
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019

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.)

6175 S. Willow Drive, 10th Floor
Greenwood Village, Colorado 80111
(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 ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). YES ☒ NO ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Shares of common stock outstanding at April 30, 2019: 33,217,522

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, Par Value \$0.01 Per Share	CSGS	NASDAQ Stock Market LLC

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CSG SYSTEMS INTERNATIONAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS - UNAUDITED
(in thousands, except per share amounts)

	March 31, 2019	December 31, 2018
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 123,572	\$ 139,277
Short-term investments	18,333	23,603
Total cash, cash equivalents and short-term investments	141,905	162,880
Settlement assets	87,853	124,627
Trade accounts receivable:		
Billed, net of allowance of \$2,897 and \$3,115	244,936	235,827
Unbilled	40,432	37,227
Income taxes receivable	3,161	6,720
Other current assets	32,441	32,286
Total current assets	550,728	599,567
Non-current assets:		
Property and equipment, net of depreciation of \$98,122 and \$93,278	85,895	81,813
Operating lease right-of-use assets	78,263	-
Software, net of amortization of \$122,549 and \$119,381	35,274	36,400
Goodwill	258,512	255,816
Acquired client contracts, net of amortization of \$86,434 and \$82,692	62,914	65,456
Client contract costs, net of amortization of \$49,100 and \$43,051	37,420	37,289
Deferred income taxes	10,821	11,087
Other assets	27,220	26,934
Total non-current assets	596,319	514,795
Total assets	<u>\$ 1,147,047</u>	<u>\$ 1,114,362</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Current portion of long-term debt	\$ 7,500	\$ 7,500
Operating lease liabilities	18,737	-
Client deposits	34,501	36,889
Trade accounts payable	40,792	45,386
Accrued employee compensation	51,474	61,107
Settlement liabilities	86,471	123,613
Deferred revenue	47,212	40,236
Income taxes payable	625	218
Other current liabilities	32,168	35,442
Total current liabilities	319,480	350,391
Non-current liabilities:		
Long-term debt, net of unamortized discounts of \$13,444 and \$14,549	351,556	352,326
Operating lease liabilities	66,842	-
Deferred revenue	16,928	17,527
Income taxes payable	2,638	2,284
Deferred income taxes	8,798	8,205
Other non-current liabilities	13,295	22,605
Total non-current liabilities	460,057	402,947
Total liabilities	779,537	753,338
Stockholders' equity:		
Preferred stock, par value \$.01 per share; 10,000 shares authorized; zero shares issued and outstanding	-	-
Common stock, par value \$.01 per share; 100,000 shares authorized; 33,280 and 33,158 shares outstanding	697	693
Common stock warrants; 439 warrants vested; 1,425 issued	9,082	9,082
Additional paid-in capital	441,484	441,417
Treasury stock, at cost; 35,028 and 34,779 shares	(851,650)	(842,360)
Accumulated other comprehensive income (loss):		
Unrealized gain on short-term investments, net of tax	20	2
Cumulative foreign currency translation adjustments	(39,090)	(42,937)
Accumulated earnings	806,967	795,127
Total stockholders' equity	367,510	361,024
Total liabilities and stockholders' equity	<u>\$ 1,147,047</u>	<u>\$ 1,114,362</u>

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

CSG SYSTEMS INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME - UNAUDITED
(in thousands, except per share amounts)

	Quarter Ended	
	March 31, 2019	March 31, 2018
Revenues	\$ 244,793	\$ 201,704
Cost of revenues (exclusive of depreciation, shown separately below)	128,963	101,096
Other operating expenses:		
Research and development	32,591	29,379
Selling, general and administrative	45,918	40,648
Depreciation	5,113	3,914
Restructuring and reorganization charges	115	900
Total operating expenses	212,700	175,937
Operating income	32,093	25,767
Other income (expense):		
Interest expense	(4,560)	(4,266)
Amortization of original issue discount	(690)	(652)
Interest and investment income, net	519	811
Loss on extinguishment of debt	-	(810)
Other, net	(1,511)	(646)
Total other	(6,242)	(5,563)
Income before income taxes	25,851	20,204
Income tax provision	(6,600)	(6,190)
Net income	\$ 19,251	\$ 14,014
Weighted-average shares outstanding:		
Basic	32,128	32,528
Diluted	32,438	33,102
Earnings per common share:		
Basic	\$ 0.60	\$ 0.43
Diluted	0.59	0.42

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

CSG SYSTEMS INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME - UNAUDITED
(in thousands)

	Quarter Ended	
	March 31, 2019	March 31, 2018
Net income	\$ 19,251	\$ 14,014
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	3,847	7,710
Unrealized holding gains (losses) on short-term investments arising during period	18	(94)
Other comprehensive income, net of tax	3,865	7,616
Total comprehensive income, net of tax	<u>\$ 23,116</u>	<u>\$ 21,630</u>

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

CSG SYSTEMS INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY - UNAUDITED
(in thousands)

	Shares of Common Stock Outstanding	Common Stock	Common Stock Warrants	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated Earnings	Total Stockholders' Equity
For the Quarter Ended March 31, 2019								
BALANCE, January 1, 2019	33,158	\$ 693	\$ 9,082	\$ 441,417	\$ (842,360)	\$ (42,935)	\$ 795,127	\$ 361,024
Comprehensive income:								
Net income	-	-	-	-	-	-	19,251	
Unrealized gain on short-term investments, net of tax	-	-	-	-	-	18	-	
Foreign currency translation adjustments	-	-	-	-	-	3,847	-	
Total comprehensive income								23,116
Repurchase of common stock	(352)	-	-	(4,134)	(9,290)	-	-	(13,424)
Issuance of common stock pursuant to employee stock purchase plan	15	-	-	512	-	-	-	512
Issuance of restricted common stock pursuant to stock-based compensation plans	462	4	-	(4)	-	-	-	-
Cancellation of restricted common stock issued pursuant to stock-based compensation plans	(3)	-	-	-	-	-	-	-
Stock-based compensation expense	-	-	-	3,693	-	-	-	3,693
Declaration of cash dividends	-	-	-	-	-	-	(7,411)	(7,411)
BALANCE, March 31, 2019	<u>33,280</u>	<u>\$ 697</u>	<u>\$ 9,082</u>	<u>\$ 441,484</u>	<u>\$ (851,650)</u>	<u>\$ (39,070)</u>	<u>\$ 806,967</u>	<u>\$ 367,510</u>
For the Quarter Ended March 31, 2018								
BALANCE, January 1, 2018	33,516	\$ 689	\$ 9,082	\$ 427,091	\$ (814,732)	\$ (28,822)	\$ 749,438	\$ 342,746
Comprehensive income:								
Net income	-	-	-	-	-	-	14,014	
Unrealized loss on short-term investments, net of tax	-	-	-	-	-	(94)	-	
Foreign currency translation adjustments	-	-	-	-	-	7,710	-	
Total comprehensive income								21,630
Repurchase of common stock	(255)	-	-	(6,218)	(5,702)	-	-	(11,920)
Issuance of common stock pursuant to employee stock purchase plan	14	-	-	484	-	-	-	484
Issuance of restricted common stock pursuant to stock-based compensation plans	458	4	-	(4)	-	-	-	-
Cancellation of restricted common stock issued pursuant to stock-based compensation plans	(59)	(1)	-	1	-	-	-	-
Stock-based compensation expense	-	-	-	4,572	-	-	-	4,572
Declaration of cash dividends	-	-	-	-	-	-	(6,999)	(6,999)
Adjustments due to adoption of new accounting standards	-	-	-	-	-	-	7,562	7,562
BALANCE, March 31, 2018	<u>33,674</u>	<u>\$ 692</u>	<u>\$ 9,082</u>	<u>\$ 425,926</u>	<u>\$ (820,434)</u>	<u>\$ (21,206)</u>	<u>\$ 764,015</u>	<u>\$ 358,075</u>

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

CSG SYSTEMS INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED
(in thousands)

	Quarter Ended	
	March 31, 2019	March 31, 2018
Cash flows from operating activities:		
Net income	\$ 19,251	\$ 14,014
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation	5,113	3,914
Amortization	11,949	9,946
Amortization of original issue discount	690	652
Asset impairment	69	339
Gain on short-term investments and other	(157)	(17)
Loss on extinguishment of debt	-	810
Deferred income taxes	1,395	4,017
Stock-based compensation	3,693	4,572
Changes in operating assets and liabilities, net of acquired amounts:		
Trade accounts receivable, net	(12,018)	25,459
Other current and non-current assets and liabilities	(1,575)	(4,629)
Income taxes payable/receivable	3,886	1,035
Trade accounts payable and accrued liabilities	(25,594)	(26,926)
Deferred revenue	6,124	(3,331)
Net cash provided by operating activities	12,826	29,855
Cash flows from investing activities:		
Purchases of software, property and equipment	(8,286)	(12,235)
Purchases of short-term investments	(14,168)	(15,070)
Proceeds from sale/maturity of short-term investments	19,619	79,508
Acquisition of and investments in business, net of cash acquired	(4,000)	(68,636)
Net cash used in investing activities	(6,835)	(16,433)
Cash flows from financing activities:		
Proceeds from issuance of common stock	512	484
Payment of cash dividends	(7,641)	(7,437)
Repurchase of common stock	(13,568)	(11,920)
Proceeds from long-term debt	-	150,000
Payments on long-term debt	(1,875)	(120,000)
Payments of deferred financing costs	-	(1,442)
Net cash provided by (used in) financing activities	(22,572)	9,685
Effect of exchange rate fluctuations on cash	876	2,153
Net increase (decrease) in cash and cash equivalents	(15,705)	25,260
Cash and cash equivalents, beginning of period	139,277	122,243
Cash and cash equivalents, end of period	\$ 123,572	\$ 147,503
Supplemental disclosures of cash flow information:		
Cash paid during the period for-		
Interest	\$ 6,506	\$ 5,844
Income taxes	1,374	1,162

