

CSG SYSTEMS INTERNATIONAL INC

Form 10-K

February 22, 2019

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

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)
6175 S. Willow Drive, 10th Floor

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

Greenwood Village, Colorado 80111
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (303) 200-2000

Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES NO

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

Indicate by check mark whether the Registrant has submitted electronically 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of Registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of the shares of common stock on The NASDAQ Stock Market on June 30, 2018, was \$1,021,190,980.

The number of shares of Registrant's Common Stock outstanding as of February 15, 2019 was 32,987,206.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement for its 2019 Annual Meeting of Stockholders to be filed on or prior to April 30, 2019, are incorporated by reference into Part III of this Report.

CSG SYSTEMS INTERNATIONAL, INC.

2018 FORM 10-K

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PART I

Item 1. Business

Overview

CSG Systems International, Inc. (the “Company”, “CSG”, or forms of the pronoun “we”) is one of the world’s leading revenue management and digital monetization, customer experience, and payment solutions providers, and a trusted partner to some of the most well-known 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.

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.

Our principal executive offices are located at 6175 S. Willow Drive, 10th Floor, Greenwood Village, Colorado 80111, and the telephone number at that address is (303) 200-2000.

Our common stock is listed on the NASDAQ Stock Market LLC (“NASDAQ”) under the symbol “CSGS”. We are a S&P Small Cap 600 company.

Industry Overview

Background. We provide software and services that help companies around the world monetize and digitally enable the customer experience. While our heritage is born out of the communications services industry, we serve an expanding group of customers in markets ranging from financial services to health care to governmental agencies. With an unwavering commitment to their success, we help our clients thrive in the most dynamic, challenging, and complex market conditions imaginable, allowing them to:

- Optimize their business, addressing the critical need to reduce operating costs to enable the redeployment of operating capital to support business growth and transformation.
- Enable new revenue streams through the monetization of multiple services, across multiple locations and channels, and bringing new services to market quickly.
- Protect and maintain existing revenue streams by improving service delivery that drives higher customer satisfaction and increases retention.
- Leverage data and insights to better know and understand their customers and deliver exceptional experiences.
- Become future-ready so they can adapt quickly and efficiently to industry changes and innovations.

Market Trends of Communications Industry. Our primary market, the global communications industry, is going through an unprecedented level of change. This dramatic disruption is driving the emergence of heightened competition, innovative digital products, compelling customer engagements, real-time operational processes, and intense cost pressures. Some key trends are emerging as communications service providers (“CSPs”) try to evolve and compete in this highly complex ecosystem:

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Consumer choice: Customers have more choices than ever for information, communications, and entertainment services. While the shift in power from the service provider to the consumer has been occurring over the past several years, the adoption of new technologies and services which enable a more ubiquitous and personalized customer experience is becoming mainstream. Service providers – whether traditional or new digital native – are developing offerings to cultivate a more recurring, loyal, and “branded” customer experience. Increasing importance is placed on “brand” and “experience” as they both play a larger role in purchasing decisions. The customer experience, from acquisition to termination of service, will determine the winners and losers in this “always connected” consumer world.

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Competitive landscape: The proliferation of digital native service providers (e.g., Facebook, Apple, Netflix, Google, Amazon, etc.) has changed the competitive landscape forever. This new breed of competitors is not burdened with the infrastructure or legacy operational expenses that traditional CSPs have and, as a result, are more nimble, agile, and competitively priced for consumers. This, in conjunction with the consumer-driven economy, has forced traditional providers to evaluate the viability of their existing business model, including scale, breadth of offerings, speed to react, and consumer experience, and to evolve their businesses to remain not only relevant and competitive but to thrive. While consolidation continues between traditional CSPs and content providers (e.g., AT&T and Time Warner Inc.), companies are also scaling their offerings through acquisitions within their respective media (e.g., Disney and 21st Century Fox, Comcast and Sky) and communications industries (e.g., T-Mobile and Sprint). Direct-to-consumer offerings are becoming even more prevalent, and cooperation not only with new partners, but even competitors (e.g., Netflix with Amazon Prime Video and traditional cable operators) is accelerating.

Technology: Fueled by the collision of artificial intelligence, the Internet of Things (“IoT”), cloud technologies, and analytics, providers are fundamentally changing the way they get their products to market and engage with their customers. 5G technologies will propel the expansion of IoT and sensor-enabled services. IoT will underpin the “servicification” of offerings — the transition of routine activities and purchases (e.g., checking gas meters, driving a car, buying groceries, etc.) to on demand services and pervasive consumer relationships (e.g., only servicing meters that show faults, recommending best parking spots, recommending meals for dinner tonight, etc.). To meet the requirements of this hyper-connected ecosystem (speed-to-market, agility, scalability cost structure), providers are transitioning their legacy technology infrastructure to a combination of private and public cloud technologies to support billions of device connections.

