CSG SYSTEMS INTERNATIONAL INC
Form 10-K/A
November 18, 2004
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Mark One)

x **AMENDMENT NO. 1 TO THE ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2003

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.)

7887 East Belleview, Suite 1000

Englewood, Colorado 80111

(Address of principal executive offices, including zip code)

(303) 796-2850

(Registrant s telephone number, including area code)

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

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

Common Stock, Par Value $0.01 Per Share

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes x No ¨

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the last sales price of such stock, as of the close of trading on June 30, 2003 was $695,505,070.

Shares of common stock outstanding at March 10, 2004: 53,792,834.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Proxy Statement for its 2004 Annual Meeting of Stockholders to be filed on or prior to April 29, 2004, are incorporated by reference into Part III of the Form 10-K/A.

Table of Contents

CSG SYSTEMS INTERNATIONAL, INC.

2003 FORM 10-K/A

TABLE OF CONTENTS

		Page
	PART I	
Item 1.	Business	3
Item 2.	Properties	9
Item 3.	Legal Proceedings	10
Item 4.	Submission of Matters to a Vote of Security Holders	10
	PART II	
Item 5.	Market for Registrant s Common Equity and Related Stockholder Matters	13
Item 6.	Selected Financial Data	14
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	16
Item 8.	Financial Statements and Supplementary Data	49
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	90
Item 9A.	Controls and Procedures	90
	PART III	
Item 10.	Directors and Executive Officers of the Registrant	90
Item 11.	Executive Compensation	90
Item 12.	Security Ownership of Certain Beneficial Owners and Management	90
Item 13.	Certain Relationships and Related Transactions	90
Item 14.	Principal Accounting Fees and Services	90
	PART IV	
Item 15.	Exhibits, Financial Statement Schedules and Reports on Form 8-K	91
Signatures		92

EXPLANATORY NOTE

CSG Systems International, Inc. (the Company or forms of the pronoun we) is filing this amendment to: (i) remove references to independent outside valuation firms and experts in Notes 3 and 6 to our Consolidated Financial Statements and in the critical accounting policies section of Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A); (ii) add clarifying language related to our revenue recognition accounting policies in Note 2 to our Consolidated Financial Statements and in the critical accounting policies section of MD&A; (iii) revise our disclosure related to the purchased Kenan Business accounts receivable in the selling, general and administrative expense section of MD&A; (iv) modify the independent auditors report to incorporate changes required by the Public Company Accounting Oversight Board subsequent to the report date to state that the audit was performed in accordance with the Public Company Accounting Oversight Board s Audit Standard No. 1; and (v) other minor changes, and this amendment does not result in the restatement of our previously reported financial position or results of operations for the periods covered in the report. This report continues to speak as of the date of the original filing, and the Company has not updated the disclosure in this report to speak as of a later date. All information contained in this report and the original filing is subject to updating and supplementing as provided in the Company s periodic reports filed with the Securities and Exchange Commission.

Table of Contents

Item 1. ***Business***

Company Overview

CSG Systems International, Inc. (the Company , CSG , or forms of the pronoun we) was formed in October 1994 and is based in Denver, Colorado. We are a global leader in next-generation billing and customer care solutions for the cable television, direct broadcast satellite, advanced IP services, next-generation mobile, and fixed wireline markets. Our combination of solutions, delivered in both outsourced and licensed formats, enables our clients to deliver high quality customer service, improve operational efficiencies and rapidly bring new revenue-generating products to market. We serve our clients through two operating segments: the Broadband Services Division (the Broadband Division) and the Global Software Services Division (the GSS Division).

Our principal executive offices are located at 7887 East Belleview, Suite 1000, Englewood, Colorado 80111, and the telephone number at that address is (303) 796-2850. Our Common Stock is listed on the Nasdaq National Market under the symbol CSGS . We are a S&P Midcap 400 company.

General Development of Business

We were formed in October 1994 and acquired all of the outstanding stock of CSG Systems, Inc. (formerly Cable Services Group, Inc.) from First Data Corporation (FDC) in November 1994 (the CSG Acquisition). CSG Systems, Inc. had been a subsidiary or division of FDC from 1982 until the CSG Acquisition.