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

CSG SYSTEMS INTERNATIONAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. GENERAL

We have prepared the accompanying unaudited condensed consolidated financial statements as of March 31, 2019 and December 31, 2018, and for the quarters ended March 31, 2019 and 2018, in accordance with accounting principles generally accepted (“GAAP”) in the United States of America (“U.S.”) 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 U.S. GAAP for complete financial statements. In the opinion of our management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of our financial position and operating results have been included. The unaudited Condensed Consolidated Financial Statements (the “Financial Statements”) should be read in conjunction with the Consolidated Financial Statements and notes thereto, together with Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”), contained in our Annual Report on Form 10-K for the year ended December 31, 2018 (our “2018 10-K”), filed with the SEC. The results of operations for the first quarter of 2019 are not necessarily indicative of the expected results for the entire year ending December 31, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Revenues. The majority of our future revenues is related to our cloud and related solution client contracts that include variable consideration dependent upon a series of monthly volumes and/or daily usage of services and have contractual terms ending from 2019 through 2028. As of March 31, 2019, our aggregate amount of the transaction price allocated to the remaining performance obligations is approximately \$532 million, which is made up of fixed fee consideration and guaranteed minimums expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied). We expect to recognize approximately 90% of this amount by the end of 2021, with the remaining amount recognized by the end of 2028. We have excluded from this amount variable consideration expected to be recognized in the future related to performance obligations that are unsatisfied.

The nature, amount, timing and uncertainty of our revenues and how revenues and cash flows are affected by economic factors is most appropriately depicted by type of revenues and by geographic region (using the location of the client as the basis of attributing revenues to the individual regions) as follows (in thousands):

	Quarter Ended March 31,	
	2019	2018
Cloud and related solutions	\$ 219,590	\$ 177,516
Software and services	13,028	11,959
Maintenance	12,175	12,229
Total revenues	<u>\$ 244,793</u>	<u>\$ 201,704</u>

	Quarter Ended March 31,	
	2019	2018
Americas (principally the U.S.)	\$ 210,729	\$ 169,903
Europe, Middle East, and Africa	24,626	20,434
Asia Pacific	9,438	11,367
Total revenues	<u>\$ 244,793</u>	<u>\$ 201,704</u>

Deferred revenue recognized during the first quarter of 2019 was \$18.5 million.

Cash and Cash Equivalents. We consider all highly liquid investments with original maturities of three months or less at the date of the purchase to be cash equivalents. As of March 31, 2019 and December 31, 2018, our cash equivalents consist primarily of institutional money market funds, commercial paper, and time deposits held at major banks.

As of March 31, 2019 and December 31, 2018, we had \$3.0 million, as of both periods, of restricted cash that serves to collateralize outstanding letters of credit. This restricted cash is included in cash and cash equivalents in our Condensed Consolidated Balance Sheets (“Balance Sheets” or “Balance Sheet”).

Short-term Investments and Other Financial Instruments . Our financial instruments as of March 31, 2019 and December 31, 2018 include cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and debt. Because of their short maturities, the carrying amounts of cash equivalents, accounts receivable, and accounts payable approximate their fair value.

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

Primarily all short-term investments held by us as of March 31, 2019 and December 31, 2018 have contractual maturities of less than two years from the time of acquisition. Our short-term investments as of March 31, 2019 and December 31, 2018 consisted almost entirely of fixed income securities. Proceeds from the sale/maturity of short-term investments for the three months ended March 31, 2019 and 2018 were \$19.6 million and \$79.5 million, respectively.

Our short-term investments as of March 31, 2019 and December 31, 2018 were \$18.3 million and \$23.6 million, respectively.

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

	March 31, 2019			December 31, 2018		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Cash equivalents:						
Money market funds	\$ 4,030	\$ —	\$ 4,030	\$ 4,392	\$ —	\$ 4,392
Commercial paper	—	—	—	—	9,078	9,078
Short-term investments:						
Corporate debt securities	—	12,456	12,456	—	16,357	16,357
U.S. government agency bonds	—	1,549	1,549	—	3,724	3,724
Asset-backed securities	—	4,328	4,328	—	3,522	3,522
Total	\$ 4,030	\$ 18,333	\$ 22,363	\$ 4,392	\$ 32,681	\$ 37,073

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

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

	March 31, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
2018 Credit Agreement (carrying value including current maturities)	\$ 142,500	\$ 142,500	\$ 144,375	\$ 144,375
2016 Convertible notes (par value)	230,000	242,363	230,000	228,275

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

Equity Method Investment. In the first quarter of 2019, we made an additional \$4 million investment in a payment technology and services company that enables omnichannel digital payments in Latin America. As of March 31, 2019, we held an 8% noncontrolling interest with a carrying value of \$6.7 million.

Accounting Pronouncements Adopted. In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This ASU requires lessees to recognize a right-of-use asset and lease liability for all leases, including operating leases, with a term greater than twelve months on its balance sheet. This ASU is effective for annual and interim periods beginning after December 31, 2018. An entity is required to use a modified retrospective transition approach, but may choose to use either the effective date or the beginning of the earliest comparative period presented in its financial statements as of the date of initial application.

We adopted this ASU in January 2019, utilizing the effective date method of transition. Since we adopted this ASU utilizing the effective date method, prior period information in our Financial Statements has not been adjusted and continues to be as previously reported. We elected the package of practical expedients permitted under the transition guidance within the new standard. Additionally, we updated our policies to align with the new accounting guidance and our processes to ensure that we properly account for new, existing, and modifications to leases subsequent to the adoption of the ASU. In conjunction with the adoption of this ASU we recorded additional assets and liabilities of approximately \$80 million related to the right-of-use assets and lease liabilities, and have included the amortization of the right-of-use-assets and the accretion and payments of lease liabilities in the changes in other current and non-current assets and liabilities and in the changes in trade accounts payable and accrued liabilities, respectively, on our Statement of Cash Flows.

3. LONG-LIVED ASSETS

Goodwill. The changes in the carrying amount of goodwill for the first quarter of 2019 were as follows (in thousands):

January 1, 2019 balance	\$	255,816
Adjustments related to prior acquisitions		(60)
Effects of changes in foreign currency exchange rates		2,756
March 31, 2019 balance	\$	<u>258,512</u>

Other Intangible Assets. Our intangible assets subject to ongoing amortization consist primarily of acquired client contracts and software. As of March 31, 2019 and December 31, 2018, the carrying values of these assets were as follows (in thousands):

	March 31, 2019			December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Acquired client contracts	\$ 149,348	\$ (86,434)	\$ 62,914	\$ 148,148	\$ (82,692)	\$ 65,456
Software	157,823	(122,549)	35,274	155,781	(119,381)	36,400
Total intangible assets	<u>\$ 307,171</u>	<u>\$ (208,983)</u>	<u>\$ 98,188</u>	<u>\$ 303,929</u>	<u>\$ (202,073)</u>	<u>\$ 101,856</u>

The total amortization expense related to other intangible assets for the first quarters of 2019 and 2018 were \$5.6 million and \$4.0 million, respectively. Based on the March 31, 2019 net carrying value of our other intangible assets, the estimated total amortization expense for each of the five succeeding fiscal years ending December 31 are: 2019 – \$22.3 million; 2020 – \$18.8 million; 2021 – \$13.9 million; 2022– \$11.6 million; and 2023 – \$8.2 million.

Client Contract Costs . As of March 31, 2019 and December 31, 2018, the carrying values of our client contract cost assets, related to those contracts with a contractual term greater than one year, were as follows (in thousands):

	March 31, 2019			December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Client contract costs	<u>\$ 86,520</u>	<u>\$ (49,100)</u>	<u>\$ 37,420</u>	<u>\$ 80,340</u>	<u>\$ (43,051)</u>	<u>\$ 37,289</u>

The total amortization expense related to client contract costs for the first quarters of 2019 and 2018 were \$6.0 million and \$5.5 million, respectively.

4. DEBT

Our long-term debt, as of March 31, 2019 and December 31, 2018, was as follows (in thousands):

	March 31, 2019	December 31, 2018
<i>2018 Credit Agreement:</i>		
Term loan, due March 2023, interest at adjusted LIBOR plus 1.5% (combined rate of 4.10% at March 31, 2019 and 4.30% at December 31, 2018)	\$ 142,500	\$ 144,375
Less - deferred financing costs	(2,139)	(2,281)
2018 Term Loan, net of unamortized discounts	140,361	142,094
\$200 million revolving loan facility, due March 2023, interest at adjusted LIBOR plus applicable margin	—	—
<i>2016 Convertible Notes:</i>		
Convertible Notes – Senior convertible notes; due March 15, 2036; cash interest at 4.25%	230,000	230,000
Less – unamortized original issue discount	(8,133)	(8,823)
Less – deferred financing costs	(3,172)	(3,445)
2016 Convertible Notes, net of unamortized discounts	218,695	217,732
Total debt, net of unamortized discounts	359,056	359,826
Current portion of long-term debt, net of unamortized discounts	(7,500)	(7,500)
Long-term debt, net of unamortized discounts	<u>\$ 351,556</u>	<u>\$ 352,326</u>

2018 Credit Agreement

During the first quarter of 2019, we made \$1.9 million of principal repayments on our \$150 million aggregate principal five-year term loan (the “2018 Term Loan”). As of March 31, 2019, our interest rate on the 2018 Term Loan is 4.10% (adjusted LIBOR plus 1.50% per annum), effective through June 28, 2019, and our commitment fee on the unused \$200 million aggregate principal five-year revolving loan facility (the “2018 Revolver”) is 0.20%. As of March 31, 2019, we had no borrowings outstanding on our 2018 Revolver and had the entire \$200.0 million available to us.

