; and 2018 – $4.0 million.

6. Debt

As of December 31, 2013 and 2012, our long-term debt was as follows (in thousands):

	2013	2012
2012 Credit Agreement:		
Term loan, due November 2017 (or December 2016 if certain conditions exist – see below), interest at adjusted LIBOR plus 2.00% (combined rate of 2.25% at December 31, 2013)	$ 135,000	$ 150,000
	—	—

$100 million revolving loan facility, due November 2017 (or December 2016 if certain conditions exist – see below), interest at adjusted LIBOR plus applicable margin		
Convertible Debt Securities:		
2010 Convertible Notes – senior subordinated convertible notes; due March 1, 2017; cash interest at 3.0%; net of unamortized OID of $19,950 and $25,302, respectively	130,050	124,698
	265,050	274,698
Current portion of long-term debt	(15,000)	(15,000)
Total long-term debt, net	$ 250,050	$259,698

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2012 Credit Agreement. In 2012, we entered into an amended and restated $250 million credit agreement with several financial institutions (the “2012 Credit Agreement”), to replace the credit agreement we entered into in 2010 in conjunction with the Intec Acquisition (the “2010 Credit Agreement”). This refinancing was done to take advantage of improved market conditions since the time we entered into the 2010 Credit Agreement. The primary advantages of replacing the 2010 Credit Agreement with the 2012 Credit Agreement were as follows: (i) increased the term from 2015 to 2017; (ii) reduced the interest rate over current levels by 175 basis points; and (iii) generally improved the financial covenants. The refinancing met the requirements to be accounted for as a debt modification and, thus, no gain or loss was recognized.

The 2012 Credit Agreement provides borrowings by us in the form of: (i) a $150 million aggregate principal five-year term loan (the “2012 Term Loan”); and (ii) a $100 million aggregate principal five-year revolving loan facility (the “2012 Revolver”). With the $150 million proceeds from the 2012 Term Loan, and $18 million of our existing cash, we repaid the outstanding term loan balance under the 2010 Credit Agreement.

The interest rates under the 2012 Credit Agreement are based upon an adjusted LIBOR rate plus an applicable margin, or an alternate base rate plus an applicable margin. The applicable margin for the 2012 Term Loan and 2012 Revolver based upon an adjusted LIBOR rate ranges from 2.00% - 2.75%, depending on our then-current leverage ratio. We have the option of selecting the length of time (ranging from one to six months) that we lock in the LIBOR contract rate. The applicable margin for the 2012 Term Loan and 2012 Revolver based upon an alternate base rate ranges from 1.00% - 1.75%, depending on our then-current leverage ratio. As of December 31, 2013, our combined interest rate (LIBOR plus applicable margin) for the Term Loan is 2.25% per annum effective through March 13, 2014. We pay a commitment fee of 0.375% on the average daily unused amount of the 2012 Revolver. At December 31, 2013, we had no borrowing outstanding on our 2012 Revolver and had the entire $100 million available to us.

The 2012 Credit Agreement includes mandatory principal repayments (payable quarterly) in each year of the agreement, with the remaining principal balance due at maturity. During 2013, we made $15 million mandatory principal repayments on the 2012 Term Loan. The 2012 Credit Agreement has no prepayment penalties and requires mandatory repayments under certain circumstances, including: (i) asset sales or casualty proceeds; and (ii) proceeds of debt or preferred stock issuances. The 2012 Credit Agreement also provides for an early termination date of December 1, 2016, if our 2010 Convertible Notes are still outstanding and we do not have combined unrestricted cash and cash equivalents and unused availability under the 2012 Revolver of at least $200 million in the aggregate as of that date.

The 2012 Credit Agreement contains customary affirmative covenants such as: (i) filing of quarterly and annual reports and (ii) maintenance of credit ratings. In addition, the Credit Agreement has customary negative covenants that places limits on our ability to: (i) incur additional indebtedness; (ii) create liens on our property; (iii) enter into sale and leaseback transactions; (iv) make investments; (v) enter into mergers and consolidations; (vi) sell assets; (vii) declare dividends or repurchase shares; (viii) engage in certain transactions with affiliates; (ix) prepay certain indebtedness, including our 2010 Convertible Notes; and (x) issue capital stock of subsidiaries. We must also meet certain financial covenants to include: (i) a maximum total leverage ratio; (ii) a maximum secured leverage ratio; (iii) a minimum interest coverage ratio; and (iv) a limitation on capital expenditures. As of December 31, 2013 we were in compliance with the financial ratios and other covenants related to the 2012 Credit Agreement.

In conjunction with the 2012 Credit Agreement, we also entered into a security agreement in favor of a financial institution as collateral agent (the “Security Agreement”). Under the Security Agreement and 2012 Credit Agreement, all of CSG’s domestic subsidiaries have guaranteed our obligations, and CSG and such subsidiaries have pledged substantially all of our assets to secure the obligations under the 2012 Credit Agreement and such guarantees.

In conjunction with the closing of the 2012 Credit Agreement, we incurred financing costs totaling approximately $2.8 million, of which $2.5 million are being amortized to interest expense using the effective interest method over the related term of the 2012 Credit Agreement. The remaining $0.3 million was reflected as interest expense in 2012.

2010 Convertible Notes. In 2010, we completed an offering of $150 million of 3.0% senior subordinated convertible notes due March 1, 2017 (the “2010 Convertible Notes”) to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The 2010 Convertible Notes are unsecured obligations, subordinated to any future senior indebtedness and senior to any future junior subordinated debt. The 2010 Convertible Notes were issued at a price of 100% of their par value and bear interest at a rate of 3.0% per annum, which is payable semiannually in arrears on March 1 and September 1 of each year.

The 2010 Convertible Notes are convertible into our common stock, under the specified conditions and settlement terms outlined below. As a result of us declaring a cash dividend in June 2013, August 2013 and November 2013, the initial conversion rate of 40.8998 shares of our common stock per $1,000 par value of the 2010 Convertible Notes (equivalent to an initial conversion price of approximately $24.45 per share) has been adjusted to 41.6555 shares of our common stock per $1,000 par value of the 2010 Convertible Notes (equivalent to a conversion price of $24.01 per share of our common stock). The Indenture related to the 2010 Convertible Notes ("Notes Indenture") includes anti-dilution provisions for the holders such that the conversion rate (and thus the initial conversion price) can be adjusted in the future for certain events, to include stock dividends, the issuance of rights, options or warrants to purchase our common stock at a price below the then-current market price, and certain distributions of common stock, property or rights, options or warrants to acquire our common stock to all or substantially all holders of our common stock. Additionally, the conversion rate may be adjusted prior to the maturity date in connection with the occurrence of specified corporate transactions for a "make-whole" premium as set forth in the Notes Indenture.