In September 1997, we entered into a 15-year exclusive contract (the Master Subscriber Agreement) with Tele-Communications, Inc. (TCI) to consolidate all TCI customers onto our customer care and billing system. At the same time, we acquired a non-operational billing system from TCI for $105 million. In 1999 and 2000, respectively, AT&T completed its mergers with TCI and MediaOne Group, Inc. (MediaOne), and consolidated the merged operations into AT&T Broadband (AT&T), and we continued to service the merged operations under the terms of the Master Subscriber Agreement. On November 18, 2002, Comcast Corporation (Comcast) completed its merger with AT&T, and now under Comcast s ownership, we continue to service the former AT&T operations under the terms of the Master Subscriber Agreement, as modified by the arbitration ruling mentioned below. We generate a significant percentage of our total revenues under the Master Subscriber Agreement, and have been involved in various legal proceedings with Comcast since 2002, consisting principally of arbitration proceedings related to the Master Subscriber Agreement. These legal proceedings reached their conclusion in October 2003 when the arbitrator issued his final ruling. See Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) for additional discussion of the Master Subscriber Agreement, the resolution of the arbitration proceedings, and our business relationship with Comcast.

On February 28, 2002, we closed on our agreement to acquire the billing and customer care assets of Lucent Technologies (Lucent). Lucent s billing and customer care business consisted primarily of: (i) software products and related consulting services acquired by Lucent when it purchased Kenan Systems Corporation in February 1999; (ii) BILLDATS Data Manager mediation software; and (iii) elements of Lucent s client support, product support, and sales and marketing organizations (collectively, the Kenan Business). See MD&A and Note 3 to our Consolidated Financial Statements for additional discussion of the Kenan Business and further details of the acquisition.

Industry Overview

Customer care and billing systems coordinate many aspects of the customer s interaction with a telecommunications service provider, from the initial set-up and activation of customer accounts, to support of various service activities, through the monitoring of customer invoicing and accounts receivable management. These systems enable telecommunications service providers to manage the lifecycle of their customer interactions. The telecommunications industry experienced one of the most difficult periods in its history in

2002, which unfortunately continued through 2003. Mounting debt combined with limited access to capital resulted in reduced capital expenditures by telecommunication service providers for the third year in a row. As result, telecommunication service providers focused their attention on reducing their operational costs, improving margins and rolling out new revenue generating services with little investment in new solutions. This resulted in a decrease in spending on business support and operational support systems aimed at helping telecommunication service providers manage the increasing complexity and cost of managing the interaction between communications companies and their customers.

As telecommunication service providers continue to consolidate and begin rolling out new products to help generate new revenue streams, they will need additional functionality and flexibility within their customer care and billing solutions. This need continues to drive additional revenues into the customer care and billing industry, albeit at a smaller rate than previous years.

Business Strategy

Our business strategy is designed to achieve revenue and profit growth. The key elements of the strategy include:

Expand Core Processing Business. We will continue to leverage our investment and expertise in high-volume transaction processing to expand our processing business. The Broadband Division s processing business provides highly predictable, recurring revenues through multi-year contracts with a client base that includes leading telecommunications service providers. We increased the number of customers processed on our systems from 18 million as of December 31, 1995 to 44 million as of December 31, 2003. We provide a full suite of customer care and billing products and services that combine the reliability and high volume transaction processing capabilities of a mainframe platform with the flexibility of client/server architecture.

In addition, in June 2003, we introduced another North American service bureau offering aimed at mid-tier wireline providers, using the ICMS billing platform.

Increase Market Share in Telecommunications Verticals. Through our GSS Division, we will pursue new relationships with telecommunications service providers in the wireline, wireless, IP and worldwide broadband markets with our CSG Kenan FX product suite. While the telecommunications market continues to be in a depressed state, telecommunication service providers continue to look for solutions to specific problems like content settlement, converged pre-paid/post-paid offerings and more. We will continue to look for ways to establish relationships with those providers we have not done business with before, or with divisions of large providers in which our products have not traditionally had meaningful visibility.

Enter New Markets. As communications markets converge, our products and services can facilitate efficient entry into new markets by existing or new clients. We also intend to leverage our transaction processing engines into new verticals that require scaleable technology that is flexible and open, much like we have done with Italgas, a European utility, Beijing Telecom, a division of China Telecom, and eBay, the world s online marketplace.

Enhance Growth Through Focused Acquisitions. We follow a disciplined approach in acquiring assets and businesses which provide the technology and technical personnel to expedite our product development efforts, provide complementary products or services, or provide access to new markets or clients.

Continue Technology Leadership. We believe that our technology in customer care and billing solutions gives telecommunications service providers a competitive advantage. Our continuing investment in research and development (R&D) is designed to position us to meet the growing and evolving needs of existing and potential clients. Since 1995, we have invested over $350 million into R&D.

4

Table of Contents

Financial Information about Segments

After the closing of the Kenan Business acquisition in February 2002, we organized our business around two operating segments: the Broadband Division and the GSS Division. Costs managed at the corporate level, which are not attributable to either of the operating segments, are reflected in a Corporate overhead segment. Revenues and contribution margin attributable to reporting segments and financial information about geographical areas can be found in Note 5 to our Consolidated Financial Statements and are incorporated herein by reference.