2016 Convertible Notes

Upon conversion of the 2016 Convertible Notes, we will settle our conversion obligation by paying or delivering, as the case may be, cash, shares of our common stock, or a combination thereof, at our election. It is our current intent and policy to settle our conversion obligations as follows: (i) pay cash for 100% of the par value of the 2016 Convertible Notes that are converted; and (ii) to the extent the value of our conversion obligation exceeds the par value, we can satisfy the remaining conversion obligation in cash, shares of our common stock, or a combination thereof, at our election.

The 2016 Convertible Notes will be convertible at the option of the note holders upon the satisfaction of specified conditions and during certain periods. During the period from, and including, December 15, 2021 to the close of business on the business day immediately preceding March 15, 2022 and on or after December 15, 2035, holders may convert all or any portion of their 2016 Convertible Notes at the conversion rate then in effect at any time regardless of these conditions.

As a result of us increasing our quarterly dividend in March 2019 (see Note 8), the previous conversion rate for the 2016 Convertible Notes of 17.5298 shares of our common stock per \$1,000 principal amount of the 2016 Convertible Notes, which is equivalent to an initial conversion price of approximately \$57.05 per share of our common stock, has been adjusted to 17.5457 shares of our common stock per \$1,000 principal amount of the 2016 Convertible Notes, which is equivalent to an initial conversion price of approximately \$56.99 per share of our common stock.

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

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

As of March 31, 2019, none of the conversion features have been achieved, and thus, the 2016 Convertible Notes are not convertible by the holders.

5. LEASES

We have operating leases for: (i) real estate which include both office space and statement production and mailing facilities; (ii) our outsourced data center environment; and (iii) operating equipment. Our leases have remaining terms of up to nine years, some of which include options to extend the leases for up to an additional ten years. For leases commencing prior to 2019, we used the noncancelable term to calculate the related right-of-use asset and corresponding lease liability. The exercise of lease renewal options is at our sole discretion. Additionally, certain of our leases include payments that are adjusted periodically for inflation.

We have made an accounting policy election not to recognize on our balance sheet, leases with an initial term of twelve months or less, for any class of underlying asset. We have also made an election for real estate leases beginning in 2019 and later, not to separate the lease and non-lease components, but rather account for the entire arrangement as a single lease component (a practical expedient allowed under ASC 842). For our outsourced data center environment agreement, we have concluded that there are lease and non-lease components, and have allocated the consideration in the agreement on a relative stand-alone price basis. Due to the significant assumptions and judgements required in accounting for leases (to include whether a contract contains a lease, the allocation of the consideration, and the determination of the discount rate), the judgements and estimates made could have a significant effect on the amount of assets and liabilities recognized.

We sublease certain of our leased real estate to third parties. These subleases have remaining lease terms of up to four years and certain subleases have renewal terms that can extend the lease for up to an additional two years.

The components of lease expense were as follows (in thousands):

	Quarter Ended March 31, 2019
Operating lease expense	\$ 5,299
Variable lease expense	923
Short-term lease expense	140
Sublease income	(412)
Total net lease expense	<u>\$ 5,950</u>

Other information related to leases was as follows (in thousands, except term and discount rate):

	Quarter Ended March 31, 2019
Supplemental Cash Flows Information:	
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 4,240
Right-of-use assets obtained in exchange for new operating lease liabilities	870
Weighted-average remaining lease term - operating leases	60 months
Weighted-average discount rate - operating leases	4.52%

Future minimum lease payments under non-cancelable leases as of March 31, 2019 were as follows (in thousands) :

2019 (April 1, 2019 – December 31, 2019)	\$	17,237
2020		20,498
2021		19,549
2022		14,603
2023		9,556
Thereafter		14,681
Total future minimum lease payments (1)		96,124
Less: Interest (2)		(10,545)
Total	\$	85,579
Current operating lease liabilities	\$	18,737
Non-current operating lease liabilities		66,842
Total	\$	85,579

- (1) For leases commencing prior to 2019, minimum lease payments exclude payments for real estate taxes and non-lease components.
- (2) We used our in-country, currency adjusted incremental borrowing rate for the discount rate for the leases at adoption date, and will use the same approach for all leases beginning in 2019 or later.

As of March 31, 2019, we have an additional operating lease related to our outsourced data center environment that has not yet commenced of approximately \$9 million. This operating lease will commence during 2019 with a lease term through 2022.

Future minimum lease payments under non-cancelable leases as of December 31, 2018 were as follows: 2019 – \$16.6 million; 2020 – \$14.1 million; 2021 – \$13.1 million; 2022 – \$11.5 million; 2023 – \$9.6 million; and thereafter – \$14.7 million.

6. COMMITMENTS, GUARANTEES AND CONTINGENCIES

Warranties. We generally warrant that our solutions and related offerings will conform to published specifications, or to specifications provided in an individual client arrangement, as applicable. The typical warranty period is 90 days from the date of acceptance of the solution or offering. For certain service offerings we provide a 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 and contractual 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. Historically, we have not incurred significant costs associated with service level performance within our client contracts, and as a result, do not include estimates for potential credits or refunds related to service level performance in our contract consideration at the onset of the contract, but instead, account for credits or refunds as an adjustment to the contract consideration as those events occur.

Indemnifications Related to Officers and the Board of Directors. We have agreed to indemnify members of our Board of Directors (the “Board”) and certain of our officers if they are named or threatened to be named as a party to any proceeding by reason of the fact that they acted in such capacity. We maintain directors’ and officers’ (D&O) insurance coverage to protect against such losses. We have not historically incurred any losses related to these types of indemnifications, and are not aware of any pending or threatened actions or claims against any officer or member of our Board. As a result, we have not recorded any liabilities related to such indemnifications as of March 31, 2019. In addition, as a result of the insurance policy coverage, we believe these indemnification agreements are not significant to our results of operations.

Acquisition. On October 1, 2018, we acquired Forte, a leading provider of advanced payment solutions headquartered in Allen, Texas. We acquired 100% of the equity of Forte for a purchase price of approximately \$93 million, (approximately \$85 million, excluding cash acquired), of which approximately \$13 million of the purchase price was held back subject to certain tax filings. The purchase agreement also includes provisions for \$18.8 million of potential future earn-out payments over a four-year measurement period. The earn-out payments are tied to performance-based goals and a defined service period by the eligible recipients and is being accounted for as post-acquisition compensation. As of March 31, 2019, we accrued \$2.5 million related to the potential earn-out payments.

The determination of the deductibility of goodwill for income tax purposes is dependent on the resolution of the income tax matter. The estimated fair values of assets acquired and liabilities assumed for the Forte acquisition are considered provisional, as we are awaiting resolution of the tax filings to complete the accounting for deferred income taxes. Thus, the provisional measurement of fair value is subject to change and such changes may be significant. We expect to complete the purchase price allocation as soon as practicable, but not later than one-year from the acquisition date.

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.

7. EARNINGS PER COMMON SHARE

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

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

	Quarter Ended March 31,	
	2019	2018
Basic weighted-average common shares	32,128	32,528
Dilutive effect of restricted common stock	174	391
Dilutive effect of Stock Warrants	136	183
Diluted weighted-average common shares	32,438	33,102

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

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

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

8. STOCKHOLDERS’ EQUITY AND EQUITY COMPENSATION PLANS

Stock Repurchase Program. We currently have a stock repurchase program, approved by our Board, authorizing us to repurchase our common stock from time-to-time as market and business conditions warrant (the “Stock Repurchase Program”). During the first quarters of 2019 and 2018, we repurchased 0.2 million shares of our common stock for \$9.3 million (weighted-average price of \$37.37 per share) and 0.1 million shares of our common stock for \$5.7 million (weighted-average price of \$45.78 per share), respectively, under a SEC Rule 10b5-1 Plan.

As of March 31, 2019, the total remaining number of shares available for repurchase under the Stock Repurchase Program totaled 5.3 million shares.

Stock Repurchases for Tax Withholdings. In addition to the above-mentioned stock repurchases, during the first quarters of 2019 and 2018, we repurchased and then cancelled 0.1 million shares of common stock for \$4.1 million and 0.1 million shares of common stock for \$6.2 million, respectively, in connection with minimum tax withholding requirements resulting from the vesting of restricted common stock under our stock incentive plans.

Cash Dividends. During the first quarter of 2019, the Board approved a quarterly cash dividend of \$0.2225 per share of common stock, totaling \$7.4 million. During the first quarter of 2018, the Board approved a quarterly cash dividend of \$0.21 per share of common stock, totaling \$7.1 million.

