CSG SYSTEMS INTERNATIONAL INC
Form 10-Q
May 10, 2010
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended March 31, 2010**

**OR**

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

**For the transition period from ______ to ______**

**Commission file number 0-27512**

# CSG SYSTEMS INTERNATIONAL, INC.

**(Exact name of registrant as specified in its charter)**

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

**9555 Maroon Circle**

**Englewood, Colorado 80112**

**(Address of principal executive offices, including zip code)**

**(303) 200-2000**

**(Registrant s telephone number, including area code)**

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

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

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

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

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

Shares of common stock outstanding at May 3, 2010: 34,053,736

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**CSG SYSTEMS INTERNATIONAL, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS - UNAUDITED**

**(in thousands, except share and per share amounts)**

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 165,290 | $ 163,489 |
| Short-term investments | 45,455 | 34,888 |
| Total cash, cash equivalents and short-term investments | 210,745 | 198,377 |
| Trade accounts receivable- | | |
| Billed, net of allowance of $2,289 and $2,036 | 107,167 | 107,810 |
| Unbilled and other | 9,899 | 9,140 |
| Deferred income taxes | 13,038 | 16,826 |
| Income taxes receivable | 2,788 | 2,114 |
| Other current assets | 12,103 | 9,575 |
| Total current assets | 355,740 | 343,842 |
| Property and equipment, net of depreciation of $93,467 and $88,195 | 53,252 | 56,799 |
| Software, net of amortization of $41,474 and $40,266 | 11,734 | 12,157 |
| Goodwill | 107,537 | 107,052 |
| Client contracts, net of amortization of $125,515 and $122,666 | 39,838 | 41,407 |
| Other assets | 8,632 | 4,920 |
| Total assets | $ 576,733 | $ 566,177 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Client deposits | $ 32,789 | $ 29,906 |
| Trade accounts payable | 30,502 | 26,856 |
| Accrued employee compensation | 21,582 | 26,598 |
| Deferred revenue | 32,601 | 26,307 |
| Other current liabilities | 9,618 | 9,894 |
| Total current liabilities | 127,092 | 119,561 |
| Non-current liabilities: | | |
| Long-term debt, net of unamortized original issue discount of $41,238 and $12,853 | 159,166 | 157,447 |
| Deferred revenue | 19,450 | 20,498 |
| Income taxes payable | 4,585 | 5,889 |
| Deferred income taxes | 53,120 | 42,198 |
| Other non-current liabilities | 8,003 | 8,474 |
| Total non-current liabilities | 244,324 | 234,506 |
| Total liabilities | 371,416 | 354,067 |
| Stockholders equity: | | |
| Preferred stock, par value $.01 per share; 10,000,000 shares authorized; zero shares issued and outstanding | | |

| | | |
|---|---|---|
| Common stock, par value $.01 per share; 100,000,000 shares authorized; 34,060,278 and 35,125,943 shares outstanding | 640 | 636 |
| Additional paid-in capital | 430,181 | 408,722 |
| Treasury stock, at cost, 29,956,808 and 28,456,808 shares | (704,963) | (675,623) |
| Accumulated other comprehensive income (loss): | | |
| Unrealized gain on short-term investments, net of tax | 8 | 10 |
| Unrecognized pension plan losses and prior service costs, net of tax | (897) | (919) |
| Accumulated earnings | 480,348 | 479,284 |
| Total stockholders equity | 205,317 | 212,110 |
| Total liabilities and stockholders equity | $ 576,733 | $ 566,177 |

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

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**CSG SYSTEMS INTERNATIONAL, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME - UNAUDITED**

**(in thousands, except per share amounts)**

| | Quarter Ended March 31, 2010 | Quarter Ended March 31, 2009 |
|---|---|---|
| Revenues: | | |
| Processing and related services | $ 122,046 | $ 114,728 |
| Software, maintenance and services | 8,217 | 8,818 |
| Total revenues | 130,263 | 123,546 |
| Cost of revenues (exclusive of depreciation, shown separately below): | | |
| Processing and related services | 67,004 | 60,254 |
| Software, maintenance and services | 5,968 | 6,402 |
| Total cost of revenues | 72,972 | 66,656 |
| Other operating expenses: | | |
| Research and development | 18,512 | 17,151 |
| Selling, general and administrative | 16,534 | 13,818 |
| Depreciation | 5,622 | 4,240 |
| Restructuring charges | 221 | 102 |
| Total operating expenses | 113,861 | 101,967 |
| Operating income | 16,402 | 21,579 |
| Other income (expense): | | |
| Interest expense | (1,548) | (1,573) |
| Amortization of original issue discount | (2,300) | (2,225) |
| Gain (loss) on repurchase of convertible debt securities | (10,952) | 1,468 |
| Interest and investment income, net | 116 | 482 |
| Other, net | (2) | |
| Total other | (14,686) | (1,848) |
| Income before income taxes | 1,716 | 19,731 |
| Income tax provision | (652) | (6,906) |
| Net income | $ 1,064 | $ 12,825 |
| Weighted-average shares outstanding - Basic: | | |
| Common stock | 33,051 | 33,070 |
| Participating restricted common stock | 743 | 1,352 |
| Total | 33,794 | 34,422 |
| Weighted-average shares outstanding - Diluted: | | |
| Common stock | 33,313 | 33,113 |
| Participating restricted common stock | 743 | 1,352 |

| | | | | |
|---|---|---|---|---|
| Total | | 34,056 | | 34,465 |
| | | | | |
| Earnings per common share: | | | | |
| Basic | $ | 0.03 | $ | 0.37 |
| Diluted | $ | 0.03 | $ | 0.37 |

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

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**CSG SYSTEMS INTERNATIONAL, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED**

**(in thousands)**

| | Year Ended March 31, 2010 | Year Ended March 31, 2009 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 1,064 | $ 12,825 |
| Adjustments to reconcile net income to net cash provided by operating activities- | | |
| Depreciation | 5,622 | 4,240 |
| Amortization | 4,111 | 2,963 |
| Amortization of original issue discount | 2,300 | 2,225 |
| Gain on short-term investments and other | (38) | (192) |
| (Gain) loss on repurchase of convertible debt securities | 10,952 | (1,468) |
| Deferred income taxes | 1,433 | 6,978 |
| Excess tax benefit of stock-based compensation awards | (1,077) | (137) |
| Stock-based employee compensation | 3,009 | 3,015 |
| Changes in operating assets and liabilities: | | |
| Trade accounts and other receivables, net | (116) | (11,137) |
| Other current and non-current assets | (3,110) | (2,229) |
| Income taxes payable/receivable | (1,246) | (4,495) |
| Trade accounts payable and accrued liabilities | 3,174 | (3,065) |
| Deferred revenue | 5,246 | 6,490 |
| Net cash provided by operating activities | 31,324 | 16,013 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (4,048) | (10,024) |
| Purchases of short-term investments | (41,932) | (2,937) |
| Proceeds from sale/maturity of short-term investments | 31,400 | 24,400 |
| Acquisition of businesses, net of cash acquired | (2,264) | (6,296) |
| Acquisition of and investments in client contracts | (1,280) | (1,489) |
| Net cash provided by (used in) investing activities | (18,124) | 3,654 |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock | 451 | 264 |
| Repurchase of common stock | (33,504) | (6,047) |
| Payments on acquired equipment financing | (285) | (248) |
| Proceeds from issuance of convertible debt securities | 150,000 | |
| Payments of deferred financing costs | (4,146) | |
| Repurchase of convertible debt securities | (124,992) | (13,229) |
| Excess tax benefit of stock-based compensation awards | 1,077 | 137 |
| Net cash used in financing activities | (11,399) | (19,123) |
| Net increase in cash and cash equivalents | 1,801 | 544 |
| Cash and cash equivalents, beginning of period | 163,489 | 83,886 |
| Cash and cash equivalents, end of period | $ 165,290 | $ 84,430 |

| | | | | |
|---|---|---|---|---|
| Supplemental disclosures of cash flow information: | | | | |
| Net cash paid during the period for- | | | | |
| Interest | $ | 852 | $ | 142 |
| Income taxes | | 466 | | 4,328 |

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

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**CSG SYSTEMS INTERNATIONAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

## 1. GENERAL

We have prepared the accompanying unaudited condensed consolidated financial statements as of March 31, 2010 and December 31, 2009, and for the first quarter ended March 31, 2010 and 2009, in accordance with accounting principles generally accepted in the United States of America ( GAAP ) for interim financial information, and pursuant to the instructions to Form 10-Q and the rules and regulations of the Securities and Exchange Commission (the SEC ). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of our management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of our financial position and operating results have been included. The unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto, together with Management s Discussion and Analysis of Financial Condition and Results of Operations, contained in our Annual Report on Form 10-K for the year ended December 31, 2009, filed with the SEC. The results of operations for the first quarter ended March 31, 2010 are not necessarily indicative of the expected results for the entire year ending December 31, 2010.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

*Reclassification.* Certain prior year amounts have been reclassified to conform to the March 31, 2010 presentation.