Prior to September 1, 2016, holders of the 2010 Convertible Notes can convert their securities: (i) at any time the price of our common stock trades over $31.21 per share (130% of the $24.01 conversion price) for a specified period of time; (ii) at any time the trading price of the 2010 Convertible Notes falls below 98% of the average conversion value for the 2010 Convertible Notes for a specified period of time; and (iii) at any time upon the occurrence of specified corporate transactions, to include a change of control (as defined in the Notes Indenture). On or after September 1, 2016, the holders of the 2010 Convertible Notes can elect to convert their securities at any time, with the settlement occurring on March 1, 2017. As of December 31, 2013, none of the contingent conversion features have been achieved, and thus, the 2010 Convertible Notes are not convertible by the holders.

Upon conversion of the 2010 Convertible Notes, we will settle our conversion obligation as follows: (i) we will pay cash for 100% of the par value of the 2010 Convertible Notes that are converted; and (ii) to the extent the value of our conversion obligation exceeds the par value, we will satisfy the remaining conversion obligation in our common stock, cash or any combination of our common stock and cash. Although not convertible as of December 31, 2013, our conversion obligation exceeded the par value of the 2010 Convertible Notes by approximately $34 million.

The OID related to the 2010 Convertible Notes of $38.4 million, as a result of an effective interest rate of the liability component of 7.75% compared to the cash interest rate of 3.0%, is being amortized to interest expense through March 1, 2017, the maturity date of the 2010 Convertible Notes.

Estimated Maturities on Long-Term Debt.

The estimated maturities of our long-term debt, based upon: (1) the mandatory repayment schedule for the 2012 Term Loan; and (2) the expected remaining life of the 2010 Convertible Notes, is as follows (in thousands):

	2014	2015	2016	2017	Thereafter
2012 Term Loan	$15,000	$22,500	$22,500	$75,000	$ —
2010 Convertible Notes	—	—	—	150,000	—
Total long-term debt repayments	$15,000	$22,500	$22,500	$225,000	$ —

Deferred Financing Costs. As of December 31, 2013, net deferred financing costs related to the 2012 Credit Agreement were $5.9 million, and are being amortized to interest expense over the related term of the 2012 Credit Agreement (through December 2017). As of December 31, 2013, net deferred financing costs related to the 2010 Convertible Notes were $1.8 million, and are being amortized to interest expense through maturity (March 2017). The net deferred financing costs are reflected in Other Assets in our Balance Sheets. Interest expense for 2013, 2012 and 2011 includes amortization of deferred financing costs of $2.6 million, $2.7 million, and $3.0 million, respectively.

The weighted-average interest rate on our debt borrowings, including amortization of OID, amortization of deferred financing costs, and commitment fees on a revolving loan facility, for 2013, 2012, and 2011, was approximately 5%, 6%, and 7%, respectively.

7. Derivatives
Interest Rate Swap Contracts. In 2011, we entered into certain interest rate swap contracts with the objective of managing our exposure to fluctuations in interest rate movements, thereby eliminating the variability of cash flows on certain portions of the interest payments related to our long-term debt obligations.

As of December 31, 2013, a summary of our remaining interest rate swap contract is as follows (dollars in thousands):

	Beginning of Term	End of Term	Weighted-Average Notional Amount Over Remaining Term	Fixed Rate
2013 Swap	March 13, 2013	March 13, 2014	$ 40,000	2.181 %

As of December 31, 2012, a summary of our remaining interest rate swap contracts is as following (dollars in thousands):

	Beginning of Term	End of Term	Weighted-Average Notional Amount Over Remaining Term	Fixed Rate
2012 Swap	March 13, 2012	March 13, 2013	$ 70,000	1.085 %
2013 Swap	March 13, 2013	March 13, 2014	51,000	2.181 %

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

Changes in the fair value of these interest rate swap contracts, designated as hedging instruments of the variability of cash flows associated with floating-rate, long-term debt obligations, are reported in accumulated other comprehensive income (“AOCI”) in the stockholders’ equity section of our Balance Sheet. These amounts subsequently are reclassified into interest expense as a yield adjustment of the hedged debt obligation in the same period in which the related interest on the floating-rate debt obligations affects earnings. The amount of losses reclassified from AOCI to income/loss (effective portions) in 2013, 2012, and 2011 were not material. The estimated net losses on the interest rate swap contracts that will be reclassified into earnings within the next twelve months are not expected to be material. Our interest rate swap contracts qualify as effective relationships, and as a result, hedge ineffectiveness was not material during 2013, 2012 or 2011.

As of December 31, 2013, the fair value of the interest rate swap contract, reflected in other current liabilities in our Balance Sheet, was $0.2 million with the gain, net of tax, reflected as a reduction in other comprehensive income. As of December 31, 2012, the fair value of the interest rate swap contracts, reflect in other non-current liabilities in our Balance Sheet, was $1.1 million with the loss, net of tax, reflected as a reduction in other comprehensive income.

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

We do not use derivative financial instruments for speculative purposes.

8. Restructuring Charges

Restructuring charges are expenses that generally result from cost reduction initiatives and/or significant changes to our business, to include such things as involuntary employee terminations, divestitures of businesses, and facility consolidations and abandonments. The following are the key restructuring activities we incurred over the last three years that have impacted our results from operations:

- During 2011 we completed the following restructuring initiatives:
- Beginning in the second quarter of 2011, we implemented various cost reduction and efficiency initiatives, resulting in restructuring charges of $3.0 million, primarily in the following areas:
  - We reduced our resources in account services to better leverage our enhanced and expanded professional services talent across the global organization and to ensure we are focusing a greater portion of our efforts on our next generation solutions like ACP, Singleview, and WBMS.
  - We consolidated our print facilities from four to three locations.
- During the fourth quarter of 2011, we reduced our workforce by approximately 100 employees across many functions and geographies of our business. We did this in order to better align and allocate our resources as we continue to evolve and invest in those areas where we have identified growth opportunities. As a result, we incurred restructuring charges related to these involuntary terminations of $4.9 million.
- During 2012, we implemented the following cost reduction and efficiency initiatives:
- We abandoned one of our current office facilities, resulting in a restructuring charge of $0.5 million.
- We recorded $0.6 million of restructuring expenses related primarily to members of Ascade management leaving following the successful close of the transaction.
- We reduced our workforce by approximately 40 employees, primarily in North America, as a result of organizational changes, elimination of positions, and reskilling of certain roles. As a result, we recorded $1.0 million of restructuring expenses.
- During 2013 we completed the following restructuring activities:
- In 2013, we reduced our workforce by approximately 160 employees world-wide. These actions were taken to further align our workforce around our long-term growth initiatives. As a result, we incurred restructuring charges related to these involuntary terminations of $5.6 million.
- We disposed of a small print operation and our marketing analytics business, resulting in $3.6 million of restructuring charges, including a $3 million loss from the sale.
- We terminated our previously frozen defined benefit pension plan resulting in $3.2 million of restructuring expense.

The restructuring activities discussed above resulted in restructuring charges for 2013, 2012, and 2011 of $12.4 million, $2.5 million, and $7.9 million, respectively, which have been reflected as a separate line item in our Income Statements.