Narrative Description of Business

The Broadband Division

General Description. The Broadband Division consists principally of our historical processing operations and related software products. Products and services from the Broadband Division make up approximately two-thirds of our company s total revenues. The Broadband Division generates a substantial percentage of its revenues by providing customer care and billing services to the United States (U.S.) and Canadian cable television and satellite industries. The Broadband Division s full suite of processing, software, and professional services allows clients to automate their customer care and billing functions. These functions include set-up and activation of customer accounts, sales support, order processing, invoice calculation, production and mailing of invoices, management reporting, electronic presentment and payment of invoices, and deployment and management of the client s field technicians.

Total domestic customer accounts (i.e., clients subscribers) on the Broadband Division s processing system as of December 31, 2003 were 44.1 million, compared to 45.8 million as of December 31, 2002, a decrease of 3.6%. The decrease is primarily due to Comcast customer accounts being measured differently beginning October 1, 2003, as a result of the Comcast arbitration ruling. On an annualized basis, the Broadband Division received $7.58 in processing revenue per account for 2003, compared to $8.43 for 2002, with the decrease primarily related to the new Comcast pricing resulting from the arbitration ruling. See the Results of Operations Operating Segments section in MD&A for further explanation of these matters.

Clients. The Broadband Division works with the leading cable and satellite providers located in the U.S. and Canada. A partial list of those providers is included below:

Adelphia Communications Corporation	Echostar Communications Corporation
Charter Communications	Mediacom Communications
Comcast Corporation (includes former AT&T Broadband)	Time Warner Inc.
Cox Communications	

During the years ended December 31, 2003, 2002, and 2001: (i) revenues from Comcast represented approximately 26%, 27%, and 54%, respectively, of total revenues; and (ii) revenues from Echostar Communications Corporation (Echostar) represented approximately 15%, 11%, and 10%, respectively, of total revenues. For 2003, these percentages were calculated using the total net revenue base of $439.7 million (which includes the $105.7 million of the Comcast arbitration charge attributed to periods prior to July 1, 2003). The calculation of these percentages for Comcast and Echostar for 2003 using a revenue base of $545.3 million (which excludes the $105.7 million of the Comcast arbitration charge attributed to periods prior to July 1, 2003) would result in 21% and 12%, respectively. We believe these percentages are more reflective of our dependence on these key customers for historical periods, and for future periods. The decrease in the percentage between 2003 and 2002 for

Comcast relates primarily to the impact of the new pricing as dictated by the arbitration ruling. The decrease in the percentage between 2002 and 2001 for Comcast relates primarily to a decrease in the amount of software and professional services purchased by Comcast in 2002 when compared to 2001, as well as an increase in our total revenues between periods from all other clients, including revenue related to the acquisition of the Kenan Business. See MD&A for further discussion of our contract with Comcast and the components of and related accounting for the arbitration charge, and the expected impact of the arbitration ruling on our future results of operations.

Products and Services. The Broadband Division s primary product offerings include its core service bureau processing product, CSG CCS/BP (CCS), and related services and software products. A background in high-volume transaction processing, complemented with world-class applications software, allows the Broadband Division to offer one of the most comprehensive, pre-integrated products and services solutions to the telecommunications market, serving video, data and voice providers and handling many aspects of the customer lifecycle. We believe this pre-integrated approach has allowed telecommunications service providers to get to market quickly as well as reduce the total cost of ownership for their solution.

Over the past seven years, we have introduced over 20 products and services including workforce automation and electronic bill presentment and payment. The Broadband Division licenses its software products (e.g., ACSR, Workforce Express, etc.) and provides its professional services principally to its existing base of processing clients to enhance the core functionality of our service bureau processing application, increase the efficiency and productivity of the clients operations, and allow clients to effectively roll out new products and services to new and existing markets, such as high-speed data/ISP, IP markets, and residential telephony. CCS processing services and related software products are expected to provide a large percentage of our, and substantially all of the Broadband Division s, total revenues in the foreseeable future.

CCS Architectural Upgrade. The Broadband Division is currently involved in a significant architectural upgrade to CCS. This enhancement to CCS will allow us to further support convergent broadband services including cross-service bundling, convergent order entry and advanced service provisioning capabilities. This advanced convergent solution for broadband service providers will facilitate our clients offering of combinations of video, voice and data services. In addition, our product strategy also includes leveraging our Data Mediation solution and our plaNet Consulting s broadband telephony practice to provide both front-office and back-office support for broadband operators offering voice services, including the rollout of Voice over IP (VoIP). This project was initiated in 2002. During 2003, we invested a significant amount of man hours on this project. We expect to migrate our first client to this platform in 2004. Our advanced convergent solution is expected to be the Broadband Division s next generation product offering. There are certain inherent risks associated with significant technological innovations. Such risks are described in this report in Exhibit 99.01, Safe Harbor for Forward-Looking Statements Under the Private Securities Litigation Reform Act of 1995 Certain Cautionary Statements and Risk Factors (Risk Factors).