*Accounting Pronouncements Issued But Not Yet Effective.* In October 2009, the FASB issued a new pronouncement related to revenue arrangements with multiple deliverables. This new guidance requires a vendor to allocate revenue to each unit of accounting in many arrangements involving multiple deliverables based upon the relative selling price of each deliverable. It also changes the level of evidence of stand-alone selling price required to separate deliverables by allowing a vendor to make its best estimate of the stand-alone selling price of deliverables when more objective evidence of selling price is not available. The pronouncement also prohibits the use of the residual method of allocating arrangement consideration to deliverables, but instead, requires the use of the relative selling price method where the vendor must determine a stand-alone selling price for all deliverables that meet the separation criteria. The pronouncement s scope is limited to multiple element arrangements, and does not apply to deliverables within the scope of the software revenue recognition rules or other authoritative literature that addresses both separation and allocation. The provisions of this new pronouncement are effective for fiscal years beginning on or after June 15, 2010, and can be adopted prospectively to new or materially modified revenue arrangements entered into or materially modified after the effective date or retrospectively for all periods presented. We are currently evaluating the impact that this new guidance will have on our consolidated results of operations and financial condition, which we expect to adopt on a prospective basis on January 1, 2011.

*Postage.* We pass through to our clients the cost of postage that is incurred on behalf of those clients, and typically require an advance payment on expected postage costs. These advance payments are included in client deposits in the accompanying Condensed Consolidated Balance Sheets and are classified as current liabilities regardless of the contract period. We net the cost of postage against the postage reimbursements, and include the net amount in processing and related services revenues. The cost of postage that has been shown net of the postage reimbursements from our clients for the first quarter of 2010 and 2009 was $69.0 million and $67.3 million, respectively.

*Short-term Investments and Other Financial Instruments*. Our financial instruments as of March 31, 2010 and December 31, 2009, include cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and long-term debt. Because of their short maturities, the carrying amounts of cash equivalents, accounts receivable, and accounts payable approximate their fair value.

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

Our short-term investments at March 31, 2010, and December 31, 2009, consisted of the following (in thousands):

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| Commercial paper | $ 45,455 | $ 31,388 |
| Certificates of deposit | | 3,500 |
| Total | $ 45,455 | $ 34,888 |

All short-term investments held by us as of March 31, 2010, have contractual maturities of less than one year from the time of acquisition. Proceeds from the sale/maturity of short-term investments in the first quarter of 2010 and 2009 were $31.4 million and $24.4 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 cash equivalents and short-term investments measured at fair value (in thousands):

| | March 31, 2010 | | | December 31, 2009 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Total | Level 1 | Level 2 | Total |
| Money market funds | $ 66,465 | $ | $ 66,465 | $ 122,942 | $ | $ 122,942 |
| Commercial paper | | 116,645 | 116,645 | | 56,641 | 56,641 |
| Certificates of deposit | | | | | 3,500 | 3,500 |
| Total | $ 66,465 | $ 116,645 | $ 183,110 | $ 122,942 | $ 60,141 | $ 183,083 |

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 instruments are based upon pricing provided by third-party pricing services. These prices were derived from observable market inputs.

As of March 31, 2010, our long-term debt consists of our 2004 Convertible Debt Securities and our 2010 Convertible Notes (see Note 6). As of March 31, 2010 and December 31, 2009, the fair value of our 2004 Convertible Debt Securities, based upon quoted market prices or recent sales activity, was approximately $52 million and $169 million, respectively. As of March 31, 2010, the fair value of our 2010 Convertible Notes, based upon quoted market prices or recent sales activity, was approximately $158 million.

**3. STOCKHOLDERS EQUITY AND EQUITY COMPENSATION PLANS**

*Stock Repurchase Program.* We currently have a stock repurchase program, approved by our Board of Directors, authorizing us to repurchase our common stock from time-to-time as market and business conditions warrant (the Stock Repurchase Program ). During the quarter ended March 31, 2010, we repurchased 1.5 million shares of our common stock under the Stock Repurchase Program for $29.3 million ($19.56 per share). During the quarter ended March 31, 2009, we repurchased 250,000 shares of our common stock under the Stock Repurchase Program for $3.8 million (weighted-average price of $15.13 per share). As of March 31, 2010, the total remaining number of shares available for repurchase under the Stock Repurchase Program totaled 4.2 million shares.

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*Stock Repurchases for Tax Withholdings.* In addition to the above mentioned stock repurchases, a summary of shares repurchased from our employees and then cancelled during the first quarter ended March 31, 2010 and 2009 in connection with minimum tax withholding requirements resulting from the vesting of restricted common stock under our stock incentive plans is as follows (in thousands):

| | Quarter Ended March 31, 2010 | Quarter Ended March 31, 2009 |
|---|---|---|
| Shares repurchased | 204 | 161 |
| Total amount paid | $ 4,165 | $ 2,266 |

*Stock-Based Awards.* A summary of our unvested restricted common stock activity during the first quarter ended March 31, 2010, is as follows:

| | Quarter Ended March 31, 2010 | |
|---|---|---|
| | Shares | Weighted-Average Grant Date Fair Value |
| Unvested awards, beginning | 1,751,717 | $ 16.12 |
| Awards granted | 610,830 | 20.14 |
| Awards forfeited/cancelled | (3,375) | 16.22 |
| Awards vested | (588,380) | 17.26 |
| Unvested awards, ending | 1,770,792 | $ 17.13 |

Included in the awards granted during the quarter ended March 31, 2010, are performance-based awards for 83,500 restricted common stock shares issued to members of executive management, which vest in equal installments over three years upon meeting either pre-established financial performance objectives or pre-established stock price objectives. The performance-based awards become fully vested upon a change in control, as defined, and the subsequent involuntary termination of employment.

All other restricted common stock shares granted during the quarter ended March 31, 2010, are time-based awards, which generally vest annually over four years with no restrictions other than the passage of time. Certain shares of the restricted common stock become fully vested upon a change in control, as defined, and the subsequent involuntary termination of employment.

We recorded stock-based compensation expense for the first quarter of 2010 and 2009 of $3.0 million in both periods.

**4. EARNINGS PER COMMON SHARE**

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

| | Quarter Ended March 31, 2010 | Quarter Ended March 31, 2009 |
|---|---|---|
| Net Income attributed to: | | |
| Common stock | $ 1,041 | $ 12,321 |
| Participating restricted common stock | 23 | 504 |
| Total | $ 1,064 | $ 12,825 |

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

| | Quarter Ended March 31, 2010 | 2009 |
|---|---|---|
| Weighted-average shares outstanding Basic: | | |
| Common stock | 33,051 | 33,070 |
| Participating restricted common stock | 743 | 1,352 |
| Total | 33,794 | 34,422 |
| Weighted-average shares outstanding Diluted: | | |
| Common stock | 33,313 | 33,113 |
| Participating restricted common stock | 743 | 1,352 |
| Total | 34,056 | 34,465 |

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

| | Quarter Ended March 31, 2010 | 2009 |
|---|---|---|
| Basic weighted-average common shares | 33,051 | 33,070 |
| Dilutive effect of common stock options | 29 | 28 |
| Dilutive effect of non-participating restricted common stock | 233 | 15 |
| Dilutive effect of 2010 Convertible Notes | | |
| Dilutive effect of 2004 Convertible Debt Securities | | |
| Diluted weighted-average common shares | 33,313 | 33,113 |

Potentially dilutive common shares related to stock options and non-participating unvested shares of restricted common stock of 0.2 million for the first quarter of 2010 and 2009, were excluded from the computation of diluted EPS related to common shares as their effect was antidilutive.

The 2010 Convertible Notes have a dilutive effect only in those quarterly periods in which our average stock price exceeds the current effective conversion price of $24.45 per share. The 2004 Convertible Debt Securities have a dilutive effect only in those quarterly periods in which our average stock price exceeds the current effective conversion price of $26.77 per share. See Note 6 for additional discussion of our 2010 Convertible Notes and 2004 Convertible Debt Securities.