The activity in the business restructuring reserves during 2013, 2012, and 2011 is as follows (in thousands):

	Termination Benefits	Facilities Abandonment	Disposition of Business Operations	Other	Total
January 1, 2011, balance	$ 1,164	$ —	$ —	$ —	$ 1,164
Charged to expense during year	7,046	567	—	260	7,873
Cash payments	(4,439)	—	—	(198)	(4,637)
Other	—	(78)	—	(62)	(140)
December 31, 2011, balance	3,771	489	—	—	$ 4,260
Charged to expense during year	1,835	630	—	4	2,469
Cash payments	(3,704)	—	—	(4)	(3,708)
Other	15	(666)	—	—	(651)
December 31, 2012, balance	1,917	453	—	—	2,370
Charged to expense during year	5,577	—	3,588	3,240	12,405
Cash payments	(3,741)	—	(555)	(19)	(4,315)
Adjustment for the loss on the disposition of business operations	—	—	(3,033)	—	(3,033)
Adjustment for the loss on termination of pension plan	—	—	—	(3,221)	(3,221)
Other	(36)	(453)	—	—	(489)
December 31, 2013, balance	$ 3,717	$ —	$ —	$ —	$ 3,717

All of the business restructuring reserves as of December 31, 2013 were included in current liabilities.

9. Income Taxes

Income Tax Provision/(Benefit). The components of net income from continuing operations before income taxes are as follows (in thousands):

	2013	2012	2011
Domestic	$ 63,278	$ 103,917	$ 89,791
Foreign	(1,759)	(26,693)	(13,819)
Total	$ 61,519	$ 77,224	$ 75,972

The income tax provision related to continuing operations consists of the following (in thousands):

	2013	2012	2011
Current:			
Federal	$ 7,260	$ 32,121	$ 25,096
State	453	4,133	111
Foreign	4,273	2,658	3,554

	11,986	38,912	28,761
Deferred:			
Federal	1,130	(832)	3,190
State	2,329	(3,977)	384
Foreign	(5,277)	(5,758)	1,355
	(1,818)	(10,567)	4,929
Total income tax provision	$ 10,168	$ 28,345	$ 33,690

Included in the deferred state income tax provision amount for 2012 in the table above is $(3.1) million related to the impact of an enacted state income tax law change.

The difference between our income tax provision computed at the statutory Federal income tax rate and our financial statement income tax related to continuing operations is summarized as follows (in thousands):

	2013	2012	2011
Provision at Federal rate of 35%	$ 21,532	$27,028	$26,590
State income taxes, net of Federal impact	1,808	101	322
Research and experimentation credits	(16,683)	(3,651)	(3,036)
Tax uncertainties	4,878	1,333	—
Section 199 manufacturing deduction	(2,263)	(4,246)	(972)
Foreign rate differential	1,133	3,108	3,564
Valuation allowance for deferred tax assets	(3,312)	3,550	3,395
Other impact of foreign operations	2,088	672	3,470
Other	987	450	357
Total income tax provision	$ 10,168	$28,345	$33,690

We have undistributed earnings of approximately $32 million from certain foreign subsidiaries. We intend to indefinitely reinvest these foreign earnings, therefore, a provision has not been made for income taxes that might be payable upon remittance of such earnings. Determination of the amount of unrecognized deferred tax liability on unremitted foreign earnings is not practicable because of the complexities of the hypothetical calculation.

Our research and experimentation (R&D) credits increased from 2012 to 2013 primarily due to the recording of approximately $6 million of R&D credits generated in 2012 but recorded in 2013, due to the timing of the execution of the American Taxpayer Relief Act of 2012, and the recognition of approximately $5 million of incremental R&D credits due to revised calculations for development activities in 2009 and 2010. The 2012 R&D credit amount above is the result of a revised calculation for 2011. The 2013 provision for valuation allowance for deferred tax assets includes an approximately $6 million reduction of certain tax allowances related to our ability to realize certain foreign net operating losses.

Deferred Income Taxes. Net deferred income tax liabilities as of December 31, 2013 and 2012 are as follows (in thousands):

	2013	2012
Deferred income tax assets	$ 68,829	$90,374
Deferred income tax liabilities	(48,830)	(64,320)
Valuation allowance	(17,741)	(22,888)
Net deferred income tax liabilities	$ 2,258	$3,166

The components of our net deferred income tax assets (liabilities) as of December 31, 2013 and 2012 are as follows (in thousands):

	2013	2012
Net current deferred income tax assets:		
Accrued expenses and reserves	$ 12,429	$ 19,322
Stock-based compensation	3,929	4,354
Total current deferred income tax assets	16,358	23,676
Less: valuation allowance	(1,273)	(1,432)
Net current deferred income tax assets	$ 15,085	$ 22,244
Net non-current deferred income tax assets:		
Client contracts and related intangibles	$ (952)	$ (8,229)
NOL carryforwards	11,505	15,482
Property and equipment	4,097	12,999
Deferred revenue	1,209	1,700
Facility abandonment	189	606
Other	678	44
Total non-current deferred income tax assets	16,726	22,602
Less: valuation allowance	(9,279)	(20,006)
Net non-current deferred income tax assets	$ 7,447	$ 2,596
Net non-current deferred income tax liabilities:		
Purchased R&D	$ -	$ 222
Software	88	269
Client contracts and related intangibles	(4,104)	393
Goodwill	(3,846)	(4,207)
NOL carryforwards	27,500	25,276
Property and equipment	(4,812)	(13,609)
Convertible debt securities	(35,116)	(37,415)
Deferred revenue	4,470	4,858
Contingent payments	836	836
Facility abandonment	1,892	1,413
Other	7	1,740
Total non-current deferred income tax liabilities	(13,085)	(20,224)
Less: valuation allowance	(7,189)	(1,450)
Net non-current deferred income tax liabilities	$ (20,274)	$ (21,674)

We regularly assess the likelihood of the future realization of our deferred income tax assets. To the extent we believe that it is more likely than not that a deferred income tax asset will not be realized, a valuation allowance is established. As of December 31, 2013, we believe that between: (i) carryback opportunities to past periods with taxable income; and (ii) sufficient taxable income to be generated in the future, we will realize 100% of the benefit of our U.S. Federal deferred income tax assets, thus no valuation allowance has been established. As of December 31, 2013, we have deferred income tax assets related to state and foreign income tax jurisdictions of approximately $2.1 million and $33.2 million, respectively, and have established valuation allowances against those deferred income tax assets of approximately $1.8 million and $15.9 million, respectively.

As of December 31, 2013 and 2012, we have an acquired U.S. Federal NOL carryforward of approximately $50 million which will begin to expire in 2019 and can be utilized through 2030. The acquired U.S. Federal NOL carryforward is attributable to the pre-acquisition periods of acquired subsidiaries. The annual utilization of this U.S.

Federal NOL carryforward is limited pursuant to Section 382 of the Internal Revenue Code of 1986, as amended. In addition, as of December 31, 2013 and 2012, we have: (i) state NOL carryforwards of approximately $50 million and $54 million, respectively, which will expire beginning in 2014 and end in 2034; and (ii) foreign subsidiary NOL carryforwards of approximately $90 million and $89 million, respectively, which will expire beginning in 2016, with a portion of the losses available over an indefinite period of time.