FDC Data Processing Facility. The Broadband Division outsources to FDC the data processing and related computer services required for operation of our processing services. The CCS proprietary software is run in FDC s facility to obtain the necessary mainframe computer capacity and other computer support services without making the substantial capital and infrastructure investments that would be necessary for us to provide these services internally. The Broadband Division s clients are connected to the FDC facility through a combination of private and commercially-provided networks. Our service agreement with FDC expires June 30, 2008, and is cancelable only for cause, as defined in the agreement. We believe we could obtain mainframe data processing services from alternative sources, if necessary. We have a business continuity plan as part of our agreement with FDC should the FDC data processing center suffer an extended business interruption or outage. This plan is tested on an annual basis.

Client and Product Support. The Broadband Division s clients typically rely on us for ongoing support and training needs relating to the Broadband Division s products. The Broadband Division has a multi-level support environment for its clients. The Broadband Division has strategic business units (SBUs) to support the business, operational and functional requirements of each client. These dedicated account management teams help clients resolve strategic and business issues and are supported by the Broadband Division s Product Support Center, which operates 24 hours a day, seven days a week. Clients call an 800 number and through an automated voice response unit, direct their calls to the specific product support personnel where their questions are answered. The Broadband Division has a full-time training staff and conducts ongoing training sessions both in the field and at its training facilities located in Denver, Colorado and Omaha, Nebraska.

Sales and Marketing. The Broadband Division has organized its sales efforts within its SBUs, with senior level account managers who are responsible for new revenues and renewal of existing contracts within an account. The SBUs are supported by sales support personnel who are experienced in the various products and services that the Broadband Division provides.

Competition. The market for customer care and billing systems in the converging telecommunications industries is highly competitive. The Broadband Division competes with both independent outsourced providers and in-house developers of customer management systems. We believe that the Broadband Division s most significant competitors are DST Systems, Inc., Convergys Corporation, and in-house systems. Some of the Broadband Division s actual and potential competitors have substantially greater financial, marketing and technological resources than us.

We believe that the principal competitive factors for its Broadband Division include the functionality, scalability, flexibility and architecture of the CCS system, the breadth and depth of pre-integrated product solutions, product quality, client service and support, quality of R&D efforts, and price.

The GSS Division

General Description. The GSS Division consists of our stand-alone software products and related services, which includes the Kenan Business. Products and services from the GSS Division make up approximately one-third of our company s total revenues. The majority of the Kenan Business revenues are generated from international operations. For 2003, approximately 78% of the GSS Division s revenues were generated outside the U.S., as compared to 79% for 2002. We expect a similar percentage of the GSS Division s revenues will be generated outside the U.S. in the foreseeable future. There are certain inherent risks associated with operating internationally. Such risks are described in this report in our Risk Factors in Exhibit 99.01.

The GSS Division is a global provider of convergent billing and customer care software and services that enables telecommunications service providers to bill their customers for existing and next-generation services, including mobile, Internet, wireline, cable television, and satellite. The GSS Division s revenues consist of software license and maintenance fees, and various professional and consulting services related to its software products (principally, implementation services).

Clients. The GSS Division provides its products and services to the leading providers in the global telecommunications industry. Some of the Division s clients include Bharti Airtel, BSNL, British Telecom, eBay, Embratel, France Telecom, MobileOne, Singapore Telecom, Tata, Telecom Italia, TOT, and Vodafone.

Products and Services. We combined the best of our traditional software solutions with the best of the Kenan Business software solutions and introduced Kenan FX in the late fall of 2003. Kenan FX is the result of an 18-month R&D project that resulted in a business framework consisting of pre-integrated products and modules that make services available via a common middle layer. Since its introduction, six customers have signed up for the new solution. Although this did not result in material revenues in 2003, Kenan FX is expected to be the GSS Division s primary product offering in future periods.

The GSS Division s primary product offerings include the Kenan FX software product suite (a core convergent billing platform, and its key components and modules, which include, among others, billing mediation, threshold servers, real-time rating engines, revenue settlement solutions and pre-paid/post-paid convergent billing solutions, aimed at helping telecommunication service providers manage their operations more effectively and efficiently), and professional services. The GSS Division s professional services organizations provide a variety of consulting services, such as product implementation and customization, business consulting, project management and training services.