## 5. COMPREHENSIVE INCOME

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

| | Quarter Ended March 31, 2010 | 2009 |
|---|---|---|
| Net income | $ 1,064 | $ 12,825 |
| Other comprehensive income (loss), net of tax, if any: | | |

| | | |
|---|---|---|
| Change in unrecognized pension plan gains and prior service costs, net of tax | 22 | |
| Unrealized loss on short-term investments | (2) | (145) |
| Comprehensive income | $ 1,084 | $ 12,680 |

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**6. DEBT**

As of March 31, 2010 and December 31, 2009, our long-term debt, net of unamortized original issue discount ( OID ), was as follows (in thousands):

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| Liability component: | | |
| 2010 Convertible Notes senior subordinated convertible notes; due March 1, 2017; cash interest at 3.0%; net of unamortized OID of $38,055 and zero, respectively | $ 111,945 | $ |
| 2004 Convertible Debt Securities senior subordinated convertible contingent debt securities; due June 15, 2024; cash interest at 2.5%; net of unamortized OID of $3,183 and $12,853, respectively | 47,221 | 157,447 |
| | 159,166 | 157,447 |
| Current portion of long-term debt | | |
| Total long-term debt | $ 159,166 | $ 157,447 |
| Equity component (included within additional paid-in capital, net of tax): | | |
| 2010 Convertible Notes | $ 23,727 | $ |
| 2004 Convertible Debt Securities | 38,270 | 39,752 |

The OID related to the 2010 Convertible Notes is being amortized to interest expense through March 1, 2017, the maturity date of the 2010 Convertible Notes. The OID related to the 2004 Convertible Debt Securities is being amortized to interest expense through June 15, 2011, which is the first date that the 2004 Convertible Debt Securities can be put back to us by the holders for cash. The effective interest rates of the liability components for the 2010 Convertible Notes and the 2004 Convertible Debt Securities are 7.75% and 8.00%, respectively.

*2010 Convertible Notes.* On March 1, 2010, we completed an offering of $150 million of 3.0% senior subordinated convertible notes due March 1, 2017 ( 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, equal in right of payment to our 2004 Convertible Debt Securities, subordinated to any future senior indebtedness and 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, beginning on September 1, 2010.

The net proceeds from the sale of the 2010 Convertible Notes were approximately $145 million, after debt issuance costs. We used the net proceeds, along with available cash, cash equivalents and short-term investments, to: (i) repurchase 1.5 million shares of our common stock for $29.3 million ($19.56 per share) under our existing Stock Repurchase Program; and (ii) repurchase $119.9 million (par value) of our 2004 Convertible Debt Securities for a total purchase price of $125.8 million, which included accrued interest of $0.8 million.

The 2010 Convertible Notes are convertible into our common stock, under the specified conditions and settlement terms outlined below, at an initial conversion rate of 40.8998 shares of our common stock per $1,000 par value of the 2010 Convertible Notes, which is equivalent to an initial conversion price of approximately $24.45 per share. The Indenture related to the 2010 Convertible Notes ( Notes Indenture ) includes anti-dilution provisions for the holders such that the conversion rate 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 $31.79 per share (130% of the $24.45 effective 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 March 31, 2010, 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. As of March 31, 2010, the value of our conversion obligation did not exceed the par value of the 2010 Convertible Notes.

*2004 Convertible Debt Securities.* The 2004 Convertible Debt Securities are unsecured, subordinated to any of our future senior indebtedness, and senior to any future junior subordinated debt. The 2004 Convertible Debt Securities were issued at a price of 100% of their par value and bear interest at a rate of 2.5% per annum, which is payable semiannually in arrears on June 15 and December 15 of each year. The 2004 Convertible Debt Securities are callable by us for cash, on or after June 20, 2011, at a redemption price equal to 100% of the par value of the 2004 Convertible Debt Securities, plus accrued interest. The 2004 Convertible Debt Securities can be put back to us by the holders for cash at June 15, 2011, 2016 and 2021, or upon a change of control, as defined in the 2004 Convertible Debt Securities bond indenture ( Bonds Indenture ), at a repurchase price equal to 100% of the par value of the 2004 Convertible Debt Securities, plus any accrued interest.

The 2004 Convertible Debt Securities are convertible into our common stock, under the specified conditions and settlement terms outlined below, at a conversion rate of 37.3552 shares per $1,000 par value of the 2004 Convertible Debt Securities, which is equal to an effective conversion price of $26.77 per share. The Bonds Indenture includes anti-dilution provisions for the holders such that the conversion rate (and thus, the effective conversion price) can be adjusted in the future for certain events, to include stock dividends, stock splits/reverse splits, the issuance of warrants to purchase our stock at a price below the then-current market price, cash dividends, and certain purchases by us of our common stock pursuant to a self-tender offer or exchange offer.

Holders of the 2004 Convertible Debt Securities can convert their securities: (i) at any time the price of our common stock trades over $34.80 per share (130% of the $26.77 effective conversion price) for a specified period of time; (ii) at any time the trading price of the 2004 Convertible Debt Securities falls below 98% of the average conversion value for the 2004 Convertible Debt Securities for a specified period of time; (iii) upon us exercising our right to redeem the 2004 Convertible Debt Securities at any time after June 20, 2011; (iv) at any time upon the occurrence of specified corporate transactions, to include a change in control (as defined in the Bonds Indenture); and (v) if a certain level of dividends are declared, or a certain number of shares of our common stock are repurchased under a self-tender offer by us. As of March 31, 2010, none of the contingent conversion features have been achieved, and thus, the 2004 Convertible Debt Securities are not convertible by the holders.

Upon conversion of the 2004 Convertible Debt Securities, we will settle our conversion obligation as follows: (i) we will pay cash for 100% of the par value of the 2004 Convertible Debt Securities that are converted; and (ii) to the extent the value of our conversion obligation exceeds the par value, we will satisfy the remaining conversion obligation in our common stock, cash or any combination of our common stock and cash. As of March 31, 2010, the value of our conversion obligation did not exceed the par value of the 2004 Convertible Debt Securities.

In March 2010, we repurchased $119.9 million (par value) of our 2004 Convertible Debt Securities for a total purchase price of $125.8 million, which included accrued, but unpaid interest of $0.8 million. We recognized a non-cash loss on the repurchase of approximately $11 million, after the write-off of a proportional amount of deferred financing costs. This debt has been considered extinguished for accounting purposes.

As a result of the repurchase of our 2004 Convertible Debt Securities in the first quarter of 2010 and the repurchases we made during 2009, beginning in 2014, we will have to pay cash of approximately $26 million ratably over five years related to the deferred tax liabilities associated with the repurchased securities. In addition, if the remaining 2004 Convertible Debt Securities are put back to us on June 15, 2011, in 2011, we will have to settle in cash approximately $12 million of deferred tax liabilities associated with the outstanding securities.

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*Deferred Financing Costs.* As of March 31, 2010, net deferred financing costs related to the 2010 Convertible Notes were $3.7 million, and are being amortized to interest expense through maturity (March 1, 2017). As of March 31, 2010, net deferred financing costs related to the 2004 Convertible Debt Securities were $0.2 million, and are being amortized to interest expense through the first date the holders of the 2004 Convertible Debt Securities can be put back to us (June 15, 2011). The net deferred financing costs are reflected in Other Assets in the accompanying Condensed Consolidated Balance Sheets. Interest expense for the quarter ended March 31, 2010 and 2009 includes amortization of deferred financing costs of $0.2 million in both periods.

**7. LONG-LIVED ASSETS**

*Goodwill.* The changes in the carrying amount of goodwill for the quarter ended March 31, 2010 were as follows (in thousands):

| | |
|---|---|
| January 1, 2010, balance | $ 107,052 |
| Adjustments related to prior acquisitions | 485 |
| March 31, 2010, balance | $ 107,537 |

The adjustments related to prior acquisitions are mainly due to the recording of a contingent purchase price payment of $0.5 million associated with the Quaero acquisition.

*Other Intangible Assets.* Our intangible assets subject to ongoing amortization consist primarily of client contracts and software. As of March 31, 2010 and December 31, 2009, the carrying values of these assets were as follows (in thousands):

| | March 31, 2010 | | | December 31, 2009 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Amount | Gross Carrying Amount | Accumulated Amortization | Net Amount |
| Client contracts | $ 165,353 | $ (125,515) | $ 39,838 | $ 164,073 | $ (122,666) | $ 41,407 |
| Software | 53,208 | (41,474) | 11,734 | 52,423 | (40,266) | 12,157 |
| Total | $ 218,561 | $ (166,989) | $ 51,572 | $ 216,496 | $ (162,932) | $ 53,564 |

The total amortization expense related to intangible assets for the first quarter of 2010 and 2009 was $3.9 million and $2.8 million, respectively. Based on the March 31, 2010 net carrying value of our intangible assets, the estimated total amortization expense for each of the five succeeding fiscal years ending December 31 are: 2010 $15.7 million; 2011 $14.5 million; 2012 $12.0 million; 2013 $4.7 million; and 2014 $3.4 million.

**8. COMMITMENTS, GUARANTEES AND CONTINGENCIES**

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

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

*Claims for Company Non-performance.* Our arrangements with our clients typically cap our liability for breach to a specified amount of the direct damages incurred by the client resulting from the breach. From time-to-time, these arrangements may also include provisions for possible liquidated damages or other financial remedies for our non-performance, or in the case of certain of our outsourced customer care and billing solutions, provisions for damages related to service level performance requirements. The service level performance requirements typically relate to system availability and timeliness of service delivery. As of March 31, 2010, 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. The amount of the reserve maintained for this purpose is not material.