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

Upon vesting, the Stock Warrants are recorded as a client contract incentive asset with the corresponding offset to stockholders’ equity. The client contract incentive asset related to the Stock Warrants is amortized as a reduction in cloud and related solutions revenues over the remaining term of the Comcast amended agreement. As of March 31, 2019 and December 31, 2018, we recorded a client contract incentive asset related to these Stock Warrants of \$25.1 million as of both periods and have recorded accumulated amortization related to these Stock Warrants of \$22.4 million and \$19.8 million, respectively. The remaining unvested Stock Warrants will be accounted for as client contract incentive assets in the period the performance conditions necessary for vesting have been met.

As of March 31, 2019, approximately 1.4 million Stock Warrants remain issued, of which 0.4 million were vested.

Stock-Based Awards. A summary of our unvested restricted common stock activity during the first quarter of 2019 is as follows (shares in thousands):

	Quarter Ended March 31, 2019	
	Shares	Weighted-Average Grant Date Fair Value
Unvested awards, beginning	1,145	\$ 41.64
Awards granted	476	40.78
Awards forfeited/cancelled	(4)	43.43
Awards vested	(318)	38.71
Unvested awards, ending	1,299	\$ 42.04

Included in the awards granted during the first quarter of 2019 are performance-based awards for 0.1 million restricted common stock shares issued to members of executive management and certain key employees, which vest in the first quarter of 2021 upon meeting certain pre-established financial performance objectives over a two-year performance period. Certain performance-based awards become fully vested upon a change in control, as defined, the subsequent involuntary termination of employment, and death.

The other restricted common stock shares granted during the first quarter of 2019 are primarily time-based awards, which vest annually over four years with no restrictions other than the passage of time. Certain shares of the restricted common stock become fully vested upon a change in control, as defined, the subsequent involuntary termination of employment, and death.

We recorded stock-based compensation expense for the first quarters of 2019 and 2018 of \$3.7 million and \$4.6 million, respectively.

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

The information contained in this MD&A should be read in conjunction with the Financial Statements and Notes thereto included in this Form 10-Q and the audited consolidated financial statements and notes thereto in our 2018 10-K.

Forward-Looking Statements

This report contains a number of forward-looking statements relative to our future plans and our expectations concerning our business and the industries we serve. These forward-looking statements are based on assumptions about a number of important factors, and involve risks and uncertainties that could cause actual results to differ materially from estimates contained in the forward-looking statements. Some of the risks that are foreseen by management are outlined within Part II Item 1A. Risk Factors of this report and in Part I Item 1A. Risk Factors of our 2018 10-K. Readers are strongly encouraged to review those sections closely in conjunction with MD&A.

Company Overview

We are one of the world's leading revenue management and digital monetization, customer experience, and payment solutions providers, and a trusted partner to some of the most well-known communications, media, and entertainment companies around the globe. We leverage more than 35 years of experience to help our clients simplify the complexity of a rapidly changing business landscape. Drawing from real-world knowledge and unparalleled expertise, we design and implement business solutions that make their hardest decisions simpler and smarter so they can focus on evolving their businesses to provide highly sophisticated and competitive multi-product offerings while also delivering increasingly differentiated, real-time, and personalized experiences that meet the ever-changing demands of their customers across all stages of the customer lifecycle.

We offer revenue management, customer experience, and digital monetization solutions for every stage of the customer lifecycle so service providers can deliver an outstanding customer experience that adapts to their customers' rapidly changing demands. Our solutions are built on proven public and private cloud platforms, with out-of-the-box and managed service models that adapt to fit their unique business needs and enable the transformative change required to create personalized experiences that drive loyalty and retention.

Over the years, we have focused our research and development ("R&D") and acquisition investments on expanding our offerings in a timely and efficient manner to address the complex, transformative needs of service providers. Our scalable, modular, and flexible solutions combined with our domain expertise and our ability to effectively migrate clients to our solutions, provide the industry with proven solutions to improve their profitability and consumers' experiences. We have specifically architected our solutions to offer service providers a phased, incremental approach to transforming their businesses, thereby reducing the business interruption risk associated with this evolution.

We generate approximately 55% of our revenues from the North American cable and satellite markets, approximately 20% of our revenues from global wireline and wireless communication providers, and the remainder from a variety of other verticals, such as financial services, healthcare, logistics, and transportation. Additionally, during the first quarter of 2019 we generated approximately 86% of our revenues from the Americas region, approximately 10% of our revenues from the Europe, Middle East and Africa region, and approximately 4% of our revenues from the Asia Pacific region.

We are a S&P Small Cap 600 company.

Impact of New Lease Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842) ("ASC 842"), which requires lessees to recognize a lease liability and a right-of-use asset for all leases, including operating leases, with a term greater than twelve months on its balance sheet. We adopted the ASU in January of 2019, utilizing the effective date method of transition. While the adoption of this standard resulted in a material gross-up of our Balance Sheet assets and liabilities, it did not have a material impact on our Income Statement or Statement of Cash Flows.

Refer to Notes 2 and 5 to our Financial Statements for further detail regarding the adoption of ASC 842.

Management Overview of Quarterly Results

First Quarter Highlights. A summary of our results of operations for the first quarter of 2019, when compared to the first quarter of 2018, is as follows (in thousands, except per share amounts and percentages):

	Quarter Ended	
	March 31, 2019	March 31, 2018
Revenues	\$ 244,793	\$ 201,704
Transaction fees	17,132	-
Operating Results:		
Operating income	\$ 32,093	\$ 25,767
Operating income margin	13.1%	12.8%
Diluted EPS	\$ 0.59	\$ 0.42
Supplemental Data:		
Restructuring and reorganization charges	\$ 115	\$ 900
Acquisition-related costs:		
Amortization of acquired intangible assets	3,181	1,707
Earn-out compensation	1,260	-
Transaction-related costs	-	2,355
Stock-based compensation (1)	4,664	4,570
Amortization of OID	690	652
Loss on extinguishment of debt	-	810

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

Revenues. Revenues for the first quarter of 2019 were \$244.8 million, a 21% increase when compared to revenues of \$201.7 million for the first quarter of 2018, with the increase mainly attributed to the additional revenues generated from the acquisitions of Forte on October 1, 2018 and Business Ink on February 28, 2018, and the continued growth in our cloud solutions and managed service arrangements.

Operating Results. Operating income for the first quarter of 2019 was \$32.1 million, or a 13.1% operating margin percentage, compared to \$25.8 million, or a 12.8% operating margin percentage for the first quarter of 2018. The increase in operating income is primarily a result of the higher revenues generated in the first quarter of 2019, as reflected by our relatively consistent operating margin percentage.

Diluted EPS. Diluted EPS for the first quarter of 2019 was \$0.59 compared to \$0.42 for the first quarter of 2018, reflective of the higher operating income for the first quarter of 2019.

Cash and Cash Flows. As of March 31, 2019, we had cash, cash equivalents and short-term investments of \$141.9 million, as compared to \$162.9 million as of December 31, 2018. Our cash flows from operating activities for the first quarter of 2019 were \$12.8 million. See the Liquidity section below for further discussion of our cash flows.

Significant Client Relationships

Client Concentration. A large percentage of our historical revenues have been generated from our two largest clients, which are Comcast and Charter Corporation Inc. ("Charter").

Revenues from these clients for the indicated periods were as follows (in thousands, except percentages):

	Quarter Ended					
	March 31, 2019		December 31, 2018		March 31, 2018	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Comcast	\$ 55,027	22%	\$ 55,612	22%	\$ 55,879	28%
Charter	46,347	19%	45,594	18%	43,126	21%

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, 2019	December 31, 2018
Comcast	28%	24%
Charter	21%	21%

See our 2018 10-K for additional discussion of our business relationships and contractual terms with Comcast and Charter.

Comcast. Comcast continues to be our largest client, generating 22% of our total revenues for the first quarter of 2019. In November 2018, Comcast exercised the first of their two one-year renewal options extending the term of their agreement through June 30, 2020. Terms of the extension remain consistent with the financial terms and obligations under the existing agreement. Additionally, under the terms of the agreement, Comcast has the right to exercise an additional one-year renewal option no later than January 1, 2020, to extend the term of the Agreement through June 30, 2021.

We are currently engaged in discussions with Comcast regarding contract renewal terms. Although we believe our operating relationship with Comcast is good, there can be no assurances around the timing and/or terms of any renewal arrangements at this time.

A copy of the Comcast agreement and related amendments, with confidential information redacted, is included in the exhibits to our periodic filings with the SEC.

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

Critical Accounting Policies

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

We have identified the most critical accounting policies that affect our financial position and the results of our operations. Those critical accounting policies were determined by considering the accounting policies that involve the most complex or subjective decisions or assessments. The most critical accounting policies identified relate to the following items: (i) revenue recognition; (ii) impairment assessments of long-lived assets; (iii) income taxes; and (iv) loss contingencies. These critical accounting policies, as well as our other significant accounting policies, are discussed in our 2018 10-K.

Results of Operations

Total Revenues. Total revenues for the first quarter of 2019 were \$244.8 million, a 21% increase when compared to \$201.7 million for the first quarter of 2018. The increase in revenues can be mainly attributed to the following: (i) the additional revenues generated from the Forte acquisition on October 1, 2018; (ii) the additional revenues from the Business Ink acquisition on February 28, 2018 (as the first quarter of 2019 has a full quarter of revenues as compared to only one month of revenues for the first quarter of 2018); and (iii) continued growth in our cloud solutions and managed services arrangements.