Table of Contents

Client and Product Support. The GSS Division has regional account management teams as well as a multi-level support environment for its clients. Primary client support for the GSS Division is provided in three regions: the Americas (North, South and Central America), Europe/Middle East/Africa (EMEA), and Asia Pacific (APAC).

Sales and Marketing. The GSS Division s primary method of distribution is through direct sales by personnel assigned to these three regions. The principal sales offices for each region are as follows: the Americas (Denver and Miami), EMEA (London), and APAC (Singapore). In addition to the principal sales offices in each region, the GSS Division has various sales offices located throughout the world.

Competition. The market for customer care management systems in the global telecommunications industries is highly competitive. The GSS Division competes with other providers of customer management systems, and in-house developers of customer management systems. We believe that the GSS Division s most significant competitors are Amdocs Corporation, ADC, Convergys Corporation, Portal Software, Inc., SchlumbergerSema, and in-house systems. Some of the GSS Division s actual and potential competitors have substantially greater financial, marketing and technological resources than our company.

We believe that the principal competitive factors for the GSS Division include the functionality, scalability, flexibility and architecture of the software products, the breadth and depth of pre-integrated product solutions, product quality, professional services capabilities, client service and support, quality of R&D efforts, and price.

Proprietary Rights and Licenses

We rely on a combination of trade secret and copyright laws, nondisclosure agreements, and other contractual and technical measures to protect our proprietary rights in our products. We also hold a limited number of patents on some of our newer products, and do not rely upon patents as a primary means of protecting our rights in our intellectual property. There can be no assurance that these provisions will be adequate to protect our proprietary rights. Although we believe that our intellectual property rights do not infringe upon the proprietary rights of third parties, there can be no assurance that third parties will not assert infringement claims against us or our clients.

Historically, the vast majority of our revenue has come from domestic sources, limiting the need to develop a strong international intellectual property protection program. With the Kenan Business acquisition, we have clients using our products in many countries. As a result, we need to continually assess whether there is any risk to our intellectual property rights in many countries throughout the world. Should these risks be improperly assessed or if for any reason should our right to develop, produce and distribute our products anywhere in the world be successfully challenged or be significantly curtailed, it could have a material impact on our financial condition and results of operations.

Research and Development

Our product development efforts are focused on developing new products and improving existing products. We believe that the timely development of new applications and enhancements is essential to maintaining our competitive position in the marketplace. Our development efforts for 2003 were focused primarily on:

various R&D projects for the GSS Division, including the Kenan FX business framework, which was introduced during late 2003, which includes enhancements to the existing versions of the Kenan Business product suite, as well as new modules; and

enhancements to CCS and related Broadband Division software products to increase the functionalities and features of the products, consisting principally of the architectural changes to CCS discussed above.

Our total R&D expense was $62.9 million, $73.7 million, and $52.2 million for the years ended December 31, 2003, 2002, and 2001, or 14.3%, 12.1%, and 10.9% of total revenues, respectively. The decrease in R&D expenditures between 2003 and 2002 is due primarily to: (i) the discontinuation of the development of our CSG NextGen product during the third quarter of 2002 as a result of the Kenan Business acquisition; (ii) a reduction of R&D costs in other areas since the second quarter of 2002, to include a reduction of R&D personnel

Table of Contents

as a result of several cost reduction initiatives (see MD&A and Note 8 to our Consolidated Financial Statements for additional discussion of our cost reduction initiatives); and (iii) the completion of the development cycle for certain projects. Since 1995, we have invested an average of 10-12% of our total revenues into R&D. We expect to spend a similar percentage of our total revenues on R&D in the future.

Employees

As of December 31, 2003, we had a total of 2,471 employees, a decrease of 281 from December 31, 2002. The decrease between these points in time relates primarily to the restructuring and cost reduction initiatives further discussed in MD&A. Our success is dependent upon our ability to attract and retain qualified employees. None of our U.S.-based employees are subject to a collective bargaining agreement. Certain non-U.S.-based employees are covered under national or company-specific collective bargaining agreements. We believe that our relations with our employees are good.

Available Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act are available free of charge on our website at www.csgsystems.com. Additionally, these reports are available at the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549 or on the SEC s website at www.sec.gov. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

Item 2. ***Properties***

As of December 31, 2003, we were operating from approximately 40 leased sites around the world, representing approximately 771,000 square feet under lease. This amount excludes approximately 219,000 square feet of leased space that has been abandoned by us.