*Indemnifications Related to Sold Businesses.* In conjunction with the sale of the GSS business in December 2005, we provided certain indemnifications to the buyer of this business which are considered routine in nature (such as employee, tax, or litigation matters that occurred while these businesses were under our ownership). Under the provisions of this indemnification agreement, payment by us is conditioned on the other party making a claim pursuant to the procedures in the indemnification agreement, and we are typically allowed to challenge the other party s claims. In addition, certain of our obligations under this indemnification agreement are limited in terms of time and/or amounts, and in some cases, we may have recourse against a third party if we are required to make certain indemnification payments.

We estimated the fair value of these indemnifications at $2.8 million as of the closing date for the sale of the GSS business. Since the sale of the GSS business, we have made an indemnification payment of $0.1 million, and as of March 31, 2010, the indemnification liability was $2.3 million and related principally to indemnifications related to income tax matters. It is not possible to predict the maximum potential amount of future payments we may be required to make under this indemnification agreement due to the conditional nature of our obligations and the unique facts and circumstances associated with each indemnification provision. We believe that if we were required to make payments in excess of the indemnification liability we have recorded, the resulting loss would not have a material effect on our financial condition or results of operations. If any amounts required to be paid by us would differ from the amounts initially recorded as indemnification liabilities as of the closing dates for the sale of the GSS business, the difference would be reflected in the discontinued operations section of our Consolidated Statements of Income.

*Indemnifications Related to Officers and the Board of Directors.* We have agreed to indemnify certain of our officers and members of our Board of Directors if they are named or threatened to be named as a party to any proceeding by reason of the fact that they acted in such capacity. We maintain directors and officers (D&O) insurance coverage to protect against such losses. We have not historically incurred any losses related to these types of indemnifications, and are not aware of any pending or threatened actions or claims against any officer or member of our Board of Directors. As a result, we have not recorded any liabilities related to such indemnifications as of March 31, 2010. In addition, as a result of the insurance policy coverage, we believe these indemnification agreements are not significant to our results of operations.

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

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

The information contained in this Management s Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) should be read in conjunction with the Condensed Consolidated Financial Statements and Notes thereto (our Financial Statements ) included in this Form 10-Q and the audited consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2009 (our 2009 10-K ).

**Forward-Looking Statements**

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

**Company Overview**

*Our Company.* We are a leading provider of customer interaction management solutions to the North American market. We provide fully outsourced customer care and billing solutions to the cable and direct broadcast satellite ( DBS ) industry that combine the reliability and high-volume transaction processing capabilities of an enterprise server platform with the flexibility of client/server architecture. In addition to these critical business support services that we provide to our clients, our Intelligent Customer Communications solutions facilitate effective interactions between our clients and their end customers through various touch points, including electronic communication channels such as the Internet, interactive communications channels such as voice and text messaging, and through enhanced print communications.

Our broad suite of solutions help our clients improve their profitability by creating more compelling product offerings and an enhanced customer experience through more relevant and targeted interactions. Our solutions help our clients maximize the value and minimize the costs associated with their customer interactions by:

- Targeting and acquiring the right customers through the most effective communications channels;
- Analyzing customer purchasing and interaction patterns and other data to offer new products and services in relevant and meaningful packages;
- Managing the critical back office processes required to offer, deploy, service, and bill customer orders and requests more efficiently;
- Empowering our clients workforce with the tools and the information required for them to improve customer satisfaction and retention through informed and efficient interactions;
- Improving the communications between our clients and their end customers by providing meaningful, relevant, and targeted messages via the desired communication vehicle, whether that be electronic or print; and
- Improving efficiencies by streamlining all operations through a customer-centric focus.

Our proven approach and solutions are based on more than 25 years of experience in serving clients in the communications industry (primarily cable and DBS providers) as their businesses evolved from a single product offering, high volume, recurring model to a highly complex, highly competitive, multi-product service offering. Our approach has centered on using the best technology for the various functions required to provide a world-class scalable solution.

Recently, we have broadened and enhanced our Intelligent Customer Communication solutions to not only increase our capabilities to our existing clients, but to also expand these services into new industries, including utilities, healthcare, home security, financial services, and content distribution. These are industries where companies require solutions that foster relevant interactions with customers that result in increased customer satisfaction and revenues. This approach has helped us to diversify our revenue base. During the first quarter of 2010, 84% of our revenues came from the cable and DBS industry, whereas three years ago, nearly all of our revenues came from the cable and DBS industry. The shift in revenue mix has primarily been achieved through acquisitions, which has expanded the capabilities of our Intelligent Customer Communications solutions, and provided us new markets to penetrate.

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Our solutions are delivered and supported by an experienced and dedicated workforce of more than 2,000 employees. We are a S&P SmallCap 600 company.

*Market Concentration.* The North American communications industry has experienced significant consolidation over the past decade, resulting in a large percentage of the market being served by a limited number of service providers with greater size and scale. Consistent with this market concentration, a large percentage of our revenues are generated from a limited number of clients, with approximately two-thirds of our revenues being generated from our four largest clients, which are Comcast Corporation ( Comcast ), DISH Network Corporation ( DISH ), Time Warner Cable Inc. ( Time Warner ), and Charter Communications ( Charter ).

*General Market Conditions.* Over the past few years, the U.S. has experienced a significant economic downturn and difficulties within all industry sectors, but in particular, the financial and credit markets. While these adverse economic conditions appear to be easing, our sales cycles continue to be extended and revenues related to our clients discretionary spending for such things as special project work, marketing activities, new product sales, and software and professional services projects continue to be negatively impacted.

We believe that our recurring revenue and predictable cash flow business model, our sufficient sources of liquidity, and our stable capital structure lessen the risk of a significant negative impact to our business as a result of the current economic conditions. Also, our business model has certain economic advantages to our clients since it generally requires a lower initial capital investment, thus, allowing clients to utilize our advanced, integrated product offerings on a pay-as-you-grow basis. Additionally, we believe our key clients have business models that have historically performed well, as compared to other industries, in down economic conditions. However, there can be no assurances regarding the performance of our business, and the potential impact to our clients and key vendors, resulting from the current or future economic conditions.

**Management Overview of Quarterly Results**

*First Quarter Highlights.* A summary of our results of operations for the first quarter of 2010, when compared to the first quarter of 2009, is as follows (in thousands, except per share amounts and percentages):

| | Quarter March 31, | |
|---|---|---|
| | **2010** | **2009** |
| Revenues | $ 130,263 | $ 123,546 |
| Customer Accounts (end of period) | 48,975 | 45,379 |
| Operating Results: | | |
| Operating Income | $ 16,402 | $ 21,579 |
| Operating Income Margin | 12.6% | 17.5% |
| Diluted EPS | $ 0.03 | $ 0.37 |
| Supplemental Data: | | |
| Data center transition expenses | $ 7,717 | $ 1,389 |
| Stock-based compensation | 3,009 | 3,015 |
| Amortization of acquired intangible assets | 1,164 | 1,381 |
| Amortization of OID | 2,300 | 2,225 |
| (Gain) loss on repurchase of convertible debt securities | 10,952 | (1,468) |

*Revenues.* Our revenues for the first quarter of 2010 were $130.3 million, up 5.4% when compared to $123.5 million for the same period in 2009, with the increase entirely a result of organic growth factors.

*Operating Results.* Operating income for the first quarter of 2010 was $16.4 million, or a 12.6% operating income margin percentage, compared to $21.6 million, or a 17.5% operating income margin percentage, for the first quarter of 2009. These decreases in operating income and operating income margin percentage are related to the $6.3 million increase in quarterly data center transition expenses between years, which resulted in a negative 4.8 percentage point decrease in our operating income margin percentage. See the Data Center Transition Expenses section below for further discussion of these expenses.

*Diluted EPS.* Diluted EPS the first quarter of 2010 was $0.03 per diluted share, which compares to $0.37 per diluted share for the first quarter of 2009. This year-over-year decrease can be attributed primarily to the following items:

- a negative impact of $0.23 related to an $11.0 million loss, or $0.20 per diluted share impact, on the repurchase of our convertible debt securities incurred in the first quarter of 2010, as compared to a $1.5 million gain, or $0.03 per diluted share impact that occurred in the first quarter of 2009 for similar debt repurchases; and

- a negative impact of $0.11 related to the $6.3 million increase in quarterly data center transition expenses between years.

*Balance Sheet and Cash Flows.* As of March 31, 2010, we had cash, cash equivalents, and short-term investments of $210.7 million, as compared to $198.4 million as of December 31, 2009. We continue to generate strong cash flows from operations. Cash flows from operating activities for the first quarter of 2010 were $31.3 million, compared to $16.0 million for the first quarter of 2009, with the increase primarily attributed to favorable changes in operating assets and liabilities, discussed in further detail below.