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

	Quarter Ended March 31,	
	2019	2018
Cloud and related solutions	\$ 219,590	\$ 177,516
Software and services	13,028	11,959
Maintenance	12,175	12,229
Total revenues	<u>\$ 244,793</u>	<u>\$ 201,704</u>

We use the location of the client as the basis of attributing revenues to individual countries. Revenues by geographic regions for the first quarters of 2019 and 2018 were as follows (in thousands):

	Quarter Ended March 31,	
	2019	2018
Americas (principally the U.S.)	\$ 210,729	\$ 169,903
Europe, Middle East, and Africa	24,626	20,434
Asia Pacific	9,438	11,367
Total revenues	<u>\$ 244,793</u>	<u>\$ 201,704</u>

Cloud and Related Solutions Revenues. Cloud and related solutions revenues for the first quarter of 2019 were \$219.6 million, a 24% increase when compared to \$177.5 million for the first quarter of 2018. The increase in cloud and related solutions revenues between periods is primarily due to the additional revenues generated from the acquired Business Ink and Forte businesses, discussed above, and to a lesser degree, the execution of and performance under managed services and Ascendon arrangements.

Software and Services Revenues. Software and services revenues for the first quarter of 2019 were \$13.0 million, a 9% increase when compared to \$12.0 million for the first quarter of 2018, with the increase mainly attributed to the timing of work performed and execution of software license agreements.

Maintenance Revenues. Maintenance revenues were consistent between the first quarters of 2019 and 2018, coming in at \$12.2 million for both periods.

Total Expenses. Our operating expenses for the first quarter of 2019 were \$212.7 million, a 21% increase when compared to \$175.9 million for the first quarter of 2018. The increase between periods can be mainly attributed to: (i) additional operating expenses from the acquired Forte business on October 1, 2018, to include acquisition amortization and earn-out compensation; (ii) additional operating expenses from the Business Ink acquisition on February 28, 2018 (as the first quarter of 2019 has a full quarter of expense as compared to only one month of expense for the first quarter of 2018), to include acquisition amortization; and (iii) increased employee-related costs.

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

Cost of Revenues. See our 2018 10-K for a description of the types of costs that are included in the individual line items for cost of revenues.

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

	Quarter Ended March 31,	
	2019	2018
Cost of revenues:		
Cloud and related solutions	\$ 114,659	\$ 86,908
Software and services	8,848	8,533
Maintenance	5,456	5,655
Total cost of revenues	<u>\$ 128,963</u>	<u>\$ 101,096</u>

Cost of Cloud and Related Solutions (Exclusive of Depreciation). The cost of cloud and related solutions for the first quarter of 2019 increased 32 % to \$ 114.7 million, from \$86.9 million for the first quarter of 2018. This increase can be mainly attributed to the cloud and related solutions expense of the acquired Business Ink and Forte businesses included in our results, to include acquisition amortization, and increased employee-related costs. Total cloud and related solutions cost as a percentage of cloud and related solutions revenues for the first quarters of 2019 and 2018 were 52.2 % and 49.0%, respectively (with the first quarter of 2019 reflective of the transaction fees of \$17.1 million).

Cost of Software and Services (Exclusive of Depreciation). The cost of software and services for the first quarter of 2019 was \$ 8.8 million, a slight increase from \$8.5 million for the first quarter of 2018. Total software and services cost as a percentage of our software and services revenues for the first quarters of 2019 and 2018 were 67.9 % and 71.4%, respectively.

Variability in quarterly revenues and operating results are inherent characteristics of companies that sell software licenses and perform professional services. Our quarterly revenues for software licenses and professional services may fluctuate, depending on various factors, including the timing of executed contracts and revenue recognition, and the delivery of contracted solutions. However, the costs

associated with software and professional services revenues are not subject to the same degree of variability (e.g., these costs are generally fixed in nature within a relatively short period of time), and thus, fluctuations in our cost of software and services as a percentage of our software and services revenues will likely occur between periods.

Cost of Maintenance (Exclusive of Depreciation). The cost of maintenance for the first quarter of 2019 was \$ 5.5 million, a slight decrease from \$5.7 million for the first quarter of 2018. Total cost of maintenance as a percentage of our maintenance revenues for the first quarters of 2019 and 2018 were 44.8% and 46.2%, respectively.

R&D Expense. R&D expense for the first quarter of 2019 increased 11 % to \$ 32.6 million, from \$29.4 million for the first quarter of 2018. The increase in R&D is mainly attributed to the R&D costs of the Forte business, and to a lesser degree, increased employee-related costs. As a percentage of total revenues, R&D expense for the first quarters of 2019 and 2018 were approximately 13.3% and 14.6%, respectively.

Our R&D efforts are focused on the continued evolution of our solutions that enable service providers worldwide to provide a more personalized customer experience while introducing new digital products and services. This includes the continued investment in our cloud-based solutions.

Selling, General and Administrative ("SG&A") Expense. SG&A expense for the first quarter of 2019 increased 13 % to \$ 45.9 million, from \$40.6 million for the first quarter of 2018, with the increase primarily due to the SG&A costs related to Forte business. Our SG&A costs as a percentage of total revenues for the first quarters of 2019 and 2018 were approximately 18.8% and 20.2%, respectively, with the decrease reflective of the higher revenues for the period, mainly resulting from the Forte acquisition.

Depreciation. Depreciation expense for the first quarter of 2019 increased 31% to \$ 5.1 million, from \$3.9 million for the first quarter of 2018. This increase can be primarily attributed to the increased level of capital expenditures we have made over the last twelve months on items such as technology, security, infrastructure, and modernization of equipment, and to a lesser degree, the depreciation expense from the acquired Business Ink and Forte assets.

Operating Income. Operating income for the first quarter of 2019 was \$ 32.1 million, or 13.1 % of total revenues, compared to \$25.8 million, or 12.8% of total revenues for the first quarter of 2018. The increase in operating income is a result of the higher revenues generated in the first quarter of 2019, as reflected by our relatively consistent operating margin percentage.

Loss on Extinguishment of Debt. In March 2018, we refinanced our 2015 Credit Agreement, and as a result, we incurred a loss of \$0.8 million related to the write-off of unamortized debt issuance costs.

Income Tax Provision. The effective income tax rates for the first quarters of 2019 and 2018 were as follows:

Quarter Ended March 31,	
2019	2018
26%	31%

Our estimated full-year 2019 effective income tax rate is 26%.

Liquidity

Cash and Liquidity

As of March 31, 2019, our principal sources of liquidity included cash, cash equivalents and short-term investments of \$141.9 million, as compared to \$162.9 million as of December 31, 2018. We generally invest our excess cash balances in low-risk, short-term investments to limit our exposure to market and credit risks.

As part of our 2018 Credit Agreement, we have a \$200 million senior secured revolving loan facility with a syndicate of financial institutions that expires in March 2023. As of March 31, 2019, there were no borrowings outstanding on the 2018 Revolver. The 2018 Credit Agreement contains customary affirmative covenants and financial covenants. As of March 31, 2019, and the date of this filing, we believe that we are in compliance with the provisions of the 2018 Credit Agreement.

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

	March 31, 2019	December 31, 2018
Americas (principally the U.S.)	\$ 92,909	\$ 110,385
Europe, Middle East and Africa	44,552	45,884
Asia Pacific	4,444	6,611
Total cash, equivalents and short-term investments	\$ 141,905	\$ 162,880

We generally have ready access to substantially all of our cash, cash equivalents, and short-term investment balances, but may face limitations on moving cash out of certain foreign jurisdictions due to currency controls. As of March 31, 2019, we had \$3.0 million of cash restricted as to use primarily to collateralize outstanding letters of credit.

Cash Flows from Operating Activities

We calculate our cash flows from operating activities in accordance with U.S. GAAP, beginning with net income, adding back the impact of non-cash items or non-operating activity (e.g., depreciation, amortization, amortization of OID, impairments, gain/loss from debt extinguishments, deferred income taxes, stock-based compensation, etc.), and then factoring in the impact of changes in operating assets and liabilities. See our 2018 10-K for a description of the primary uses and sources of our cash flows from operating activities.

Our 2019 and 2018 net cash flows from operating activities, broken out between operations and changes in operating assets and liabilities, for the indicated quarterly periods are as follows (in thousands):

	Operations	Changes in Operating Assets and Liabilities	Net Cash Provided by Operating Activities – Totals
Cash Flows from Operating Activities:			
2019:			
March 31	\$ 42,003	\$ (29,177)	\$ 12,826
2018:			
March 31	\$ 38,247	\$ (8,392)	\$ 29,855

Cash flows from operating activities for the first quarters of 2019 and 2018 reflect the negative impacts of the payment of the 2018 and 2017 year-end accrued employee incentive compensation in the first quarter subsequent to the year-end accrual for these items. Additionally, cash flows from operating activities for the first quarter of 2019 were negatively impacted by the timing around a certain recurring client payment at quarter-end. This amount was subsequently collected in April 2019.

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

Significant fluctuations in key operating assets and liabilities between 2019 and 2018 that impacted our cash flows from operating activities are as follows:

Billed Trade Accounts Receivable

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

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
2019:				
March 31	\$ 247,833	\$ (2,897)	\$ 244,936	65
2018:				
March 31	\$ 217,018	\$ (3,967)	\$ 213,051	70

As of March 31, 2019, approximately 95% of our billed accounts receivable balance is less than 60 days past due.

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

Accrued Employee Compensation

Accrued employee compensation decreased \$9.6 million to \$51.5 million as of March 31, 2019, from \$61.1 million as of December 31, 2018, due primarily to the payment of the 2018 employee incentive compensation that was fully accrued at December 31, 2018, offset to a certain degree by the accrual for the 2019 employee incentive compensation.