Our 2004 Convertible Debt Securities, which we fully extinguished in 2011, were subject to special U.S. Treasury regulations governing contingent payment debt instruments. These regulations allowed us to take a tax deduction for interest expense on our U.S. Federal income tax return at a constant rate of 9.09% (subject to certain adjustments), compounded semi-annually, which represented the estimated yield on comparable non-contingent, non-convertible, fixed-rate debt instruments with terms and conditions otherwise similar to the 2004 Convertible Debt Securities. This interest expense tax deduction was greater than the interest expense reflected in the accompanying Income Statements, thus creating a deferred income tax liability. The extinguishment of the 2004 Convertible Debt

Securities resulted in: (i) the holders of the 2004 Convertible Debt Securities not having the ability to achieve the 9.09% target yield, and (ii) a requirement for us to pay an amount equal to the cumulative deferred income tax liability to the U.S. tax authorities (without interest or penalties). During the third and fourth quarters of 2011, we paid cash of approximately $6 million related to the deferred income tax liabilities associated with the 2004 Convertible Debt Securities repurchased in June and July of 2011. Beginning in 2014, we will pay cash of approximately $29 million ratably over five years related to the deferred income tax liabilities associated with the 2004 Convertible Debt Securities repurchased in 2009 and 2010.

Accounting for Uncertainty in Income Taxes. We are required to estimate our income tax liability in each jurisdiction in which we operate, including U.S. Federal, state and foreign income tax jurisdictions. Various judgments and estimates are required in evaluating our tax positions and determining our provisions for income taxes. During the ordinary course of business, there are certain transactions and calculations for which the ultimate income tax determination may be uncertain. In addition, we may be subject to examination of our income tax returns by various tax authorities, which could result in adverse outcomes. For these reasons, we establish a liability associated with unrecognized tax benefits based on estimates of whether additional taxes and interest may be due. This liability is adjusted based upon changing facts and circumstances, such as the closing of a tax audit, the expiration of a statute of limitations or the refinement of an estimate.

A reconciliation of the beginning and ending balances of our liability for unrecognized tax benefits is as follows (in thousands):

	2013	2012	2011
Balance, beginning of year	$ 4,029	$4,114	$954
Additions based on tax positions related to current year	1,292	276	—
Additions for tax positions of prior years	4,597	933	3,249
Reductions for tax positions of prior years	(401)	(764)	(89)
Lapse of statute of limitations	-	(530)	—
Balance, end of year	$ 9,517	$4,029	$4,114

We recognize interest and penalty expense associated with our liability for unrecognized tax benefits as a component of income tax expense in our Income Statements. In addition to the $9.5 million, $4.0 million, and $4.1 million of liability for unrecognized tax benefits as of December 31, 2013, 2012, and 2011, we had $0.3 million, $0.2 million, and $0.1 million, respectively, of income tax-related accrued interest. If recognized, the $9.5 million of unrecognized tax benefits as of December 31, 2013, would favorably impact our effective tax rate in future periods.

We file income tax returns in the U.S. Federal jurisdiction, various U.S. state and local jurisdictions, and many foreign jurisdictions. The U.S., U.K., and Australia are the main taxing jurisdictions in which we operate. The years open for audit vary depending on the taxing jurisdiction. As of December 31, 2013, the U.S. Internal Revenue Service had commenced an audit of our 2010 tax year. In addition, the U.S. Federal statute of limitations has expired for periods prior to 2010, and the statute of limitations has expired in our major state jurisdictions of Nebraska, Colorado and Florida for years prior to 2002, 2009, and 2010, respectively. In 2012, we completed our audit in the U.K. for the accounting periods beginning October 1, 2005 and ending September 30, 2010. We have been audited in Australia for years prior to 2007. In addition, the statute of limitations has expired in Australia for years prior to 2009.

10. Employee Retirement Benefit Plans

Defined Contribution-Type Plans. We sponsor defined contribution plans covering substantially all our U.S.-based employees. Participants may contribute up to 100% of their annual wages, subject to certain limitations, as pretax, salary deferral contributions. We make certain matching, and at our discretion, service-based contributions to the plan. The expense related to matching and service-related contributions for 2013, 2012, and 2011 was $9.7 million, $9.0 million, and $8.9 million, respectively. We also have defined contribution-type plans for certain of our non-U.S.-based employees. The total contributions made to these plans in 2013, 2012, and 2011 were $4.8 million, $4.6 million, and $3.2 million, respectively.

11. Commitments, Guarantees and Contingencies

Operating Leases. We lease certain office and production facilities under noncancellable operating leases, with the longest lease that runs through September 2024. The leases generally are renewable and provide for the payment of real estate taxes and certain other occupancy expenses. In addition, we lease certain operating equipment under operating leases, with the longest lease that runs through March 2016. Future aggregate minimum lease payments under these facilities and operating equipment agreements are as follows: 2014 - $15.5 million; 2015 - $13.5 million; 2016 - $11.2 million; 2017 - $10.5 million; 2018 - $9.7 million; and thereafter - $29.0 million. Total rent expense for 2013, 2012, and 2011 was $20.0 million, $18.3 million, and $17.3 million, respectively.

Service Agreements. We have an agreement with Infocrossing LLC ("Infocrossing"), a Wipro Limited company, to provide us outsourced data center services. The term of the Infocrossing agreement runs through June 30, 2017. We outsource the data processing and related computer services required for the operation of our outsourced ACP processing services. Our ACP proprietary software and other software applications are run in an outsourced data center environment in order to obtain the necessary computer processing capacity and other computer support services without us having to make the substantial capital and infrastructure investments that would be necessary for us to provide these services internally. Our clients are connected to the outsourced data center environment through a combination of private and commercially-provided networks. Our ACP processing services are generally considered to be mission critical customer management systems by our clients. As a result, we are highly dependent upon Infocrossing for system availability, security, and response time.

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

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

Claims for Company Non-performance. Our arrangements with our clients typically cap our liability for breach to a specified amount of the direct damages incurred by the client resulting from the breach. From time-to-time, these arrangements may also include provisions for possible liquidated damages or other financial remedies for our non-performance, or in the case of certain of our outsourced customer care and billing solutions, provisions for damages related to service level performance requirements. The service level performance requirements typically relate to system availability and timeliness of service delivery. As of December 31, 2013, 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 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 of Directors. As a result, we have not recorded any liabilities related to such indemnifications as of December 31, 2013. 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.

In addition, we have encountered the following matters:

We received an administrative subpoena from the U.S. Department of the Treasury, Office of Foreign Assets Control ("OFAC"), dated February 27, 2012, requesting documents and information related to the possibility of direct or indirect transactions with or to Iranian entities. We have conducted an internal review to identify transactions by us involving the subject matter of the subpoena as well as with any other sanctioned or embargoed entity or jurisdiction. On July 13, 2012, we delivered to OFAC a response to the administrative subpoena.

On July 13, 2012, we submitted an initial voluntary disclosure to OFAC relating to certain business dealings in Syria. On October 5, 2012, we submitted a voluntary disclosure relating to these business dealings.