*Capital Structure Changes.* On March 1, 2010, we completed an offering of $150.0 million (par value) of 3.0% senior subordinated convertible notes due March 1, 2017. Concurrent with the receipt of net proceeds from the 2010 Convertible Notes of approximately $145 million, we repurchased 1.5 million shares of our common stock for $29.3 million ($19.56 per share) under our existing Stock Repurchase Program. See Notes 3 and 6 to our Financial Statements for additional information related to our share repurchases and long-term debt.

On March 22, 2010, we repurchased $119.9 million (par value) of our 2004 Convertible Debt Securities from one holder, for a total purchase price of $125.0 million. As of March 31, 2010, $50.4 million (par value) of our 2004 Convertible Debt Securities remain outstanding.

These capital structure changes allowed us to significantly reduce the level of debt that was subject to repayment in June 2011, and extended the term of a substantial portion of our long-term debt from 2011 to 2017.

**Significant Client Relationships**

*Client Concentration.* Approximately two-thirds of our total revenues are generated from our four largest clients, which include Comcast, DISH, Time Warner, and Charter. Revenues from these clients represented the following percentages of our total revenues for the indicated periods:

| | Quarter Ended | | |
|---|---|---|---|
| | March 31, 2010 | December 31, 2009 | March 31, 2009 |
| Comcast | 24% | 24% | 25% |
| DISH | 18% | 18% | 18% |
| Time Warner | 12% | 13% | 13% |
| Charter | 10% | 10% | 9% |

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

| | As of | | |
|---|---|---|---|
| | March 31, 2010 | December 31, 2009 | March 31, 2009 |
| Comcast | 24% | 19% | 24% |
| DISH | 17% | 26% | 28% |
| Time Warner | 11% | 9% | 13% |
| Charter | 12% | 13% | 9% |

See our 2009 10-K for additional discussion of our business relationships with the above mentioned significant clients.

*Risk of Client Concentration.* In the near term, we expect to continue to generate a large percentage of our total revenues from our four largest clients mentioned above. There are inherent risks whenever a large percentage of total revenues are concentrated with a limited number of clients. One such risk is that, should a significant client: (i) terminate or fail to renew its contract with us, in whole or in part, for any reason; (ii) significantly reduce the number of customer accounts processed on our solutions, the price paid for our services, or the scope of services that we provide; or (iii) experience significant financial or operating difficulties, it could have a material adverse effect on our financial condition and results of operations.

**Data Center Transition**

We currently utilize First Data Corporation ( FDC ) to provide the data center computing environment for the delivery of most of our customer care and billing services and related solutions under a contract that was scheduled to expire at the end of June 2010, but was recently amended to provide us options to continue the use of certain FDC data center services through December 31, 2010. FDC has provided these data center services to us since the inception of our company in 1994.

In December 2008, we entered into an agreement with Infocrossing LLC ( Infocrossing ), a Wipro Limited company, to transition these outsourced data center services from FDC to Infocrossing prior to the expiration of the FDC contract term. The term of the Infocrossing agreement is five years beginning on the date of full conversion of our computing environment from FDC to Infocrossing. We are changing data center providers to partner with a global provider that focuses on data center operations in greater scale, and as their core business focus. This allows us to further improve the delivery of our solutions while benefiting from an improved cost structure.

We began our transition efforts to the new Infocrossing data center in the first quarter of 2009, and expect to substantially complete the transition project in mid-2010. We are tracking the expenses attributable to our decision to change data center service providers separately, as these expenses are not considered reflective of our recurring core business operating results. These expenses relate primarily to our efforts to set-up, replicate, transition, and operate the computing environment at Infocrossing, while maintaining and operating the computing environment at the FDC data center. The network and computing environment will be transitioned from FDC to Infocrossing in various planned stages over the project period, requiring us to incur certain costs to operate two separate data centers. This staged and replicated data center approach was designed to mitigate the risk of disruption to our clients during the transition period, but does result in certain cost inefficiencies during the transition period due to such things as redundant data processing costs, accelerated and redundant hardware- and software-related purchases, and costs incurred to maintain communications and data integrity between the two data center locations.

During the first quarter of 2010 and 2009, we incurred $7.7 million and $1.4 million (pretax impact), respectively, of expenses related to these transition efforts, or approximately $0.14 and $0.03 per diluted share negative impact. These expenses include such things as the following: (i) equipment- and software-related costs; (ii) data communications and data processing costs; and (iii) labor and third-party consulting fees for the transition team. These data center transition expenses are included in the following captions in the Condensed Consolidated Statements of Income (in thousands):

| | Quarter Ended | |
|---|---|---|
| | March 31, 2010 | March 31, 2009 |
| Cost of processing and related services | $ 6,395 | $ 1,389 |
| Depreciation | 1,322 | |

| | | |
|---|---|---|
| Total data center transition expenses | $ 7,717 | $ 1,389 |

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Additionally, during the first quarter of 2010 and 2009, we spent approximately $1 million in each quarter on capital expenditures related to network and computer equipment needed to set-up and replicate the computing environment at the new Infocrossing data center location.

For the full year 2010, we estimate that the data center transition expenses will be approximately $23 million to $24 million (pretax impact), or approximately $0.45 to $0.47 per diluted share negative impact, and are expected to have a negative impact of approximately $13 million on our 2010 cash flows from operations. Additionally, we expect our full year 2010 capital expenditures related to the data center transition to be approximately $3 million. These amounts are based on the best available estimates at this time and may fluctuate up or down as we continue to execute on our transition plan.

The Infocrossing agreement, with confidential information redacted, is included in the exhibits to our periodic filings with the SEC.

**Stock-Based Compensation Expense**

Stock-based compensation expense is included in the following captions in the accompanying Condensed Consolidated Statements of Income (in thousands):

| | Quarter Ended | |
|---|---|---|
| | March 31, 2010 | March 31, 2009 |
| Cost of processing and related services | $ 762 | $ 922 |
| Cost of software, maintenance and services | 192 | 195 |
| Research and development | 410 | 419 |
| Selling, general and administrative | 1,645 | 1,479 |
| Total stock-based compensation expense | $ 3,009 | $ 3,015 |

**Critical Accounting Policies**

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

We have identified the most critical accounting policies that affect our financial condition and the results of our operations. Those critical accounting policies were determined by considering the accounting policies that involve the most complex or subjective decisions or assessments. The most critical accounting policies identified relate to: (i) revenue recognition; (ii) allowance for doubtful accounts receivable; (iii) impairment assessments of goodwill and other long-lived assets; (iv) income taxes; and (v) business combinations and asset purchases. These critical accounting policies, as well as our other significant accounting policies, are discussed in greater detail in our 2009 10-K.

**Results of Operations**

*Total Revenues.* Total revenues for the first quarter of 2010 increased 5.4% to $130.3 million, from $123.5 million for the first quarter of 2009. This increase is entirely a result of organic growth factors.

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

*Processing and related services revenues.* Processing and related services revenues for the first quarter of 2010 increased 6.4% to $122.0 million, from $114.7 million for the first quarter of 2009. The quarterly increase in processing and related services revenues can be entirely attributed to organic growth resulting from: (i) conversions of customer accounts onto our solutions during the second half of 2009; and to a lesser degree, (ii) continued adoption and use of our advanced customer interaction management solutions.

Additional information related to processing and related services revenues is as follows:

Amortization of our client contracts intangible assets (reflected as a reduction of processing and related services revenues) for the first quarter of 2010 and 2009 was $1.6 million and $1.0 million, respectively.

Total customer accounts processed on our solutions as of March 31, 2010, were 49.0 million, compared to 45.4 million as of March 31, 2009, and 48.6 million as of December 31, 2009. The year-over-year increase is attributed to the 3.1 million customer accounts we converted onto our solutions during the second half of 2009.

*Software, Maintenance and Services Revenues.* Software, maintenance and services revenues for the first quarter of 2010 decreased 6.8% to $8.2 million, from $8.8 million for the first quarter of 2009. The decrease in software, maintenance and services revenues is due to lower professional services revenue as a result of the completion of certain consulting projects in 2009.

*Total Expenses.* Our operating expenses for the first quarter of 2010 were $113.9 million, up 11.7% when compared to $102.0 million for the same period in 2009. This year-over-year increase can be attributed to the following items:

Approximately one-half of this year-over-year increase can be attributed to the $6.3 million increase in our data center transition expenses. During the first quarter of 2010, we incurred $7.7 million of costs related to our data center transition efforts, as compared to $1.4 million of expense in the first quarter of 2009. See the Data Center Transition Expenses section for a further discussion of these efforts.

Approximately one-third of this year-over-year increase can be attributed to increased employee-related expense.

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

*Cost of Revenues.* See our 2009 10-K for a description of the types of costs that are included in the individual line items for cost of revenues.