Cash Flows from Investing Activities

Our typical investing activities consist of purchases/sales of short-term investments and purchases of property and equipment, which are discussed below. Additionally, during the first quarter of 2018 we acquired Business Ink for approximately \$70 million (\$68.6 million, net of cash acquired), and in the first quarter of 2019, as discussed in Note 2 to our Financial Statements, made an additional investment in a payment technology and services company for \$4.0 million, which is included in our cash flows from investing activities.

Purchases/Sales of Short-term Investments. For the first quarters of 2019 and 2018, we purchased \$14.2 million and \$15.1 million, respectively, and sold (or had mature) \$19.6 million and \$79.5 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.

Software, Property and Equipment. Our capital expenditures for the first quarters of 2019 and 2018 for software, property and equipment were \$8.3 million and \$12.2 million, respectively, and consisted principally of investments in: (i) statement production equipment; (ii) computer hardware, software, and related equipment; and (iii) facilities and internal infrastructure items.

Cash Flows from Financing Activities

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

Cash Dividends Paid on Common Stock. During the first quarters of 2019 and 2018, the Board approved dividend payments totaling \$7.4 million and \$7.1 million, respectively, of which \$7.6 million and \$7.4 million, respectively, had been paid through March 31, 2019 and 2018 (with the differences attributed to unvested incentive shares that are paid upon vesting).

Repurchase of Common Stock. During the first quarters of 2019 and 2018, we repurchased 0.2 million and 0.1 million shares of our common stock, respectively, under the guidelines of our Stock Repurchase Program for \$9.3 million and \$5.7 million, respectively.

Outside of our Stock Repurchase Program, during the first quarters of 2019 and 2018, we repurchased from our employees and then cancelled 0.1 million shares of our common stock in both periods, for \$4.1 million and \$6.2 million, respectively, in connection with minimum tax withholding requirements resulting from the vesting of restricted common stock under our stock incentive plans.

Long-term Debt. During the first quarter of 2019, we made principal repayments of \$1.9 million.

During the first quarter of 2018, we refinanced our 2015 Credit Agreement and as a result, we repaid the outstanding principal balance of \$120.0 million and borrowed \$150.0 million under the 2018 Credit Agreement, resulting in a net increase of available cash of \$30.0 million. As part of the refinancing, we paid \$1.4 million of deferred financing costs.

See Note 4 to our Financial Statements for additional discussion of our long-term debt.

Capital Resources

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

Current Sources of Capital Resources.

- **Cash, Cash Equivalents and Short-term Investments.** As of March 31, 2019, we had cash, cash equivalents, and short-term investments of \$141.9 million, of which approximately 62% is in U.S. Dollars and held in the U.S. We have \$3.0 million of restricted cash, used primarily to collateralize outstanding letters of credit. For the remainder of the monies denominated in foreign currencies and/or located outside the U.S., we do not anticipate any material amounts being unavailable for use in running our business.
- **Operating Cash Flows.** As described in the Liquidity section above, we believe we have the ability to generate strong cash flows to fund our operating activities and act as a source of funds for our capital resource needs.
- **Revolving Credit Facility.** As of March 31, 2019, we had a \$200 million revolving loan facility (2018 Revolver). As of March 31, 2019, we had no borrowing outstanding on our 2018 Revolver and had the entire \$200 million available to us. Our long-term debt obligations are discussed in more detail in Note 4 to our Financial Statements.

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

- **Common Stock Repurchases.** We have made repurchases of our common stock in the past under our Stock Repurchase Program. As of March 31, 2019, we had 5.3 million shares authorized for repurchase remaining under our Stock Repurchase Program. Our 2018 Credit Agreement places certain limitations on our ability to repurchase our common stock.

In September 2018, we announced an increase in our planned share repurchases of up to \$150 million under our Stock Repurchase Program over the next three years. Under our Stock Repurchase Program, we may repurchase shares in the open market or in privately negotiated transactions, including through an accelerated stock repurchase plan or under a SEC Rule 10b5-1 plan. The actual timing and amount of future share repurchases will be dependent on then current market conditions and other business-related factors over the next three years. Our common stock repurchases are discussed in more detail in Note 8 to our Financial Statements.

During the first quarter of 2019, we repurchased 0.2 million shares of our common stock for \$9.3 million (weighted-average price of \$37.37 per share).

Outside of our Stock Repurchase Program, during the first quarter of 2019, we repurchased from our employees and then cancelled 0.1 million shares of our common stock for \$ 4.1 million in connection with minimum tax withholding requirements resulting from the vesting of restricted common stock under our stock incentive plans.

- Cash Dividends. During the first quarter of 2019, the Board declared dividends totaling \$7.4 million. Going forward, we expect to pay cash dividends each year in March, June, September, and December, with the amount and timing subject to the Board's approval.
- Acquisition. On October 1, 2018, we acquired Forte, a leading provider of advanced payment solutions headquartered in Allen, Texas for a purchase price of approximately \$93 million, (approximately \$85 million, excluding cash acquired), and held back approximately \$13 million in cash subject to certain tax filings. The purchase agreement includes provisions for \$18.8 million of potential future earn-out payments over a four-year measurement period. The earn-out payments are tied to performance-based goals and continued employment by the eligible recipients.

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.

- Equity Method Investment. In the first quarter of 2019, we made an additional \$4 million investment in a payment technology and services company that enables omni-channel digital payments in Latin America. As of March 31, 2019, we held an 8% noncontrolling interest with a carrying value of \$6.7 million.
- Capital Expenditures. During the first quarter of 2019, we spent \$8.3 million on capital expenditures. As of March 31, 2019, we had committed to purchase approximately \$6.5 million of equipment.
- Stock Warrants. In 2014, we issued Stock Warrants with an exercise price of \$26.68 per warrant to Comcast as an incentive for Comcast to convert new customer accounts to ACP. Once vested, Comcast may exercise the Stock Warrants and elect either physical delivery of common shares or net share settlement (cashless exercise). Alternatively, the exercise of the Stock Warrants may be settled with cash based solely on our approval, or if Comcast were to beneficially own or control in excess of 19.99% of our common stock or voting of the Company. As of March 31, 2019, approximately 1.4 million Stock Warrants are outstanding, of which 0.4 million are vested.

The Stock Warrants are discussed in more detail in Note 8 to our Financial Statements.

- Long-Term Debt. As of March 31, 2019, our long-term debt consisted of the following: (i) 2016 Convertible Notes with a par value of \$230.0 million; and (ii) 2018 Credit Agreement term loan borrowings of \$142.5 million.

2016 Convertible Notes

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

2018 Credit Agreement

Our 2018 Credit Agreement mandatory repayments and the cash interest expense (based upon current interest rates) for the next twelve months is \$7.5 million, and \$6.3 million, respectively. We have the ability to make prepayments on our 2018 Credit Agreement without penalty.

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

In summary, we expect to continue to have material needs for capital resources going forward, as noted above. We believe that our current cash, cash equivalents and short-term investments balances and our 2018 Revolver, together with cash expected to be generated in the future from our current operating activities, will be sufficient to meet our anticipated capital resource requirements for at least the next twelve months. We also believe we could obtain additional capital through other debt sources which may be available to us if deemed appropriate.

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

Market risk is the potential loss arising from adverse changes in market rates and prices. As of March 31, 2019, we are exposed to various market risks, including changes in interest rates, fluctuations and changes in the market value of our cash equivalents and short-term investments, and changes in foreign currency exchange rates. We have not historically entered into derivatives or other financial instruments for trading or speculative purposes.

Interest Rate Risk

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

The interest rates under our 2018 Credit Agreement are based upon an adjusted LIBOR rate plus an applicable margin, or an alternate base rate plus an applicable margin. See Note 4 to our Financial Statements for further details of our long-term debt.

A hypothetical adverse change of 10% in the March 31, 2019 adjusted LIBOR rate would not have had a material impact upon our results of operations.

Market Risk

Cash Equivalents and Short-term Investments. Our cash and cash equivalents as of March 31, 2019 and December 31, 2018 were \$123.6 million and \$139.3 million, respectively. Certain of our cash balances are “swept” into overnight money market accounts on a daily basis, and at times, any excess funds are invested in low-risk, somewhat longer term, cash equivalent instruments and short-term investments. Our cash equivalents are invested primarily in institutional money market funds, commercial paper, and time deposits held at major banks. We have minimal market risk for our cash and cash equivalents due to the relatively short maturities of the instruments.

Our short-term investments as of March 31, 2019 and December 31, 2018 were \$18.3 million and \$23.6 million, respectively. Currently, we utilize short-term investments as a means to invest our excess cash only in the U.S. The day-to-day management of our short-term investments is performed by a large financial institution in the U.S., using strict and formal investment guidelines approved by our Board. 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.

Settlement Assets. We are exposed to market risk associated with cash held on behalf of our clients related to our payment processing services. As of March 31, 2019 and December 31, 2018, we had \$87.9 million and \$124.6 million, respectively, of cash collected on behalf of our clients which is held for an established holding period until settlement with the client. The holding period is generally one to four business days depending on the payment model and contractual terms with the client. During the holding period, cash is held in trust accounts with various major financial institutions in the U.S. in an amount equal to at least 100% of the aggregate amount owed to our clients.