North American Region (NAR)

We lease office facilities, totaling approximately 500,000 square feet in the following metropolitan areas within the U.S.: Cambridge, Massachusetts; Columbus, Ohio; Dallas, Texas; Denver, Colorado; Miami, Florida; New Providence, New Jersey; Omaha, Nebraska; and Washington, DC. We utilize these office facilities primarily for: (i) corporate headquarters; (ii) client services, training and product support; (iii) sales and marketing activities; (iv) systems and programming activities; (v) R&D activities; (vi) professional services staff; and (vii) general and administrative functions. The leases for these office facilities expire in the years 2004 through 2010. The office facilities in Denver and Omaha are used by both the Broadband Division and the GSS Division, as well as for corporate functions, with the remaining office facilities used primarily by the GSS Division.

We lease statement production and mailing facilities, totaling approximately 176,000 square feet in Omaha, Nebraska and Wakulla County, Florida. The leases for these facilities expire in the years 2011 through 2013. These facilities are used by the Broadband Division.

We lease office space totaling approximately 9,000 square feet in Toronto, Canada for our Canadian GSS Division operations. The lease for this facility expires in 2006.

Central and Latin America Region (CALA)

We lease office facilities, totaling approximately 6,000 square feet in Buenos Aires, Argentina; Rio de Janeiro and Campinas, Brazil; and Mexico City, Mexico. We utilize these office facilities primarily for: (i) client services, training and product support; (ii) sales and marketing activities; (iii) professional services staff; and (iv) general and administrative functions. These CALA office facilities support the GSS Division. The leases for these office facilities expire in the years 2004 through 2006.

Table of Contents

Europe, Middle East and Africa Region (EMEA)

We lease office facilities, totaling approximately 55,000 square feet in Brussels, Belgium; Paris, France; Munich, Germany; Rome, Italy; Madrid, Spain; London and Slough, United Kingdom. We utilize these office facilities primarily for: (i) client services, training and product support; (ii) sales and marketing activities; (iii) professional services staff; (iv) R&D activities; and (v) general and administrative functions. These EMEA office facilities support the GSS Division. The leases for these office facilities expire in the years 2004 through 2015.

Asia/Pacific Region (APAC)

We lease office facilities, totaling approximately 25,000 square feet in Sydney, Australia; Beijing, China; New Delhi, India; Tokyo, Japan; Kuala Lumpur, Malaysia; and Singapore. We utilize these office facilities primarily for: (i) client services, training and product support; (ii) sales and marketing activities; (iii) professional services staff; and (iv) general and administrative functions. These APAC office facilities support the GSS Division. The leases for these office facilities expire in the years 2004 through 2006.

We believe that our facilities are adequate for our current needs and that additional suitable space will be available as required. We also believe that we will be able to extend the leases as they terminate at comparable rates. See Note 11 to our Consolidated Financial Statements for information regarding our obligations under our facility leases.

Item 3. ***Legal Proceedings***

In October 2003, we received a final ruling in our arbitration with our largest client, Comcast. Discussions of this matter can be found in MD&A-Comcast and AT&T Broadband Business Relationship included in this document and is incorporated herein by reference.

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

Item 4. ***Submission of Matters to a Vote of Security Holders***

None.

Executive Officers of the Registrant

As of December 31, 2003, our executive officers were Neal C. Hansen (Chairman of the Board and Chief Executive Officer), John P. Pogge (President and Chief Operating Officer), Peter E. Kalan (Executive Vice President and Chief Financial Officer), Edward C. Nafus (President of our Broadband Services Division), and William E. Fisher (President of our Global Software Services Division). We have employment agreements with each of the executive officers. Information concerning such executive officers appears in the following paragraphs:

Mr. Hansen, 63, is a co-founder of our company and has been the Chairman of the Board and Chief Executive Officer and a director of our company since our inception in 1994. From 1991 until co-founding our company, Mr. Hansen served as a consultant to several software companies, including FDC. From 1989 to 1991, Mr. Hansen was a General Partner in Hansen, Haddix and Associates, a partnership that provided advisory management services to suppliers of software products and services. From 1983 to 1989, Mr. Hansen was Chairman and Chief Executive Officer of US WEST Applied Communications, Inc. (ACI) and President of US WEST Data Systems Group. Mr. Hansen earned a BS in electrical engineering from the University of Nebraska.

Table of Contents

Mr. Pogge, 50, joined us in 1995 and has served as President, Chief Operating Officer and a director of our company since September 1997. Prior to that time, Mr. Pogge was our Executive Vice President and General Manager, Business Units. From 1992 to 1995, Mr. Pogge was Vice President, Corporate Development for US WEST, Inc. From 1987 to 1991, Mr. Pogge served as Vice President and General Counsel of ACI. Mr. Pogge holds a J.D. degree from Creighton University School of Law and a BBA in Finance from the University of Houston.