*Cost of Processing and Related Services.* The cost of processing and related services for the first quarter of 2010 increased 11.2% to $67.0 million, from $60.3 million for the first quarter of 2009. Of this $6.7 million increase, $6.3 million is attributed to the data center transition efforts.

Total processing and related services cost of revenues as a percentage of our processing and related services revenues for the first quarter of 2010 and 2009 was 54.9% and 52.5%, respectively. The increase in processing and related services cost of revenues as a percentage of our processing and related services revenues is attributed to the increased data center transition expenses, which had a negative impact for the first quarter of 2010 and 2009 of 5.2 percentage points and 1.2 percentage points, respectively.

*Cost of Software, Maintenance and Services.* The cost of software, maintenance and services for the first quarter of 2010 decreased 6.8% to $6.0 million, from $6.4 million for the first quarter of 2009. This decrease is a result of a reduction in personnel and related costs assigned internally to software maintenance and consulting projects.

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Total cost of software, maintenance and services as a percentage of our software, maintenance and services revenues for the first quarter of 2010 and 2009 were 72.6%. Variability in quarterly revenues and operating results are inherent characteristics of companies that sell software licenses, and perform professional services. Our quarterly revenues for software licenses and professional services may fluctuate, depending on various factors, including the timing of executed contracts and revenue recognition, and the delivery of solutions. However, the costs associated with software and professional services revenues are not subject to the same degree of variability (e.g., these costs are generally fixed in nature within a relatively short period of time), and thus, fluctuations in our cost of software and maintenance, professional services as a percentage of our software, maintenance and services revenues will likely occur between periods.

*R&D Expense*. R&D expense for the first quarter of 2010 increased 7.9% to $18.5 million, from $17.2 million for the first quarter of 2009. As a percentage of total revenues, R&D expense was 14.2% for the first quarter of 2010, compared to 13.9% for the first quarter of 2009. We did not capitalize any internal software development costs during the first quarter ended March 31, 2010 and 2009.

Over the past few years, our R&D efforts have been focused on the continued evolution of our solutions, both functionally and architecturally, in response to market demands that our solutions have certain functional features and capabilities, as well as architectural flexibilities (such as service oriented architecture, or SOA). This evolution will result in the modularization of certain functionality that historically has been tightly integrated within our solution suite, which will allow us to respond more quickly to required changes to our solutions and provide greater interoperability with other computer systems. Although our primary value proposition to our clients will continue to be the breadth and depth of our integrated solutions, these R&D efforts will also allow us to separate certain product components so as to allow such components to be marketed on a stand-alone basis where a specific client requirement and/or business need dictates, including the use of certain solutions across non-CSG customer care and billing solutions. Additionally, our R&D efforts include creating an integrated suite of customer interaction management solutions that provide additional customer insight, communications channels, and an enhanced customer experience across all delivery vehicles, whether that be more traditional methods like print or more interactive means like electronic and digital communications. Our customer interaction management solutions are aimed at both of our core cable/DBS market as well as new verticals such as utilities, healthcare, home security, financial services, and content distribution.

At this time, we expect our future R&D efforts to continue to focus on similar tasks as noted above. Additionally, we expect that the percentage of our total revenues invested in R&D to be relatively consistent with the most recent quarters, with the level of our R&D spend highly dependent upon the opportunities that we see in our markets.

*Selling, General and Administrative ( SG&A ) Expense*. SG&A expense for the first quarter of 2010 increased 19.7% to $16.5 million, from $13.8 million for the first quarter of 2009. This increase in SG&A expense is attributed primarily to: (i) increased employee-related expense as a result of certain management changes; and (ii) additional outside consulting costs. As a percentage of total revenues, SG&A expense was 12.7% for the first quarter of 2010, compared to 11.2% for the first quarter of 2009. SG&A expense for the third and fourth quarters of 2009 were 12.1% and 12.2%, respectively, more in-line with the current quarter. Going forward, we expect that our SG&A expense will be relatively consistent with the second half of 2009.

*Depreciation Expense*. Depreciation expense for the first quarter of 2010 increased 32.6% to $5.6 million, from $4.2 million for the first quarter of 2009. Included in the first quarter of 2010 amount is $1.3 million of depreciation expense related to our data center transition efforts, discussed earlier, which accounts for nearly all of the year-over-year increase.

*Operating Income.* Operating income and operating income margin for the first quarter of 2010 was $16.4 million, or 12.6% of total revenues, compared to $21.6 million, or 17.5% of total revenues for the first quarter of 2009. The decrease in operating income and operating income margin between years can be attributed to the data center transition expenses, which had a negative impact of 5.9 percentage points and 1.1 percentage points, respectively, on our operating income margin percentage for the first quarter of 2010 and 2009. Absent this impact, operating income margin would have been relatively consistent between years.

*Gain (loss) on Repurchase of Convertible Debt Securities.* As discussed earlier, in the first quarter of 2010, we repurchased $119.9 million (par value) of our 2004 Convertible Debt Securities for a total purchase price of $125.8 million, which included accrued interest of $0.8 million. As a result of this transaction, we recognized a non-cash loss on the repurchase of $11.0 million (pretax impact), or $0.20 per diluted share. In the first quarter of 2009, we repurchased $15.0 million (par value) of our Convertible Debt Securities for $13.2 million, which resulted in a non-cash gain of $1.5 million (pretax impact), or $0.03 per diluted share.

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*Income Tax Provision*. The effective income tax rates for the first quarter of 2010 and 2009 were 38% and 35%, respectively. The higher effective income tax rate for the first quarter of 2010 is due to a delay in the recognition of certain anticipated tax credits. We expect to realize these tax benefits in later quarters, so for the full year 2010 we estimate that our overall effective tax rate will be approximately 35%.

During 2009, the Internal Revenue Service ( IRS ) commenced an examination with respect to our Federal income tax returns filed for fiscal years 2006 and 2007. We regularly assess the likelihood of outcomes resulting from these types of examinations to determine the adequacy of our income tax provision and believe that we are adequately reserved for any potential adjustment that may result from the current examination, and therefore do not expect the results of the examination to have a significant negative impact to our results of operations. Should any of the factors considered in determining the adequacy of this liability change significantly, an adjustment to the liability may be necessary. Because of the potential significance of these issues, such an adjustment could be material.

**Liquidity**

***Cash and Liquidity***

As of March 31, 2010, our principal sources of liquidity included cash, cash equivalents, and short-term investments of $210.7 million, compared to $198.4 million as of December 31, 2009. We generally invest our excess cash balances in low-risk, short-term investments to limit our exposure to market risks. We have ready access to essentially all of our cash, cash equivalents, and short-term investment balances.

***Cash Flows From Operating Activities***

We calculate our cash flows from operating activities in accordance with GAAP, beginning with net income, adding back the impact of non-cash items (e.g., depreciation, amortization, amortization of OID, deferred income taxes, stock-based compensation, etc.), and then factoring in the impact of changes in operating assets and liabilities. See our 2009 10-K for a description of the primary uses and sources of our cash flows from operating activities.

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

| | Operations | Changes in Operating Assets and Liabilities | Net Cash Provided by Operating Activities Quarter Totals |
|---|---|---|---|
| Cash Flows from Operating Activities: | | | |
| 2009: | | | |
| March 31 | $ 30,449 | $ (14,436) | $ 16,013 |
| June 30 | 29,658 | 13,895 | 43,553 |
| September 30 | 30,593 | 7,289 | 37,882 |
| December 31 | 24,320 | 31,291 | 55,611 |
| 2010: | | | |
| March 31 | 27,376 | 3,948 | 31,324 |

We believe the above table illustrates our ability to consistently generate strong quarterly and annual cash flows, and the importance of managing our working capital items. As the table above illustrates, the operations portion of our cash flows from operating activities remains relatively consistent between periods. The variations in our net cash provided by operating activities are related mostly to the changes in our operating assets and liabilities (related mostly to normal fluctuations in timing at quarter-end for such things as client payments and changes in accrued expenses), and generally over longer periods of time, do not significantly impact our cash flows from operations.

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Significant fluctuations in the balances of key operating assets and liabilities between March 31, 2010, and December 31, 2009, that impacted our cash flows from operating activities, are as follows:

Billed Trade Accounts Receivable

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

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

| Quarter Ended | Gross | Allowance | Net Billed | DBOs |
|---|---|---|---|---|
| 2009: | | | | |
| March 31 | $ 133,041 | $ (2,831) | $ 130,210 | 58 |
| June 30 | 112,612 | (2,148) | 110,464 | 58 |
| September 30 114 | 114,403 | (2,079) | 112,324 | 54 |
| December 31 | 109,846 | (2,036) | 107,810 | 50 |
| 2010: | | | | |
| March 31 | 109,456 | (2,289) | 107,167 | 51 |

The changes in our gross and net billed trade accounts receivable shown in the table above reflect the normal fluctuations in the timing of client payments made at quarter-end, evidenced by our consistent DBO metric over the past several quarters.