Long-Term Debt. The fair value of our convertible debt is exposed to market risk. We do not carry our convertible debt at fair value but present the fair value for disclosure purposes (see Note 2 to our Financial Statements). Generally, the fair value of our convertible debt is impacted by changes in interest rates and changes in the price and volatility of our common stock. As of March 31, 2019, the fair value of the 2016 Convertible Notes was estimated at \$242.4 million, using quoted market prices.

Foreign Currency Exchange Rate Risk

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

During the first quarter of 2019, we generated approximately 88% of our revenues in U.S. dollars. We expect that, in the foreseeable future, we will continue to generate a very large percentage of our revenues in U.S. dollars.

As of March 31, 2019 and December 31, 2018, the carrying amounts of our monetary assets and monetary liabilities on the books of our non-U.S. subsidiaries in currencies denominated in a currency other than the functional currency of those non-U.S. subsidiaries are as follows (in thousands, in U.S. dollar equivalents):

	March 31, 2019		December 31, 2018	
	Monetary Liabilities	Monetary Assets	Monetary Liabilities	Monetary Assets
Pounds sterling	\$ (28)	\$ 1,728	\$ (3)	\$ 1,848
Euro	(508)	10,562	(448)	7,482
U.S. Dollar	(57)	14,637	(632)	18,044
South African Rand	-	5,355	-	270
Other	(16)	1,318	(7)	957
Totals	<u>\$ (609)</u>	<u>\$ 33,600</u>	<u>\$ (1,090)</u>	<u>\$ 28,601</u>

A hypothetical adverse change of 10% in the March 31, 2019 exchange rates would not have had a material impact upon our results of operations based on the monetary assets and liabilities as of March 31, 2019.

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. On January 1, 2019, we adopted ASC 842, *Leases*, which required us to make changes to our policies, update our processes, and modify existing internal controls over financial reporting. Other than these changes to support the implementation of ASC 842, our CEO and CFO concluded that there were no other changes during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

A discussion of our risk factors can be found in Item 1A. Risk Factors in our 2018 Form 10-K. There were no material changes to the risk factors disclosed in our 2018 Form 10-K during the first quarter of 2019.

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

The following table presents information with respect to purchases of our common stock made during the first quarter of 2019 by CSG Systems International, Inc. or any “affiliated purchaser” of CSG Systems International, Inc., as defined in Rule 10b-18(a)(3) under the Exchange Act.

Period	Total Number of Shares Purchased (1) (2)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plan or Programs (2)
January 1 - January 31	126,477	\$ 34.11	126,200	5,411,767
February 1 - February 28	135,736	41.04	52,200	5,359,567
March 1 - March 31	89,739	41.63	70,200	5,289,367
Total	351,952	\$ 38.70	248,600	

- (1) The total number of shares purchased that are not part of the Stock Repurchase Program represents shares purchased and cancelled in connection with stock incentive plans.
- (2) See Note 8 to our Financial Statements for additional information regarding our share repurchases.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

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

CSG SYSTEMS INTERNATIONAL, INC.
INDEX TO EXHIBITS

Exhibit Number	Description
10.22AK*	<u>Thirty-Sixth Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC</u>
10.22AL*	<u>Thirty-Seventh Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC</u>
10.22AM*	<u>Thirty-Eighth Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC</u>
10.26S*	<u>Twentieth Amendment to Consolidated CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Charter Communications Operating, LLC</u>
31.01	<u>Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.02	<u>Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.01	<u>Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Portions of the exhibit have been omitted pursuant to SEC rules regarding confidential information.

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 3, 2019

CSG SYSTEMS INTERNATIONAL, INC.

/s/ Bret C. Griess

Bret C. Griess

President and Chief Executive Officer

(Principal Executive Officer)

/s/ Rolland B. Johns

Rolland B. Johns

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

THIS DOCUMENT CONTAINS INFORMATION WHICH HAS BEEN EXCLUDED FROM THE EXHIBIT BECAUSE IT IS BOTH (I) NOT MATERIAL AND (II) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED. SUCH EXCLUDED INFORMATION IS IDENTIFIED BY BRACKETS AND MARKED WITH (*)**

**THIRTY-SIXTH AMENDMENT
TO THE
CSG MASTER SUBSCRIBER MANAGEMENT SYSTEM AGREEMENT
BETWEEN
CSG SYSTEMS, INC.
AND
COMCAST CABLE COMMUNICATIONS MANAGEMENT, LLC**

THIS THIRTY-SIXTH (the “Amendment”) is made by and between **CSG Systems, Inc .** (“CSG”) and **Comcast Cable Communications Management, LLC** (“Customer”). The Effective Date of this Amendment is the date last signed below. CSG and Customer entered into a certain CSG Master Subscriber Management System Agreement (CSG document #2501940) with an effective date of March 1, 2013 (the “Agreement”) and now desire to amend the Agreement in accordance with the terms and conditions set forth in this Amendment. If the terms and conditions set forth in this Amendment shall be in conflict with the Agreement, the terms and conditions of this Amendment shall control. Any terms in initial capital letters or all capital letters used as a defined term but not defined in this Amendment shall have the meaning set forth in the Agreement. Upon execution of this Amendment by the Parties, any subsequent reference to the Agreement between the Parties shall mean the Agreement as amended by this Amendment. Except as amended by this Amendment, the terms and conditions set forth in the Agreement shall continue in full force and effect according to their terms.

CSG and Customer agree to the following as of the Effective Date:

1. Upon the Effective Date, Schedule P to the Agreement shall be deleted in its entirety and replaced with the new Schedule P attached to this Amendment at Attachment 1 , and incorporated herein by this reference.

THIS AMENDMENT is executed on the day and year last signed below (“Effective Date”).

**COMCAST CABLE COMMUNICATIONS
MANAGEMENT, LLC (“CUSTOMER”)**

CSG SYSTEMS, INC. (“CSG”)

By: /s/ Jeur Abeln

By: /s/ Gregory L. Cannon

Name: Jeur Abeln

Name: Gregory L. Cannon

Title: Senior Vice President Procurement

Title: SVP, General Counsel & Secretary

Date: 3-20-2019

Date: Mar 19, 2019

ATTACHMENT 1

Schedule P

Customer Authorization Schedule

<u>CSG Document</u>	<u>Comcast Personnel</u>	<u>Title</u>	<u>Comment</u>
Master Agreement & Amendments (and all categories listed below)	[***** *****] [**** *]	[*** ** * ***** *****] [*** *****]	
SOW/DSOW	[**** *] [***** *****]	[*** *****] [* * * *****]	
LOA	[***** *] [***** *****]	[***** ** ***** *****] [* * * *****]	
SRF	[***** *] [*** *****]	[***** ** ***** *****] [***** ***** ** *****] [***** * *****]	(or her designee)
IPA	[***** *]	[***** ** ***** *****]	
BRD	[*** *****]	[***** ***** ** *****] [***** * *****]	
Billing Disputes	[***** *****] [***** *]	[* * * *****] [*** ***** ** ***** *****]	

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**THIRTY-SEVENTH AMENDMENT
TO THE
CSG MASTER SUBSCRIBER MANAGEMENT SYSTEM AGREEMENT
BETWEEN
CSG SYSTEMS, INC.
AND
COMCAST CABLE COMMUNICATIONS MANAGEMENT, LLC**

THIS THIRTY-SEVENTH AMENDMENT (the “Amendment”) is made by and between **CSG Systems, Inc .** (“CSG”) and **Comcast Cable Communications Management, LLC** (“Customer”). The Effective Date of this Amendment is the date last signed below. CSG and Customer entered into a certain CSG Master Subscriber Management System Agreement (CSG document #2501940) with an effective date of March 1, 2013 (the “Agreement”) and now desire to further amend the Agreement in accordance with the terms and conditions set forth in this Amendment. If the terms and conditions set forth in this Amendment shall be in conflict with the Agreement, the terms and conditions of this Amendment shall control. Any terms in initial capital letters or all capital letters used as a defined term but not defined in this Amendment shall have the meaning set forth in the Agreement. Upon execution of this Amendment by the Parties, any subsequent reference to the Agreement between the Parties shall mean the Agreement as amended by this Amendment. Except as amended by this Amendment, the terms and conditions set forth in the Agreement shall continue in full force and effect according to their terms.

WHEREAS, pursuant to the Agreement, CSG provides Customer with a Customer Test Environment Region (“CTER”) to use Customer’s [****] environment for testing, for a [***** ***** **], as more particularly described in the Amended and Restated Statement of Work, effective as of July 13, 2015 (CSG document no. 4105208) and Change Order No. 1 (CSG document no. 4112732) (collectively the “SOW”); and

WHEREAS, the SOW has reached its expiration term, and the [***** ***** **] has ceased to be [*****] effective as of [*** ***** ****]; and

WHEREAS, Customer desires to receive, and CSG agrees to continue to support, the CTER, which allows the Customer to continue to use their [****] environment, and the parties desire to reinstate the [***** ***** **] effective with the [***** ***** **].

NOW THEREFORE, CSG and Customer agree to the following as of the Effective Date.

- As of the Amendment Effective Date, Schedule F, Fees, Section IV, Ancillary Products and Services, is hereby amended to add a new subsection “M” entitled “Ancillary Services for Customer Test Environment Region (“CTER”)” as follows:

M. Ancillary Services for Customer Test Environment Region (“CTER”)

Description of Item/Unit of Measure	Frequency	Fee
I. [***** **] Fee (Note 1 and Note 2)		
■ [***** **]	[*****]	[\$*****]
■ [***** **]	[*****]	[\$*****]

Note 1: Fees incurred and [*****] shall be invoiced to Customer [*****] that certain (the “[**] Amendment”) [**] Amendment to the Agreement (CSG doc. no. 4120566).