On August 8, 2013, we submitted an initial voluntary disclosure to OFAC relating to certain business dealings in Iran and another sanctioned/embargoed country. On December 9, 2013, we submitted a voluntary disclosure relating to these business dealings.

These business dealings represented an insignificant amount of our consolidated revenues and income, and generally consisted of software licenses and related services. We cannot predict the ultimate outcome of these matters or the total costs which may be involved. We believe there is a likelihood that a loss may be realized related to these matters, but that no reasonable estimate of the loss can be made.

Other than the OFAC matters described above, we are not presently a party to any material pending or threatened legal proceedings.

12. Stockholders' Equity

Stock Repurchase Program. We currently have a stock repurchase program, approved by our Board of Directors (the "Board"), authorizing us to repurchase shares of our common stock from time-to-time as market and business conditions warrant (the "Stock Repurchase Program").

As of December 31, 2013, a summary of the shares repurchased under the Stock Repurchase Program is as follows (in thousands, except per share amounts):

	2013	2012	2011	2010	1999-2009	Total
Shares repurchased	500	823	750	1,500	29,296	32,869
Total amount paid	$ 10,129	$ 13,349	$ 9,930	$ 29,340	$ 704,222	$ 766,970
Weighted-average price per share	$ 20.23	$ 16.23	$ 13.24	$ 19.56	$ 24.04	$ 23.33

As of December 31, 2013, the total remaining number of shares available for repurchase under the Stock Repurchase Program totaled approximately 2.1 million shares.

In addition to the above mentioned stock repurchases, during 2013, 2012, and 2011, we repurchased and then cancelled approximately 264,000 shares, 197,000 shares, and 232,000 shares for $5.4 million, $3.2 million, and $4.4 million, respectively, of common stock from our employees in connection with minimum tax withholding requirements resulting from the vesting of restricted stock under our stock incentive plans.

Cash Dividend. On June 25, 2013, our Board approved the initiation of a quarterly cash dividend to be paid to our stockholders. The Board approved cash dividends of $0.15 per share of common stock in June, August, and November to be paid to stockholders in July, September, and December, respectively. This resulted in a total cash dividend for the year ended December 31, 2013 of $0.45 per share of common stock, totaling $15.2 million, of which $14.5 million had been paid through December 31, 2013 (with the remaining amount attributed to unvested incentive shares to be paid upon vesting).

In February 2014, our Board approved the next quarterly cash dividend payment of $0.15 per share of common stock to be paid on March 27, 2014.

Convertible Debt Securities. Under GAAP, convertible debt securities that may be settled in cash upon conversion (including partial cash settlement) must be separated into their liability and equity components at initial recognition by: (i) recording the liability component at the fair value of a similar liability that does not have an associated equity component; and (ii) attributing the remaining proceeds from the issuance to the equity component. The carrying amount of the equity component related to our convertible debt securities outstanding, included within additional paid-in capital, net of tax, as of December 31, 2013 and 2012 was $22.9 million.

13. Equity Compensation Plans

Stock Incentive Plans

Stock Incentive Plan. As of December 31, 2013, we have a stock incentive plan whereby 15.8 million shares have been reserved for issuance to officers and other key employees of our company and its subsidiaries and to non-employee directors of our company in the form of stock options, stock appreciation rights, performance unit awards, restricted stock awards, or stock bonus awards. Shares granted under the 2005 Stock Incentive Plan (the "2005 Plan") in the form of a performance unit award, restricted stock award or stock bonus award are counted toward the aggregate number of shares of common stock available for issuance under the 2005 Plan as two shares for every one share granted or issued in payment of such award. As of December 31, 2013, 4.2 million shares were available for issuance.

Restricted Stock. We generally issue new shares (versus treasury shares) to fulfill restricted stock award grants. Restricted stock awards are granted at no cost to the recipient. Historically, our restricted stock awards have vested annually primarily over four years with no restrictions other than the passage of time (i.e., the shares are released upon calendar vesting with no further restrictions) (“Time-Based Awards”). Unvested Time-Based Awards are typically forfeited and cancelled upon termination of employment with our company. Certain Time-Based Awards become fully vested (vesting accelerates) upon a change in control, as defined, and the subsequent involuntary termination of employment. The fair value of the Time-Based Awards (determined by using the closing market price of our common stock on the grant date) is charged to expense on a straight-line basis over the requisite service period for the entire award.

We also issue restricted stock shares to key members of management that vest in equal installments over three years upon meeting either pre-established financial performance objectives or pre-established stock price objectives (“Performance-Based Awards”). The structure of the performance goals for the Performance-Based Awards has been approved by our stockholders. The Performance-Based Awards become fully vested (vesting accelerates) upon a change in control, as defined, and the subsequent involuntary termination of employment. The fair value of the Performance-Based Awards (determined by using the closing market price of our common stock on the grant date) is charged to expense on a straight-line basis over the requisite service period, taking into consideration the probability of vesting, for each separately vesting portion of the award as if the award is, in-substance, multiple awards.

A summary of our unvested restricted stock activity during 2013 is as follows (shares in thousands):

	2013	
	Shares	Weighted-Average Grant Date Fair Value
Unvested awards, January 1, 2013	1,956	$ 17.63
Awards granted	955	19.75
Awards forfeited/cancelled	(197)	18.37
Awards vested	(792)	17.74
Unvested awards, December 31, 2013	1,922	$ 18.57

The weighted-average grant date fair value per share of restricted stock shares granted during 2013, 2012, and 2011 was $19.75, $16.58, and $18.87, respectively. The total market value of restricted stock shares vesting during 2013, 2012, and 2011 was $16.2 million, $10.6 million, and $13.5 million, respectively.

1996 Employee Stock Purchase Plan

As of December 31, 2013, we have an employee stock purchase plan whereby 1.7 million shares of our common stock have been reserved for sale to our U.S. employees through payroll deductions. The price for shares purchased under the plan is 85% of market value on the last day of the purchase period. Purchases are made at the end of each month. During 2013, 2012, and 2011, 68,845 shares, 93,352 shares, and 102,147 shares, respectively, were purchased under the plan for $1.4 million ($16.01 to $24.99 per share), $1.4 million ($12.24 to $19.12 per share), and $1.4 million ($10.74 to $18.05 per share), respectively. As of December 31, 2013, 561,141 shares remain eligible for purchase under the plan.

Stock-Based Compensation Expense

We recorded stock-based compensation expense of $14.8 million, $13.4 million, and $12.2 million, respectively, for 2013, 2012, and 2011. As of December 31, 2013 there was $23.8 million of total compensation cost related to unvested awards not yet recognized. That cost, excluding the impact of forfeitures, is expected to be recognized over a weighted-average period of 2.4 years.

We recorded a deferred income tax benefit related to stock-based compensation expense during 2013, 2012, and 2011, of $4.6 million, $4.6 million, and $4.4 million, respectively. The actual income tax benefit realized for the tax deductions from stock option exercises and vesting of restricted stock for 2013, 2012, and 2011, totaled $5.4 million, $4.0 million, and $5.1 million, respectively.