Accrued Employee Compensation

Accrued employee compensation decreased $5.0 million, from $26.6 million as of December 31, 2009 to $21.6 million as of March 31, 2010 primarily as a result of the payment of the 2009 management incentive bonuses in March 2010, offset to a certain extent by the accrual of one-fourth of the estimated 2010 management incentive bonuses and the increase in accrued salaries as a result of the timing of payroll.

Deferred Revenue

Total deferred revenue (current and non-current) increased $5.3 million, from $46.8 million as of December 31, 2009 to $52.1 million as of March 31, 2010, mainly as a result of annual facility management and software maintenance billings.

***Cash Flows From Investing Activities***

Our typical investing activities consist of purchases/sales of short-term investments, purchases of property and equipment, and investments in client contracts, which are discussed below. During the first quarter of 2010 and 2009, our cash flows from investing activities also included cash payments related to our prior year acquisition activities.

*Purchases/Sales of Short-term Investments.* During the first quarter of 2010 and 2009, we purchased $41.9 million and $2.9 million, respectively, and sold (or had mature) $31.4 million and $24.4 million, respectively, of short-term investments. We continually evaluate the appropriate mix of our investment of excess cash balances between cash equivalents and short-term investments in order to maximize our investment returns and will likely purchase and sell additional short-term investments in the future.

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*Property and Equipment/Client Contracts.* Our capital expenditures for the first quarter of 2010 and 2009, for property and equipment, and investments in client contracts were as follows (in thousands):

| | Quarters Ended March 31, | |
|---|---|---|
| | **2010** | **2009** |
| Property and equipment | $ 4,048 | $ 10,024 |
| Client contracts | 1,280 | 1,489 |

Of the $4.0 million spent on capital expenditures during the first quarter of 2010, approximately $1 million was related to our data center transition efforts. The remaining expenditures consisted principally of investments in: (i) statement production equipment; and (ii) computer hardware, software, and related equipment.

The investments in client contracts for the first quarter of 2010 and 2009 relate to client incentive payments ($0.6 million and $0.4 million, respectively) and the deferral of costs related to conversion/set-up services provided under long-term processing contracts ($0.7 million and $1.1 million, respectively).

***Cash Flows From Financing Activities***

Our financing activities typically consist of activities with our common stock and our convertible debt.

*Repurchase of Common Stock.* During the first quarter of 2010 and 2009 we repurchased 1.5 million and 250,000 shares of our common stock under the guidelines of our Stock Repurchase Program for $29.3 million and $3.8 million, respectively. In addition, outside of our Stock Repurchase Program, during the first quarter of 2010 and 2009, we repurchased from our employees and then cancelled approximately 204,000 shares and 161,000 shares of our common stock for $4.2 million and $2.3 million, respectively, in connection with minimum tax withholding requirements resulting from the vesting of restricted common stock under our stock incentive plans.

*Long-term debt.* In March 2010, we completed an offering of our 2010 Convertible Notes, as discussed in greater detail in Note 6 to our Financial Statements. We used a portion of the $145 million net proceeds from the offering to repurchase $119.9 million (par value) of our 2004 Convertible Debt Securities for $125.0 million. In connection with the issuance of the convertible notes, we incurred debt issuance costs of $4.1 million.

**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 March 31, 2010, we had cash, cash equivalents, and short-term investments of $210.7 million.

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.

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

Common Stock Repurchases. We have made significant repurchases of our common stock in the past. During the first quarter of 2010, and in conjunction with the issuance of our 2010 Convertible Notes, we repurchased 1.5 million shares of our common stock for $29.3 million ($19.56 per share). As of March 31, 2010, we have 4.2 million shares authorized for repurchase remaining under our Stock Repurchase Program. 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.

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Acquisitions. We have made five acquisitions in the last five years. Besides the cash paid at the date the acquisition closes, some acquisitions may include the payment of additional cash related to contingent purchase price payments. During the first quarter of 2010, we made contingent purchase price payments of $2.3 million that we had accrued as of December 31, 2009. As of March 31, 2010, we have accrued $0.5 million for contingent purchase price payments related to the first quarter of 2010 to be made in the second quarter of 2010. In addition, in the future, we could potentially be paying up to $1.5 million in contingent purchase price payments related to 2010 in connection with the Quaero acquisition.

Capital Expenditures. In the first quarter of 2010, we spent $4.0 million on capital expenditures. At this time, we expect our total 2010 capital expenditures to be approximately $16 million, with approximately $3 million related to the data center transition to Infocrossing. The remainder of our expected capital expenditures will consist principally of hardware and software infrastructure to support our clients expanding business needs, and statement production equipment to continue to offer enhanced functionalities to our clients.

Investments in Client Contracts. In the past, we have provided incentives to new or existing clients to convert their customer accounts to, or retain their customer s accounts on, our customer care and billing solutions. During the first quarter of 2010, we made client incentive payments of $1.3 million. As of March 31, 2010, we have made commitments for investments in client contracts which are payable by us only upon the successful conversion of certain additional customer accounts to our processing solutions.

Long-Term Debt. As of March 31, 2010, our long-term debt consisted of our 2004 Convertible Debt Securities with a par value of $50.4 million and our 2010 Convertible Notes with a par value of $150.0 million.
Refer to Note 6 to our Financial Statements for details of the call and put options of our 2004 Convertible Debt Securities, as well as their conversion triggers. During the next twelve months, there are no call or put options available related to our 2004 Convertible Debt Securities, and we do not expect the occurrence of any conversion triggers. As a result, during the next twelve months and based upon the March 31, 2010 par value, we expect our required debt service cash outlay related to the 2004 Convertible Debt Securities to be limited to interest payments of $1.3 million.

During 2009 and the first quarter of 2010, we voluntarily repurchased a total of $149.9 million (par value) of our 2004 Convertible Debt Securities for $151.5 million. As a result of the repurchases, beginning in 2014, we will have to pay cash of approximately $26 million ratably over five years related to the deferred tax liabilities associated with the repurchased securities. In addition, if the remaining 2004 Convertible Debt Securities are put back to us on June 15, 2011, we will have to settle the following obligations in cash during 2011: (i) $50.4 million par value; and (ii) approximately $12 million of deferred tax liabilities associated with the outstanding securities. We will continue to track and evaluate the trading activity and valuations around our 2004 Convertible Debt Securities for possible future buying opportunities.

Refer to Note 6 to our Financial Statements for details of the conversion triggers of our 2010 Convertible Notes. During the next twelve months, we do not expect the occurrence of any conversion triggers. As a result, during the next twelve months and based upon the March 31, 2010 par value, we expect our required debt service cash outlay related to the 2010 Convertible Notes to be limited to interest payments of $4.5 million.

In summary, we expect to continue to make material investments in client contracts, capital equipment, and R&D. We expect to continue to evaluate the possibility of 2004 Convertible Debt Securities and equity repurchases in the future. In addition, 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. We believe that our current cash and short-term investments balance, together with cash expected to be generated from future operating activities, will be sufficient to meet our anticipated cash 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.

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**Item 3.** ***Quantitative and Qualitative Disclosures About Market Risk***

Market risk is the potential loss arising from adverse changes in market rates and prices. As of March 31, 2010, we are exposed to market risks related to fluctuations and changes in the market value of our cash equivalents and short-term investments. We have not historically entered into derivatives or other financial instruments for trading or speculative purposes.

*Market Risk Related to Long-Term Debt.* The interest rate on our 2004 Convertible Debt Securities and 2010 Convertible Notes are fixed, and thus, as it relates to our long-term debt, we are not exposed to changes in interest rates.

*Market Risk Related to Cash Equivalents and Short-term Investments.* Our cash and cash equivalents as of March 31, 2010 and December 31, 2009 were $165.3 million and $163.5 million, respectively. Our cash balances are typically 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. 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 March 31, 2010 and December 31, 2009 were $45.5 million and $34.9 million, respectively. The day-to-day management of our cash equivalents and 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 market risk associated with the short-term investments included in our portfolio.

We do not utilize any derivative financial instruments for purposes of managing our market risks related to interest rate risk.

**Item 4.** ***Controls and Procedures***

***(a) Disclosure Controls and Procedures***

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

***(b) Internal Control Over Financial Reporting***

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

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**CSG SYSTEMS INTERNATIONAL, INC.**

**PART II. OTHER INFORMATION**

**Item 1.** ***Legal Proceedings***

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

**Item 1A.** ***Risk Factors***

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

Accordingly, the forward-looking statements are qualified in their entirety by reference to and are accompanied by the following meaningful cautionary statements identifying certain important risk factors that could cause actual results to differ materially from those in such forward-looking statements. This list of risk factors is likely not exhaustive. We operate in a rapidly changing and evolving market involving the North American communications industry (e.g., bundled multi-channel video, Internet, voice and IP-based services), and new risk factors will likely emerge. Further, as we enter new markets such as healthcare and financial services, we are subject to new regulatory requirements that increase the risk of non-compliance and the potential for economic harm to us and our clients. Management cannot predict all of the important risk factors, nor can it assess the impact, if any, of such risk factors on our business or the extent to which any risk factor, or combination of risk factors, may cause actual results to differ materially from those in any forward-looking statements. Accordingly, there can be no assurance that forward-looking statements will be accurate indicators of future actual results, and it is likely that actual results will differ from results projected in forward-looking statements and that such differences may be material.