Note 2: Fees for [*****] are invoiced on a [*****] in [*****].

2. For the convenience of the parties, the [***** ** *****] Fee for [***** ***** ***** ****] are a total amount of [*** ***** *****
***** ** ***** ***** *****] [(\$*****)], which amount will be invoiced to Customer [***** ** ***** ***** ** *****
*****].
3. The fees set forth in the Agreement are subject to increase pursuant to Section 5.4, Adjustment to Fees, of the Agreement.

THIS AMENDMENT is executed on the day and year last signed below (“Effective Date”).

**COMCAST CABLE COMMUNICATIONS
MANAGEMENT, LLC (“CUSTOMER”)**

CSG SYSTEMS, INC. (“CSG”)

By: /s/ Jeur Abeln

By: /s/ Gregory L. Cannon

Name: Jeur Abeln

Name: Gregory L. Cannon

Title: Senior Vice President Procurement

Title: SVP, Secretary & General Counsel

Date: 2-4-2019

Date: 1/29/19

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**THIRTY-EIGHTH AMENDMENT
TO THE
CSG MASTER SUBSCRIBER MANAGEMENT SYSTEM AGREEMENT
BETWEEN
CSG SYSTEMS, INC.
AND
COMCAST CABLE COMMUNICATIONS MANAGEMENT, LLC**

THIS THIRTY-EIGHTH AMENDMENT (the “Amendment”) is made by and between **CSG Systems, Inc.** (“CSG”) and **Comcast Cable Communications Management, LLC** (“Customer”). The Effective Date of this Amendment is the date last signed below. CSG and Customer entered into a certain CSG Master Subscriber Management System Agreement (CSG document #2501940) with an effective date of March 1, 2013 (the “Agreement”) and now desire to further amend the Agreement in accordance with the terms and conditions set forth in this Amendment. If the terms and conditions set forth in this Amendment conflict with the Agreement, the terms and conditions of this Amendment shall control. Any terms in initial capital letters or all capital letters used as a defined term but not defined in this Amendment shall have the meaning set forth in the Agreement. Upon execution of this Amendment by the Parties, any subsequent reference to the Agreement between the Parties shall mean the Agreement as amended by this Amendment. Except as amended by this Amendment, the terms and conditions set forth in the Agreement shall continue in full force and effect according to their terms.

CSG and Customer agree to the following as of the Effective Date.

- Customer is currently using CSG’s Check Verification services (“CSG’s Check Verification”). CSG is changing its third party CVP (as referenced in Exhibit C-28 of the Agreement, which was added to the Agreement pursuant to the First Amendment to the Agreement (CSG document #2500661) with an effective date of May 20, 2013) from the current provider to [***** ***** **]. [***** *****]. In connection with such change, (a) Customer consents to the disclosure by CSG to [*** *****] of Customer Confidential Information and PII solely for [*** *****] to provide the underlying Check Verification services pursuant to and in accordance with the terms and conditions of the Agreement and (b) CSG (i) acknowledges and agrees that it is solely responsible for [*** *****] compliance with the terms and conditions of the Agreement (including, but not limited to any ancillary document executed under the Agreement) and (ii) shall be liable to Customer for the acts and omissions of [*** *****] to the same extent that liability to Customer would accrue under the Agreement as if such acts or omissions had been performed or made by CSG in accordance with the provisions of Agreement, including but not limited to Sections 12.4 and 12.5 of the Agreement.

THIS AMENDMENT is executed on the day and year last signed below (“Effective Date”).

**COMCAST CABLE COMMUNICATIONS
MANAGEMENT, LLC (“CUSTOMER”)**

CSG SYSTEMS, INC. (“CSG”)

By: /s/ Jeur Abeln

By: /s/ Gregory L. Cannon

Name: Jeur Abeln

Name: Gregory L. Cannon

Title: Senior Vice President Procurement

Title: SVP, Secretary & General Counsel

Date: 3-7-2019

Date: 2/28/19

THIS DOCUMENT CONTAINS INFORMATION WHICH HAS BEEN EXCLUDED FROM THE EXHIBIT BECAUSE IT IS BOTH (I) NOT MATERIAL AND (II) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED. SUCH EXCLUDED INFORMATION IS IDENTIFIED BY BRACKETS AND MARKED WITH (*)**

**TWENTIETH AMENDMENT
TO
CONSOLIDATED
CSG MASTER SUBSCRIBER MANAGEMENT SYSTEM AGREEMENT
BETWEEN
CSG SYSTEMS, INC.
AND
CHARTER COMMUNICATIONS OPERATING, LLC**

SCHEDULE AMENDMENT

This Twentieth Amendment (the “Amendment”) is made by and between **CSG Systems, Inc.**, a Delaware corporation (“CSG”), and **Charter Communications Operating, LLC**, a Delaware limited liability company (“Customer”). CSG and Customer entered into that certain Consolidated CSG Master Subscriber Management System Agreement effective as of August 1, 2017 (CSG document no. 4114281), as amended (the “Agreement”), and now desire to further amend the Agreement in accordance with the terms and conditions set forth in this Amendment. If the terms and conditions set forth in this Amendment shall be in conflict with the Agreement, the terms and conditions of this Amendment shall control. Any terms in initial capital letters or all capital letters used as a defined term but not defined in this Amendment shall have the meaning set forth in the Agreement. Upon execution of this Amendment by the parties, any subsequent reference to the Agreement between the parties shall mean the Agreement as amended by this Amendment. Except as amended by this Amendment, the terms and conditions set forth in the Agreement shall continue in full force and effect according to their terms. The effective date of this Amendment is the date last signed below (the “Effective Date”).

1. **Customer desires to use and CSG agrees to provide to Customer, for Customer’s Connected and Non-ACP Subscribers, CSG’s Composed XML Output, as described herein, under the Agreement. Therefore, upon execution of this Amendment the following changes are hereby made to the Agreement:**
 - a) Schedule C, “Recurring Services,” of the Agreement shall be amended to add CSG Composed XML Output as a Recurring Service.
 - b) Schedule C, entitled “Recurring Services” of the Agreement shall be amended to add the following under “Recurring Services Description”:

“**CSG Composed XML Output.** The CSG Composed XML Output is generated following completion of the composition cycle process and provides Customer’s electronic statement output in XML format to be stored by CSG and retrieved by Customer via an application programming interface (“API”). The CSG Composed XML Output will be available for Customer retrieval from the API on a statement cycle basis. Composed XML will include statement information as it appears in Customer’s Subscribers’ statements, including statement messages.”
2. **As a result, upon execution of this Amendment and pursuant to the terms and conditions of the Agreement, Schedule F, “Fees,” Section 1., “CSG Services,” subsection III., “Payment Procurement,” subsection A, “Direct Solutions (Print and Mail),” is amended to add a new subsection 15, “CSG Composed XML Output,” as follows:**

Description	Frequency	Fee
15. CSG Composed XML Output		
(a) Implementation and set up (Note 33)	[*****]	[****]
(b) Recurring Fees - Statement Pulls (Note 34) (Note 35)		
i. Statement Pulls per [*****] up to and including [**** *]	[*****]	[\$*****]
ii. Statement Pulls/per [*****] in excess of [**** *] ("Excess Statement Pulls"); per [**** * (*)] Excess Statement Pulls (or portion thereof)	[*****]	[\$*****]

Note 33: Implementation and set up of the CSG Composed XML Output shall be mutually agreed upon and documented in that certain Statement of Work, "Implement CSG Composed XML Output," (CSG document no. 4123173) to be executed by CSG and Customer.

Note 34: For purposes of the CSG Composed XML Output, a "Statement Pull" occurs each time an electronic statement is retrieved from the API by or on behalf of a Connected Subscriber or a Non-ACP Subscriber.

Note 35: Composed XML Output will be stored and available to Customer for retrieval by Customer from the API for a rolling [***** (**)] *****].

THIS AMENDMENT is executed on the days and year last signed below to be effective as of the Effective Date (defined above).

**CHARTER COMMUNICATIONS HOLDING
COMPANY, LLC ("CUSTOMER")**

CSG SYSTEMS, INC. ("CSG")

By: Charter Communications, Inc., its Manager

By: /s/ Mike Cizek

By: /s/ Gregory L. Cannon

Title: Mike Cizek

Title: Gregory L. Cannon

Name: SVP - Billing Strategy and Operation

Name: SVP, Secretary & General Counsel

Date: 1/18/19

Date: 1/18/19

**CERTIFICATIONS PURSUANT TO
SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Bret C. Griess, certify that:

1. I have reviewed this report on Form 10-Q of CSG Systems International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2019

/s/ Bret C. Griess

Bret C. Griess

President and Chief Executive Officer

**CERTIFICATIONS PURSUANT TO
SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Rolland B. Johns, certify that:

1. I have reviewed this report on Form 10-Q of CSG Systems International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2019

/s/ Rolland B. Johns

Rolland B. Johns

Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The certification set forth below is being submitted in connection with the Quarterly Report on Form 10-Q (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Bret C. Griess, the Chief Executive Officer and Rolland B. Johns, the Chief Financial Officer of CSG Systems International Inc., each certifies that, to the best of his knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of CSG Systems International, Inc.

May 3, 2019

/s/ Bret C. Griess

Bret C. Griess
President and Chief Executive Officer

May 3, 2019

/s/ Rolland B. Johns

Rolland B. Johns
Executive Vice President and Chief Financial Officer