14. Unaudited Quarterly Financial Data

	Quarter Ended			
	March 31	June 30	September 30	December 31
	(in thousands, except per share amounts)			
2013 (1)(2):				
Total revenues	$180,632	$186,107	$ 186,180	$ 194,549
Total cost of revenues (exclusive of depreciation)	93,354	94,758	94,898	94,155
Operating income (3)	18,035	21,681	20,553	16,435
Income before income taxes (3)	13,544	18,862	16,631	12,482
Income tax benefit (provision) (4)	1,354	(6,790)	(1,331)	(3,401)
Net income (3)(4)	14,898	12,072	15,300	9,081
Basic earnings per common share (3)(4)	$0.46	$0.38	$ 0.48	$ 0.28
Diluted earnings per common share (3)(4)	0.46	0.37	0.47	0.27
2012 (5):				
Total revenues	$185,007	$183,851	$ 190,001	$ 198,007
Total cost of revenues (exclusive of depreciation)	89,969	92,520	100,411	100,916
Operating income (6)	28,952	23,745	21,728	22,149
Income before income taxes (6)	23,612	18,842	17,114	17,656
Income tax provision (4)	(11,806)	(6,972)	(7,701)	(1,866)
Net income (4)(6)	11,806	11,870	9,413	15,790
Basic earnings per common share (4)(6)	$0.36	$0.37	$ 0.29	$ 0.49
Diluted earnings per common share (4)(6)	0.36	0.37	0.29	0.48

(1) During 2013, we entered into new agreements with Comcast and Time Warner to extend our relationships with these significant clients for an additional four years. These new agreements included pricing discounts that became effective March 1, 2013 for Comcast and April 1, 2013 for Time Warner, and are reflected in our 2013 results of operations.

(2) On July 1, 2013, we sold a small print and mail facility and certain of its business operations. As a result of this sale, our third and fourth quarter results reflect the divestiture of approximately $3 million of revenue.

(3) During the first and fourth quarters of 2013 we incurred restructuring expenses of $0.9 and $11.5 million, respectively, or $0.03 and $0.25 per diluted share (see Note 8).

(4) Fluctuations in our effective income tax rate between quarters generally relates to the accounting for discrete income tax items in any given quarter, and revisions of estimates for certain income tax components during the year.

- For 2013: Our effective income tax rates for the first, second, third, and fourth quarters of 2013 were (10)%, 36%, 8%, and 27%, respectively. The negative rate in the first quarter of 2013 reflects the benefit of approximately $6 million of R&D tax credits that we generated in 2012, but were unable to include in the determination of our 2012 effective tax rate as the legislation was not signed into law until 2013. The lower income tax rates for the third and fourth quarter were mainly driven by incremental R&D income tax credits claimed for development activities from previous years and by the reduction of certain tax allowances related mainly to foreign operations, offset by increases in tax reserves for uncertainties, which provided a benefit of approximately $6 million and $2 million, respectively.
- For 2012: Our effective income tax rates for the first, second, third, and fourth quarters of 2012 were 50%, 37%, 45%, and 11%, respectively. The lower rate in the second quarter of 2012 can be attributed to the benefit recognized during the quarter related to new state legislation that was passed which required us to alter the method of how we source our revenues, while the lower rate in the fourth quarter of 2012 is a result of higher incentive credits compared to previous

estimates as well as the resolution of a foreign income tax audit.

(5) In July 2012, we completed the Ascade acquisition (See Note 3), and as a result, Ascade's results of operations are included in our third and fourth quarter 2012 results. Additionally, in conjunction with the Ascade acquisition, during the second quarter of 2012 we incurred $0.3 million, or $0.01 per diluted share impact, of acquisition-related charges.

(6) During the first, second, and fourth quarters of 2012 we incurred restructuring expenses of $0.7 million, $0.1 million, and $1.7 million, respectively, or $0.01, $0.00, and $0.05 per diluted share (see Note 8).

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure
None.

Item 9A. Controls and Procedures
(a) Evaluation of 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) Management’s Annual Report on 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). Management’s Report on Internal Control over Financial Reporting is located at the front of Part II, Item 8 of this report.

(c) Attestation Report of the Independent Registered Public Accounting Firm

Our independent registered public accounting firm issued an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2013. KPMG LLP’s report is located immediately following Management’s Report on Internal Control over Financial Reporting at the front of Part II, Item 8 of this report.

(d) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the fourth quarter of 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information
None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

See the Proxy Statement for our 2014 Annual Meeting of Stockholders, from which information regarding directors is incorporated herein by reference. Information regarding our executive officers will be omitted from such proxy statement and is furnished in a separate item captioned ‘‘Executive Officers of the Registrant’’ included at the end of Part I of this Form 10-K.

Item 11. Executive Compensation

See the Proxy Statement for our 2014 Annual Meeting of Stockholders, from which information in response to this Item is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

See the Proxy Statement for our 2014 Annual Meeting of Stockholders, from which information required by this Item is incorporated herein by reference, with the exception of the equity compensation plan information which is presented in Item 5, “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities”, and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

See the Proxy Statement for our 2014 Annual Meeting of Stockholders, from which information in response to this Item is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

See the Proxy Statement for our 2014 Annual Meeting of Stockholders, from which information in response to this Item is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules
(a) Financial Statements, Financial Statement Schedules, and Exhibits:

(1) Financial Statements

The financial statements filed as part of this report are listed on the Index to Consolidated Financial Statements on page 43.

(2) Financial Statement Schedules:

None. Any information required in the Financial Statement Schedules is provided in sufficient detail in our Financial Statements and notes thereto.

(3) Exhibits

Exhibits are listed in the Exhibit Index on page 78.

The Exhibits include management contracts, compensatory plans and arrangements required to be filed as exhibits to the Form 10-K by Item 601 of Regulation S-K.

(b) Exhibits

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

Pursuant to the requirements of Section 13 or 15(d) 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.

CSG SYSTEMS
INTERNATIONAL, INC.
By: /s/ Peter E. Kalan
Peter E. Kalan
Chief Executive Officer
(Principal Executive Officer)

Date: February 28, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in capacities and on the dates indicated.