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

Over the past decade, the North American communications industry has experienced significant consolidation, resulting in a large percentage of the market being served by a limited number of service providers with greater size and scale. Consistent with this market concentration, approximately two-thirds of our revenues are generated from our four largest clients, which are (in order of size) Comcast, DISH, Time Warner, and Charter. See the Significant Client Relationships section of MD&A in our 2009 10-K for key renewal dates and a brief summary of our business relationship with these clients.

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

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

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

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

Our Networks and Systems are subject to the risk of an extended interruption or outage due to many factors such as: (i) planned changes to our Systems and Networks for such things as scheduled maintenance and technology upgrades, or migrations to other technologies, service providers, or physical location of hardware; (ii) human and machine error; (iii) acts of nature; and (iv) intentional, unauthorized attacks from computer hackers. As noted above, we began the transition of our data center services currently provided by FDC to Infocrossing during 2009, and expect to substantially complete the transition of such services in mid-2010. Because of the magnitude of the Systems and Networks that will be impacted by this transition, the above risks of an extended interruption or outage will be significantly heightened during the transition period.

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

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

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

In providing solutions to our customers, we process, transmit, and store confidential and personally identifiable information, including social security numbers and financial and health information. Our treatment of such information is subject to contractual restrictions and federal, state, and foreign data privacy laws and regulations. While we take measures to protect against unauthorized access to such information and comply with these laws and regulations, these measures may be inadequate, and any failure on our part to protect the privacy of personally identifiable information or comply with data privacy laws and regulations may subject us to contractual liability and damages, loss of business, damages from individual claimants, fines, penalties, criminal prosecution, and unfavorable publicity. Even the mere perception of a security breach or inadvertent disclosure of personally identifiable information could inhibit market acceptance of our solutions. In addition, third party vendors that we engage to perform services for us may unintentionally release personally identifiable information or otherwise fail to comply with applicable laws and regulations. The occurrence of any of these events could have an adverse effect on our business, financial condition, and results of operations.

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

The market for customer interaction management solutions, such as customer care and billing solutions, is characterized by rapid changes in technology and is highly competitive with respect to the need for timely product innovations and new product introductions. As a result, we believe that our future success in sustaining and growing our revenues depends upon: (i) our ability to continuously adapt, modify, maintain, and operate our solutions to address the increasingly complex and evolving needs of our clients, without sacrificing the reliability or quality of the solutions; and (ii) the integration of our recently acquired technologies such as interactive messaging and customer intelligence with ACP, as well as creating an integrated suite of customer interaction management solutions that also include e-care and printing/mailing capabilities, which are portable to new verticals such as utilities, healthcare, home security, financial services, and content distribution. In addition, the market is demanding that our solutions have greater architectural flexibility and interoperability, and that we are able to meet the demands for technological advancements to our solutions at a greater pace. Attempts to meet these demands subjects our R&D efforts to greater risks.

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

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

***Our Use of Open Source Software May Subject Our Software to General Release or Require Us to Re-Engineer Our Software, Which Could Harm Our Business.***

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

***The Current Macroeconomic Environment Could Adversely Impact Our Business.***

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

***A Reduction in Demand for Our Key Customer Care and Billing Solutions Could Have a Material Adverse Effect on Our Financial Condition and Results of Operations.***

Historically, a substantial percentage of our total revenues have been generated from our core outsourced processing product, ACP, and related solutions. These solutions are expected to continue to provide a large percentage of our total revenues in the foreseeable future. Any significant reduction in demand for ACP and related solutions could have a material adverse effect on our financial condition and results of operations.

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

Our continued growth plans include the implementation of new solutions, as well as converting both new and existing clients to our solutions. Such implementations or conversions, whether they involve new solutions or new customers, have become increasingly more difficult because of the sophistication, complexity and interdependencies of the various computing and network environments impacted, combined with the increasing complexity of the underlying business processes. For these reasons, there is a risk that we may experience delays or unexpected costs associated with a particular implementation or conversion, and our inability to complete implementation or conversion projects in an efficient and effective manner could have a material adverse effect on our results of operations.

***Our Business is Highly Dependent on the North American Cable and DBS Industries.***

We have historically generated a significant portion of our revenues by providing solutions to clients in the North American cable and DBS industries. A decrease in the number of customers served by our clients, an adverse change in the economic condition of these industries, and/or changing consumer demand for services could have a material adverse effect on our results of operations. Additionally, a significant portion of our historical growth has come from our support of clients expansion into new lines of business, such as HSD and VoIP. There can be no assurance that our current and potential clients will be successful in expanding into new segments of the converging North American communications industry. Even if major forays into new markets by our current or potential clients are successful, we may be unable to meet the special billing and customer interaction management needs of those markets.

Our clients operate in a highly competitive environment. Traditional wireline and wireless telephone service providers, and others, will continue their aggressive pursuit of providing convergent services, including residential video, a market historically dominated by our clients. In addition, content disintermediaries like Hulu, YouTube, and FloTV are trying to capture consumer attention by providing content on different devices over different networks. Should these alternative service providers be successful in their video strategies, it could threaten our clients market share, and thus our source of revenues, as generally speaking these companies do not use our core solutions and there can be no assurance that new entrants will become our clients.

***Further Consolidation of the North American Cable and DBS Industries May Have a Material Adverse Effect on Our Results of Operations.***

The North American cable and DBS industries may continue to be subject to significant ownership changes. One facet of these changes is that consolidation by and among our core client base, the cable and DBS providers, as well as new entrants such as the traditional wireline and wireless carriers, will decrease the potential number of buyers for our solutions. Should these consolidations result in a concentration of customer accounts being owned by companies with whom we do not have a relationship, or with whom competitors are entrenched, we could be subject to the risk that subscribers will be moved off of our solutions and onto a competitor s system, thereby having a material adverse effect on our results of operations. Furthermore, movement of our clients customers from our solutions to a competitor s system or an internally-developed solution as a result of regionalization strategies by our clients could have a material adverse affect on our operations. Finally, as the result of the consolidations, our current and potential clients may choose to use their size and scale to exercise more severe pressure on pricing negotiations.

***We Face Significant Competition in Our Industry.***

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

***Client Bankruptcies Could Adversely Affect Our Business.***

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

***We May Incur Material Restructuring Charges in the Future.***

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

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

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

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

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

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

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

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

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

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

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

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

The following table presents information with respect to purchases of company common stock made during the first quarter of 2010 by CSG Systems International, Inc. or any affiliated purchaser of CSG Systems International, Inc., as defined in Rule 10b-18(a)(3) under the Exchange Act.

| **Period** | **Total Number of Shares Purchased**[1] | **Average Price Paid Per Share** | **Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs** | **Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plan or Programs** |
|---|---|---|---|---|
| January 1 January 31 | 33,614 | $ 18.47 | | 5,704,096 |
| February 1 February 28 | 161,664 | 20.74 | | 5,704,096 |
| March 1 March 31 | 1,508,980 | 19.57 | 1,500,000 | 4,204,096 |
| Total | 1,704,258 | $ 19.66 | 1,500,000 | |

1 The total number of shares purchased that are not part of the Stock Repurchase Program represents shares purchased and cancelled in connection with stock incentive plans.

**Item 3.** ***Defaults Upon Senior Securities***

None

**Item 4.** ***(Removed and Reserved)***

None

**Item 5.** ***Other Information***

None

**Item 6.** ***Exhibits***

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

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SIGNATURES

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

Dated: May 10, 2010

CSG SYSTEMS INTERNATIONAL, INC.

/s/ Peter E. Kalan
Peter E. Kalan
Chief Executive Officer and President
(Principal Executive Officer)

/s/ Randy R. Wiese
Randy R. Wiese
Executive Vice President, Chief Financial Officer, and

Chief Accounting Officer
(Principal Financial Officer and

Principal Accounting Officer)

**CSG SYSTEMS INTERNATIONAL, INC.**

**INDEX TO EXHIBITS**

| Exhibit Number | Description |
|---|---|
| 4.25 (1) | 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 (2) | 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 (2) | Indenture dated March 1, 2010, between CSG Systems International, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee |
| 10.15 | Form of Indemnification Agreement between CSG Systems International, Inc. and Directors and Executive Officers |
| 10.23A* | Third Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Dish Network, L.L.C. |
| 31.01 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.02 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.01 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

(1) 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.

(2) 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.

* 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.