

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

OR

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

For the transition period from _____ to _____

Commission file number 0-27512

CSG SYSTEMS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

47-0783182
(I.R.S. Employer
Identification No.)

9555 Maroon Circle

Englewood, Colorado 80112

(Address of principal executive offices, including zip code)

(303) 200-2000

(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, Par Value \$0.01 Per Share	NASDAQ Stock Market LLC

Securities Registered Pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the last sales price of such stock, as of the close of trading on June 30, 2015, was \$1,004,123,083.

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

DOCUMENTS INCORPORATED BY REFERENCE

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

CSG SYSTEMS INTERNATIONAL, INC.

2015 FORM 10-K

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PART I

Item 1. Business

Overview

CSG Systems International, Inc. (the “Company”, “CSG”, or forms of the pronoun “we”) is one of the world’s largest and most established business support solutions providers primarily serving the communications industry. Our proven approach and solutions are based on our broad and deep experience in serving clients in the communications industry as their businesses have evolved from a single product offering to a highly complex, highly competitive, multi-product service offering. Our approach has centered on using the best technology for the various functions required to provide world-class solutions.

Our solutions help service providers streamline and scale operations, introduce and adapt products and services to meet changing consumer demands, and address the challenges and opportunities of a dynamically evolving global business environment. Our broad suite of solutions helps our clients improve their business operations by creating more compelling product offerings and an enhanced customer experience through more relevant and targeted interactions, while at the same time, more efficiently managing the service provider’s cost structure. Over the years, we have focused our research and development (“R&D”) and acquisition investments on expanding our solution set to address the ever expanding needs of communications service providers to provide a differentiated, real-time, and personal experience for their consumers. This extensive suite of solutions includes revenue management, content management and monetization, and customer interaction management platforms.

Our principal executive offices are located at 9555 Maroon Circle, Englewood, Colorado 80112, and the telephone number at that address is (303) 200-2000. Our common stock is listed on the NASDAQ Stock Market LLC (“NASDAQ”) under the symbol “CSGS”. We are a S&P Small Cap 600 company.

Industry Overview

Background. We provide business support solutions (BSS) to the world’s leading communications service providers, as well as clients in several evolving, highly competitive industries. Our solutions coordinate and manage many aspects of a service provider’s customer interactions, from the initial activation of customer accounts, to the support and fulfilment of various products and services, and through the presentment, collection, and accounts receivables management of monthly customer statements. While our heritage is in serving the North American video and satellite market, through acquisition and organic growth, we have broadened and enhanced our solutions to extend our business both globally and to a number of other industries including content distribution, media and entertainment, and telecommunications.

Market Conditions of the Communications Industry. As the majority of our clients operate within the global communications industry sector, the economic state of this industry directly impacts our business. The global communications industry has undergone significant fluctuations in growth rates and capital investment cycles over the past several years due to multiple competitive and economic factors. Current economic indices suggest a slow stabilization of the industry, but it is impossible to predict whether this stabilization will persist or be subject to future instability. In addition, industry consolidation continues as service providers look for ways to expand their markets, increase their revenues, and gain greater scale efficiencies in their operations.

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

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

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

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

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

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

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

Business Strategy

Our goal is to be the most trusted provider of world-class software and services to service providers around the world who depend upon the timely and accurate processing of complex, high-volume transactions to operate their business and deliver a superior customer experience. We believe that by successfully executing on this goal we can grow our revenues and earnings, and therefore, create long-term value, not only for our clients and our employees, but for our stockholders as well. Our strategic focus to accomplish this goal is as follows:

Create Long-Term, Recurring Relationships Within The Communications Industry. Our relentless, relationship-driven, customer-focused business approach is built on a foundation of respect, integrity, and collaboration. As a result, we enjoy long-term relationships with many of the world's leading service providers based on a true partnership aimed at helping providers enable sustainable growth, create efficiencies, and deliver differentiated services to their customers.

Expand Our Product and Services Portfolio Through Continuous Innovation. We believe that our product technology and pre-integrated suite of software solutions gives service providers a competitive advantage. We continually add new, relevant capabilities to what we do as a company, both in terms of our people and our solutions. By doing this, we build very strong recurring relationships which are difficult for our competitors to displace.

Increase Our Value Proposition Through Continuous Improvement. As discussed earlier, the demands of consumers are significantly increasing as devices and networks continue to feed an insatiable appetite for content, information,

and entertainment. In order to continue to help providers better compete in an environment in which network consumption is outpacing revenue generation, we continue to focus on being cost efficient in delivering our solutions, while helping our clients efficiently and effectively manage their business.

Deliver On Our Commitments. Our products and services are business critical. We help our clients manage the entire customer lifecycle, from acquisition to servicing to billing for their end customers. As a result, it is imperative that we deliver on our commitments. For over 30 years, we have been helping blue-chip companies manage periods of explosive and sustained market growth and change – helping them drive revenues, improve their profitability, and deliver positive customer experiences. Our track record of doing what we say we are going to do has enabled us to become embedded in our clients' operations and be a trusted advisor and integral member of their teams.

Bring New Skills and Talents to Market. In order to help our clients manage the pace of change, we invest in our people so that they are prepared to bring the highest quality technical skills, interpersonal skills, and managerial skills to our business and our clients.

In summary, we are focused on helping our clients compete more effectively and successfully in an ever-changing market.