Signature	Title	Date
/s/ DONALD B. REED Donald B. Reed	Chairman of the Board of Directors	February 28, 2014
/s/ PETER E. KALAN Peter E. Kalan	Director, Chief Executive Officer, and President (Principal Executive Officer)	February 28, 2014
/s/ RANDY R. WIESE Randy R. Wiese	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 28, 2014
/s/ ROLLAND B. JOHNS Rolland B. Johns	Chief Accounting Officer (Principal Accounting Officer)	February 28, 2014
/s/ RONALD H. COOPER Ronald H. Cooper	Director	February 28, 2014
/s/ JOHN L. M. HUGHS John L. M. Hughes	Director	February 28, 2014
/s/ JANICE I. OBUCHOWSKI Janice I. Obuchowski	Director	February 28, 2014
/s/ BERNARD W. REZNICEK Bernard W. Reznicek	Director	February 28, 2014
/s/ FRANK V. SICA Frank V. Sica	Director	February 28, 2014
/s/ DONALD V. SMITH Donald V. Smith	Director	February 28, 2014

/s/ JAMES A. UNRUH James A. Unruh	Director	February 28, 2014

EXHIBIT INDEX

Exhibit Number	Description
2.10(21)	Implementation Agreement between CSG Systems International, Inc. and Intec
3.01(1)	Restated Certificate of Incorporation of the Company
3.02(7)	Revised Bylaws of CSG Systems International, Inc.
3.03(2)	Certificate of Amendment of Restated Certificate of Incorporation of CSG Systems International, Inc.
4.01(1)	Form of Common Stock Certificate
4.10(5)	Indenture dated as of June 2, 2004 between the Registrant and Deutsche Bank Trust Company Americas relating to the CODES
4.20(5)	Registration Rights Agreement dated as of June 2, 2004 between the Registrant and Lehman Brothers Inc.
4.25(17)	Letter agreement dated March 18, 2010 by and between CSG Systems International, Inc. and Quantum Partners Ltd. regarding $119,896,000 aggregate principal amount of CSG's 2.5% Senior Subordinated Convertible Contingent Debt Securities due 2024
4.30(18)	Purchase Agreement dated February 24, 2010, by and between CSG Systems International, Inc., and Barclays Capital Inc., J.P. Morgan Securities Inc., and UBS Securities LLC
4.40(18)	Indenture dated March 1, 2010 between CSG Systems International, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee
4.50(22)	$300,000,000 Amended and Restated Credit Agreement dated as of September 24, 2010, as Amended and Restated as of November 24, 2010, among CSG Systems International, Inc., as Borrower, The Guarantors Party Hereto, The Lenders Party Hereto, UBS Securities LLC and RBC Capital Markets as Joint Lead Arrangers and Joint Bookmanagers, RBS Capital Markets, as Syndication Agent, UBS Securities LLC, as Documentation Agent, UBS AG, Stamford Branch, as Issuing Bank, Administrative Agent and Collateral Agent, and UBS Loan Finance LLC, as Swingline Lender
4.60(32)	$250,000,000 Amended and Restated Credit Agreement dated as of November 9, 2012, among CSG Systems International, Inc., as Borrower, The Guarantors Party Hereto, The Lenders Party Hereto, RBC Capital Markets, Wells Fargo Securities, LLC, HSBC Bank USA, National Association and BBVA Compass, as Join Lead Arrangers and Joint Bookmanagers, Wells Fargo Bank, National Association, as Syndication Agent, HSBC Bank USA, National Association and BBVA Compass, as Co-Documentation Agents, Royal Bank of Canada, as Administrative Agent and Collateral Agent, and Royal Bank of Canada, as Issuing Bank and Swingline Lender

10.02(24)	Second Amended and Restated 1996 Employee Stock Purchase Plan, as adopted on May 17, 2011
10.04(24)	CSG Systems International, Inc. 2005 Stock Incentive Plan, as adopted on May 17, 2011
10.05(24)	CSG Systems International, Inc. Performance Bonus Program, as adopted on May 17, 2011
10.06(11)	CSG Systems International, Inc. 2001 Stock Incentive Plan, as amended August 14, 2007
10.15(19)	Form of Indemnification Agreement between CSG Systems International, Inc. and Directors and Executive Officers
10.16(8)	Indemnification Agreement between CSG Systems International, Inc. and Mr. Ronald Cooper, dated November 16, 2006
10.21*(13)	CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.21A*(22)	Fifth Amendment to the Restated and Amended CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.21B*(23)	Sixth Amendment to the Restated and Amended CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Comcast Cable Communications Management, LLC

Exhibit Number	Description
10.21C*(25)	Seventh Amendment to the Restated and Amended CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.21D*(30)	Eighth Amendment to the Restated and Amended CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.21E*(30)	Ninth Amendment to the Restated and Amended CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.21F*(30)	Tenth Amendment to the Restated and Amended CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.21G*(30)	Eleventh Amendment to the Restated and Amended CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.21H*(30)	Twelfth Amendment to the Restated and Amended CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.21I*(31)	Thirteenth Amendment to the Restated and Amended CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.21J*(31)	Fourteenth Amendment to the Restated and Amended CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.21K*(31)	Fifteenth Amendment to the Restated and Amended CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.21L*(31)	Sixteenth Amendment to the Restated and Amended CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.21M*(32)	Seventeenth Amendment to the Restated and Amended CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.21N*(32)	Eighteenth Amendment to the Restated and Amended CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.21O*(32)	Twentieth Amendment to the Restated and Amended CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.21P*(33)	Nineteenth Amendment to the Restated and Amended CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.21Q*(33)	Twenty-First Amendment to the Restated and Amended CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.21R*(33)	Twenty-Second Amendment to the Restated and Amended CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management,

	LLC
10.21S*(33)	Twenty-Third Amendment to the Restated and Amended CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.22*(33)	CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.22A*(34)	First Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.22B*(35)	Second Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.22C*(35)	Third Amendment to the Restated and Amended CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.22D*(35)	Fourth Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC

Exhibit Number	Description
10.22E*	Fifth Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.22F*	Sixth Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.22G*	Seventh Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.22H*	CD Addendum to CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.23*(16)	CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Dish Network L.L.C.
10.23A*(19)	Third Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Dish Network, L.L.C.
10.23B*(22)	Fourth Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Dish Network, L.L.C.
10.23C*(23)	Tenth Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and DISH Network, L.L.C.
10.23D*(25)	Eleventh Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Dish Network L.L.C.
10.23E*(25)	Twelfth Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Dish Network L.L.C.
10.23F*(25)	Thirteenth Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Dish Network L.L.C.
10.23G*(25)	Fourteenth Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Dish Network L.L.C
10.23H*(26)	Fifteenth Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Dish Network L.L.C.
10.23I*(30)	Sixteenth Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Dish Network L.L.C.
10.23J*(29)	Seventeenth Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Dish Network L.L.C.
10.23K*(29)	Eighteenth Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Dish Network L.L.C.

10.23L*(28)	Nineteenth Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Dish Network L.L.C.
10.23M*(29)	Twentieth Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Dish Network L.L.C.
10.23N*(28)	Twenty-first Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Dish Network L.L.C.
10.23O*(30)	Twenty-second Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Dish Network L.L.C.
10.23P*(30)	Twenty-third Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Dish Network L.L.C.
10.23Q*(30)	Twenty-fourth Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Dish Network L.L.C.