Mr. Kalan, 44, joined us in January 1997 and was named Chief Financial Officer in October 2000. Prior to joining the company, he was Chief Financial Officer at Bank One, Chicago, and he also held various other financial management positions with Bank One in Texas and Illinois from 1985 through 1996. Mr. Kalan holds a BA degree in Business Administration from the University of Texas at Arlington.

Mr. Nafus, 63, joined us in August 1998 as Executive Vice President and was named the President of our Broadband Services Division in January 2002. From 1992 to 1998, Mr. Nafus served as Executive Vice President of FDC and President of First Data International. Mr. Nafus was President of First Data Resources from 1989 to 1992 and Executive Vice President of First Data Resources from 1984 to 1989. During his 14-year tenure at First Data, Mr. Nafus held various other management positions. Mr. Nafus holds a BS degree in Mathematics from Jamestown College.

Mr. Fisher, 57, joined us in September 2001 as Executive Vice President and was named the President of our Global Software Services Division in January 2002. Prior to joining our company, Mr. Fisher was Chairman of plaNet Consulting, an e-business solutions and services group that we acquired in 2001. Prior to his association with plaNet, Mr. Fisher served as Chairman and Chief Executive Officer of Transaction Systems Architects, Inc. (TSAI), and served 14 years in numerous roles including President and Chief Executive Officer of ACI, which was acquired by TSAI. Mr. Fisher also served as President of First Data Resources government services division. Mr. Fisher holds a Bachelor s degree in Management from Indiana State University and a MBA from the University of Nebraska.

Board of Directors of the Registrant

Dr. George F. Haddix

Chairman and CEO

PKWARE, Inc.

Dr. George F. Haddix is Chairman and Chief Executive Officer of PKWARE, Inc., a computer software company. In 1994, Dr. Haddix became President and co-founder of our company following the acquisition of Cable Services Group, Inc. from FDC. He was instrumental in taking our company public in 1996. Prior to joining our company, Dr. Haddix served as President and Chief Executive Officer of U S WEST Network Systems, Inc. Previously, Dr. Haddix served as Chairman and President of ACI. Prior to that, he was President and General Manager of HDR Systems, Inc. Dr. Haddix has also served on the faculties of Iowa State University, Creighton University and the University of Nebraska at Omaha, as Professor of computer science and mathematics. Dr. Haddix also serves on the board of InfoUSA, Inc. Dr. Haddix earned a PhD from Iowa State University, an MA from Creighton University and a BA from the University of Nebraska at Omaha, all in mathematics.

Neal C. Hansen

Chairman and Chief Executive Officer

CSG Systems International, Inc.

Neal Hansen s biographical discussion is included in Executive Officers of the Registrant shown directly above.

Janice Obuchowski

President

Freedom Technologies, Inc.

Janice Obuchowski is President of Freedom Technologies, Inc., a public policy and corporate strategy consulting firm specializing in telecommunications. In 2003, Ms. Obuchowski was appointed by President

Table of Contents

George W. Bush to serve as Ambassador and Head of the U.S. Delegation to the World Radio Conference. She has also served as Assistant Secretary for Communications and Information at the Department of Commerce, leading the National Telecommunications and Information Administration (NTIA). Prior to joining NTIA, Ms. Obuchowski had responsibilities for all international affairs for NYNEX (now Verizon). Ms. Obuchowski also held several positions at the Federal Communications Commission (FCC), including Senior Advisor to the Chairman.
Ms. Obuchowski also serves on the boards of Orbital Sciences Corp. and Stratos Global. Ms. Obuchowski earned a JD from the Georgetown University Law Center and a BA from Wellesley College.

John P. Jack Pogge

President and Chief Operating Officer

CSG Systems International, Inc.

Jack Pogge s biographical discussion is included in Executive Officers of the Registrant shown directly above.

Bernard W. Reznicek

President and CEO

Premier Enterprises, Inc.

Bernard W. Reznicek currently provides consulting services with The Premier Group. Mr. Reznicek previously was National Director of Special Markets for Central States Indemnity, a Berkshire Hathaway Company. He has forty years of experience in the electric utility industry having served as Chairman, President, and Chief Executive Officer of Boston Edison Company, and President and Chief Executive Officer of Omaha Public Power in Omaha, Nebraska. Mr. Reznicek also serves on the boards of Pulte Homes, Inc., TTI Technologies, Inc., and Central States Indemnity. State Street Corporation, MidAmerican Energy, and Guarantee Life Insurance Company were former board assignments. Mr. Reznicek earned an MBA from the University of Nebraska at Lincoln and a BS degree in business administration with a major in accounting from Creighton University in Omaha, Nebraska.