Description of Business

Key Clients. We work with the leading communication providers located around the world. A partial list of those service providers as of December 31, 2015 is included below:

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

The North American communications industry has experienced significant consolidation over the past decade, resulting in a large percentage of the market being served by a limited number of service providers with greater size and scale, and there are possibilities of further consolidation, illustrated by the current proposed acquisition of Time Warner by Charter, which is currently our fourth largest client. Consistent with this market concentration and our heritage in serving the North American cable and satellite markets, a large percentage of our historical revenues have been generated from our three largest clients, as shown in the table below. Clients that represented 10% or more of our revenues for 2015 and 2014 were as follows (in millions, except percentages):

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

See the Significant Client Relationships section of our MD&A for additional information regarding our business relationships with these key clients.

Research and Development. Our clients around the world are facing competition from new entrants and at the same time, are deploying new services at a rapid pace and dramatically increasing the complexity of their business operations. Therefore, we continue to make meaningful investments in R&D to ensure that we stay ahead of our clients’ needs and advance our clients’ businesses as well as our own. We recognize these challenges and believe our value proposition is to provide solutions that help our clients ensure that each customer interaction is an opportunity to create value and deepen the business relationship. As a result of our R&D efforts, we have not only broadened our footprint within our client base with many new innovative product offerings, but have also found success in penetrating new markets with portions of our suite of customer interaction management solutions.

Our total R&D expenses for 2015 and 2014 were \$102.0 million and \$104.7 million, respectively, or approximately 14% of our total revenues. In the near term, we expect that our R&D investment activities will be relatively consistent with that of 2015, with the level of our total R&D spend highly dependent upon the opportunities that we see in our markets.

There are certain inherent risks associated with significant technological innovations. Some of these risks are described in this report in our Risk Factors section below.

Products and Services. Our products and services help companies with complex transaction-centric business models manage the opportunities and challenges associated with accurately capturing, managing, generating, and optimizing the revenue associated with the immense volumes of customer interactions and then manage the intricate nature of those customer relationships. Our primary product solutions include the following:

- **Cable and Satellite Care and Billing:** Our billing and customer care platform, Advanced Convergent Platform (“ACP”), is the premier system for cable and satellite providers in North America. ACP and our related business support solutions (a pre-integrated, cloud-based platform) are relied upon every single day by over 54 million consumers of voice, video, and

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

- Content Management & Monetization: Our Ascendon cloud-based solution helps manage, deliver, and monetize content and digital services to help build brand loyalty and create differentiated offerings for CSPs, digital retail providers, content aggregators, or content developers. Our Ascendon solutions enable content providers to manage subscriber preferences and offer digital content anytime, anywhere, to any device through a variety of models – direct, subscriber, or subsidized.
- Convergent Rating and Billing: Our Singleview suite provides an integrated customer care, billing and real-time rating and charging solution for the global marketplace delivered in either a cloud or stand-alone environment. This solution is a real-time policy, charging, billing, and customer care solution designed from the ground up for convergent markets. Singleview inherently improves support and promotes optimization as a result of the single view of the customer across all services and transactions. As a result, the capabilities of the Singleview suite extend beyond the communications industry to other transaction-intensive markets including financial services, logistics, and transportation.
- Mediation and Data Management: Our Total Service Mediation (“TSM”) solution provides a comprehensive framework enabling network operators to achieve maximum efficiency with the lowest cost for all interactions between the network and other business support solution applications and related processes. The TSM framework supports offline and real-time mediation requirements as well as service activation. Recognized for its high performance and exceptional throughput, TSM provides the event processing foundation to manage today's exploding network traffic.
- Wholesale Settlement and Routing: Our market-leading Wholesale Business Management Solution (“WBMS”) is a comprehensive and powerful settlements system delivered in either a cloud or stand-alone environment. It handles every kind of traffic – from simple voice to the most advanced data and content services – in a single, highly-integrated platform. It helps operators around the globe improve profits, meet strict regulatory and audit compliance requirements, and comply with the broadest range of global standards.

Customer Interaction Management: Our customer interaction management solutions help deliver a unique, personal and relevant quality experience across all customer touch points – whether that is text, e-mail, web, print, or other communications methods. We are an industry leader in interaction management solutions, processing more than one billion interactive voice, SMS/text, print, e-mail, web, and fax messages each year on behalf of our clients. In summary, we offer a fully integrated, cloud-based revenue and customer management solution, complemented with world-class applications software and customized software solutions, allowing us to provide one of the most comprehensive, flexible, pre-integrated products and services solutions to the communications market. We believe this pre-integrated approach and multiple delivery models allows our clients to bring new product offerings to market quickly and provide high-quality customer service in a cost effective manner. In addition, we also license certain software products (e.g., Singleview, TSM, and WBMS) and provide expert professional services to implement, configure, and maintain these software products.

Historically, a substantial percentage of our total revenues have been generated from ACP and Customer Interaction Management solutions. These products and services are expected to provide a large percentage of our total revenues in the foreseeable future as well.

Business Acquisitions. As noted above, our strategy includes acquiring assets and businesses which provide the technology and technical personnel to expedite our product development efforts, provide complementary products and services, increase market share, and/or provide access to new markets and clients.

Professional Services. We employ professional services experts globally who bring a wide-ranging expertise – including solution architecture, project management, systems implementation, and business consultancy – to every project. We apply a methodology to each of our engagements, leveraging consistent world-class processes, best-practice programs, and systemized templates for all engagements.

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

Client and Product Support. Our clients typically rely on us for ongoing support and training needs related to our products. We have a multi-level support environment for our clients, which include account management teams to support the business, operationa