Exhibit Number	Description
10.23R*(31)	Twenty-fifth Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Dish Network L.L.C.
10.23S*(31)	Twenty-sixth Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Dish Network L.L.C.
10.23T*(32)	Twenty-seventh Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Dish Network L.L.C.
10.23U*(32)	Twenty-eighth Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Dish Network L.L.C.
10.23V*(32)	Twenty-ninth Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Dish Network L.L.C.
10.23W*(32)	Thirtieth Amendment to the CSG Master Subscriber Management System Agreement Between CSG Systems, Inc. and Dish Network L.L.C.
10.23X*(34)	Thirty-First Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and DISH Network L.L.C.
10.23Y*(34)	Thirty-Second Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and DISH Network L.L.C.
10.23Z*(34)	Thirty-Third Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and DISH Network L.L.C.
10.23AA*(34)	Thirty-Fourth Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and DISH Network L.L.C.
10.23AB*(35)	Thirty-Fifth Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and DISH Network L.L.C.
10.23AC*(35)	Thirty-Sixth Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and DISH Network L.L.C.
10.23AD*	Thirty-Seventh Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and DISH Network L.L.C.
10.23AE*	Thirty-Ninth Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and DISH Network L.L.C.
10.24*(15)	CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Time Warner Cable dated March 13, 2003
10.24A*(15)	ComTec Processing and Production Services Agreement

10.24B*(15)	Second Amendment to the Processing and Production Services Agreement between CSG Systems, Inc. and Time Warner Cable Inc.
10.24C*(22)	Forty-ninth Amendment of the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Time Warner Cable Inc.
10.24*D(25)	Third Amendment to the Processing and Production Services Agreement between CSG Systems, Inc. and Time Warner Cable Inc.
10.24E*(25)	Fifty-First Amendment of the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Time Warner Cable Inc.
10.24F*(25)	Fifty-Third Amendment of the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Time Warner Cable Inc.
10.24G*(30)	Fifty-Seventh Amendment of the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Time Warner Cable Inc.
10.24H*(30)	Sixty-First Amendment of the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Time Warner Cable Inc.

Exhibit Number	Description
10.24I*(31)	Fifty-Sixth Amendment of the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Time Warner Cable Inc.
10.24J*(31)	Sixty-third Amendment of the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Time Warner Cable Inc.
10.24K*(31)	Sixty-fifth Amendment of the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Time Warner Cable Inc.
10.24L*(32)	Forty-eighth Amendment of the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Time Warner Cable Inc.
10.24M*(32)	Fifty-ninth Amendment of the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Time Warner Cable Inc.
10.24N*(32)	Sixty-seventh Amendment of the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Time Warner Cable Inc.
10.24O*(32)	Sixty-eighth Amendment of the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Time Warner Cable Inc.
10.24P(32)	Second Amendment to Affiliate Addendum (Corporate National Sales Division)
10.24P*(33)	Sixtieth Amendment to the CSG Master Subscriber Management Agreement between CSG Systems, Inc. and Time Warner Cable Inc.
10.24Q(32)	Fourth Amendment to Affiliate Addendum Carolina Region
10.24Q*(33)	Seventieth Amendment to the CSG Master Subscriber Management Agreement between CSG Systems, Inc. and Time Warner Cable Inc.
10.24R(33)	First Amendment to Affiliate Addendum Media Sales Division between CSG Systems, Inc. and Time Warner Cable Inc.
10.24S*(34)	Sixty-Ninth Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Time Warner Cable Inc.
10.24T*(35)	Seventy-Third Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Time Warner Cable Inc.
10.24U*(35)	Seventy-Sixth Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Time Warner Cable Inc.
10.24V*	Fifty-Eighth Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Time Warner Cable Inc.

10.24W*	Seventy-Second Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Time Warner Cable Inc.
10.24X*	Seventy-Fifth Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Time Warner Cable Inc.
10.24Y*	Seventy-Seventh Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Time Warner Cable Inc.
10.24Z*	Eighty-Second Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Time Warner Cable Inc.
10.39(13)	CSG Systems, Inc. Wealth Accumulation Plan, as amended August 15, 2008
10.44(3)	CSG Systems International, Inc. Stock Option Plan for Non-Employee Directors
10.47(12)	Restated Employment Agreement with Randy R. Wiese, dated May 29, 2008
10.47A(13)	First Amendment to Restated Employment Agreement with Randy R. Wiese, dated August 19, 2008
10.48(12)	Restated Employment Agreement with Peter E. Kalan, dated May 29, 2008

Exhibit Number	Description
10.48A(13)	First Amendment to Restated Employment Agreement with Peter E. Kalan, dated August 19, 2008
10.49(12)	Restated Employment Agreement with Joseph T. Ruble, dated May 29, 2008
10.49A(13)	First Amendment to Restated Employment Agreement with Joseph T. Ruble, dated August 19, 2008
10.50(4)	CSG Systems International, Inc. 2001 Stock Incentive Plan
10.51(14)	Employment Agreement with Bret C. Griess dated February 19, 2009
10.52(23)	Restated Employment Agreement with Michael J. Henderson, dated March 16, 2011
10.80(6)	Forms of Agreement for Equity Compensation
10.80A(10)	Forms of Agreement for Equity Compensation
10.80B(9)	Forms of Agreement for Equity Compensation
10.80C(11)	Forms of Agreement for Equity Compensation
10.81(13)	Forms of Agreement for Equity Compensation
10.82(23)	Forms of Agreement for Equity Compensation
10.83(33)	Forms of Agreement for Equity Compensation
10.83(35)	Forms of Agreement for Equity Compensation
21.01	Subsidiaries of the Registrant
23.01	Consent of KPMG LLP
31.01	Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.02	Certifications 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

(1) Incorporated by reference to the exhibit of the same number to the Registration Statement No. 333-244 on Form S-1.
(2) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 1997.
(3) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2001.
(4) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2002.
(5) Incorporated by reference to the exhibit of the same number to the Registrant's Registration Statement No. 333-117427 on Form S-3.
(6) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2004.
(7) Incorporated by reference to the exhibit of the same number to the Registrant's Current Report on Form 8-K for the event dated May 26, 2005.
(8) Incorporated by reference to the exhibit of the same number to the Registrant's Current Report on Form 8-K for the event dated November 16, 2006.
(9) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2007.

(10) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2007.
(11) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2007.
(12) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2008.
(13) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2008.
(14) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2009.
(15) Incorporated by reference to the exhibit of the same number to the Registrant's Annual Report on Form 10-K/A for the year ended December 31, 2008, filed on September 8, 2009.
(16) Incorporated by reference to the exhibit of the same number to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009.
(17) Incorporated by reference to the exhibit of the same number to the Registrant's Current Report on Form 8-K for the event dated March 18, 2010.
(18) Incorporated by reference to the exhibit of the same number to the Registrant's Current Report on Form 8-K for the event dated February 24, 2010.
(19) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2010.
(20) Incorporated by reference to the exhibit of the same number to the Registrant's Current Report on Form 8-K for the event dated July 13, 2010.
(21) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2010.
(22) Incorporated by reference to the exhibit of the same number to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010.
(23) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2011.
(24) Incorporated by reference to the exhibit of the same number to the Registrant's Current Report on Form 8-K for the event dated May 17, 2011.
(25) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2011.
(26) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2011.
(27) Incorporated by reference to the exhibit of the same number to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011.
(28) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2012.
(29) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q/A for the period ended March 31, 2012, filed on August 29, 2012.
(30) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2012.
(31) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2012.
(32) Incorporated by reference to the exhibit of the same number to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012.
(33) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2013.
(34)

Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2013.

(35) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2013.

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

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