Frank V. Sica

Senior Advisor

Soros Funds Management

Frank V. Sica is Senior Advisor to Soros Funds Management. Prior to this, Mr. Sica was Managing Partner for Soros Private Funds Management and helped to oversee the Quantum Realty Partners operations. Before joining Soros, Mr. Sica was Managing Director and Cohead of Merchant Banking at Morgan Stanley Dean Witter & Co. He also served as an Officer in the U.S. Air Force. Mr. Sica is also a director of Emmis Broadcasting, Jet Blue Airways, Kohl s Corporation, and Onvoy, Inc. Mr. Sica is also a trustee of Wesleyan University and the Village of Bronxville, New York. Altrio, Inc. was a former board assignment. Mr. Sica earned an MBA from the Amos Tuck School of Business at Dartmouth College and a BA in biology from Wesleyan University in Middletown, Connecticut.

Donald V. Smith

Senior Managing Director

Houlihan Lokey Howard & Zukin

Donald V. Smith is Senior Managing Director in charge of the New York office of Houlihan Lokey Howard & Zukin, an international investment bank, and serves on its board of directors. Prior to this, Mr. Smith headed valuation and reorganization services for Morgan Stanley & Co, where he was responsible for fairness, valuation, litigation, restructuring, and acquisition assignments. Mr. Smith has been involved in investment banking, business valuation and financial restructuring for the past thirty years. He also served over five years as a Naval Officer. Mr. Smith earned an MBA from the University of Pennsylvania s Wharton School and a BS from the U.S. Naval Academy.

Table of Contents

PART II

Item 5. ***Market for Registrant s Common Equity and Related Stockholder Matters***

Our Common Stock is listed on the Nasdaq National Market (NASDAQ/NMS) under the symbol CSGS . The following table sets forth, for the fiscal quarters indicated, the high and low sale prices of our Common Stock as reported by NASDAQ/NMS.

	High	Low
2003		
First quarter	$ 15.68	$ 8.15
Second quarter	14.63	8.31
Third quarter	17.29	12.53
Fourth quarter	15.95	8.69

	High	Low
2002		
First quarter	$ 41.66	$ 27.40
Second quarter	30.11	17.71
Third quarter	19.57	9.06
Fourth quarter	17.44	8.77

On March 10, 2004, the last sale price of our Common Stock as reported by NASDAQ/NMS was $14.18 per share. On January 31, 2004, the number of holders of record of Common Stock was 296.

Dividends

We have not declared or paid cash dividends on our Common Stock since our incorporation. We did, however, complete a two-for-one stock split, effected in the form of a stock dividend, in March 1999. We intend to retain any earnings to finance the growth and development of our business, and at this time, we do not plan to pay cash dividends in the foreseeable future. Our credit agreement contains certain restrictions on the payment of dividends. See Note 7 to our Consolidated Financial Statements for additional discussion of our credit agreement.

Equity Compensation Plan Information

The following table summarizes certain information about our equity compensation plans as of December 31, 2003:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance
Equity compensation plans approved by security holders	1,778,071	$ 18.66	5,496,907
Equity compensation plan not approved by security holders	1,251,057	15.56	385,599
Total	3,029,128	$ 17.33	5,882,506

Of the total number of securities remaining available for future issuance, 5,806,571 shares can be used for stock option grants, as well as the other types of stock-based awards as specified in the individual plans, with the remaining 75,935 shares to be used for our employee stock purchase plan. See Note 13 to our Consolidated Financial Statements for additional discussion of our equity compensation plans.

Table of Contents

Item 6. ***Selected Financial Data***

The following selected financial data have been derived from our audited financial statements. The selected financial data presented below should be read in conjunction with, and is qualified by reference to MD&A and our Consolidated Financial Statements. The information below is not necessarily indicative of the results of future operations.

	Company (1)(2)				
	Year ended December 31,				
	2003 (5)	**2002 (5)**	**2001**	**2000**	**1999**
	(in thousands, except per share amounts)				
Statements of Operations Data:					
Revenues:					
Processing and related services(3)	$ 342,385	$ 373,033	$ 339,258	$ 294,809	$ 255,167
Software	41,431	68,376	72,350	70,378	52,432
Maintenance(3)	93,564	89,075	15,808	13,971	6,737
Professional services	67,959	80,448	49,492	19,737	7,826
	545,339	610,932	476,908	398,895	322,162
Charge for arbitration ruling attributable to periods prior to July 1, 2003 (3)	(105,679)				
Total revenues, net	439,660	610,932	476,908	398,895	322,162