New Revenue Sources: CSPs are facing increased pressure to find new revenue sources, while also managing their cost structure and quality of service delivery during their business transformation. They are seeing a decline in revenues and profits associated with their traditional services like wireline voice and video as a result of new or increased competition. In order to offset these declining revenues and profits, CSPs are looking for ways to improve their cost structure, grow through acquisitions, and launch new revenue-generating services with minimal capital investment. The result is that many CSPs are cutting costs associated with their traditional systems, integrating disparate acquired business operations, and launching new digital services with highly-flexible lower cost solutions. Overall, these market trends drive the demand for scalable, flexible, and cost-efficient revenue management, customer experience, and digital monetization solutions, which we believe will provide us with revenue opportunities. As a result, we have historically invested a meaningful amount of our revenues in research and development (“R&D”) and have acquired companies that enable us to expand our offerings in a timely and efficient manner. We believe that our scalable, modular, and flexible solutions combined with our rich 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.

Business Strategy

Our goal is to be the most trusted provider of world-class cloud and software-based solutions to service providers around the globe by helping make our clients’ hardest decisions simpler and smarter, no matter the challenge. We believe that by successfully executing on this goal we can grow our revenues and earnings, and therefore, create long-term value for our clients, employees, and stockholders. Our strategic focus to accomplish this goal is as follows:

Create More Long-Term, Recurring Relationships. Our relentless, relationship-driven, customer-focused business approach is built on a foundation of respect, integrity, and collaboration. As a result, we enjoy long-term relationships with many of the world’s leading CSPs. Our commitment to working with providers in true partnership fashion helps them to enable sustainable growth, create efficiencies, and deliver differentiated services to their customers. We have

seen successful adoption of our managed services approach with global CSPs based upon our compelling value proposition and proven track record.

Expand Our Product and Services Portfolio Through Continuous Innovation. We believe that our product technology, cloud-based solutions, and pre-integrated suite of solutions give service providers a competitive advantage. Our solutions allow providers to effectively manage their traditional businesses while being able to also quickly deliver new digital services directly to consumers with a modern, personalized, branded experience driving customer satisfaction and loyalty. We continually add new, relevant capabilities to what we do as a company, both in terms of our people and our solutions. By doing this, we build very strong recurring relationships which are difficult for our competitors to displace.

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Deliver On Our Commitments. Our products and services are business critical. We help our clients manage the entire customer lifecycle, from acquisition to servicing to billing for their end customers. As a result, it is imperative that we deliver on our commitments. For over 35 years, we have been helping blue-chip companies manage periods of explosive and sustained market growth and change – helping them drive revenues, improve their profitability, and deliver positive customer experiences. Our track record of doing what we say we are going to do has enabled us to be a trusted advisor and integral member of our clients’ operations.

Bring New Skills and Talents to Market. In order to maintain our competitiveness in the market, we invest in our people so that they are prepared to bring the highest quality technical skills, interpersonal skills, and managerial skills to our business and our clients.

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

Description of Business

Key Clients. We work with the leading communication providers located around the world. A partial list of those service providers as of December 31, 2018 is included below:

Altice	Deutsche Telecom
América Móvil	Hutchinson Whampoa 3G
AT&T	Liberty Latin America
Bharti Airtel	MTN
Charter Communications, Inc. (“Charter”)	Telefônica
JPMorgan Chase	Telstra
Comcast Corporation (“Comcast”)	Verizon
DISH Network Corporation (“DISH”)	

Clients that represented 10% or more of our revenues for 2018 and/or 2017 were as follows (in millions, except percentages):

	2018		2017	
	Amount	% of Revenues	Amount	% of Revenues
Comcast	\$221	25 %	\$219	28 %
Charter	179	20 %	171	22 %
DISH	80	9 %	89	11 %

See the Significant Client Relationships section of our Management’s Discussion and Analysis (“MD&A”) for additional information regarding our business relationships with these key clients.

Research and Development. Our clients around the world are facing competition from new entrants and at the same time, are deploying new services at a rapid pace and dramatically increasing the complexity of their business operations. Therefore, we continue to make meaningful investments in R&D to ensure that we stay ahead of our clients’ needs and advance our clients’ businesses as well as our own. We recognize these challenges and believe our value proposition is to provide solutions that help our clients ensure that each customer communication is an

opportunity to create value and deepen the business relationship. As a result of our R&D efforts, we have broadened our footprint within our client base with many new innovative product offerings.

Our total R&D expenses for 2018 and 2017 were \$124.0 million and \$113.2 million, respectively, or approximately 14% of our total revenues in both periods, with the increase reflective of our heightened level of investment in 2018. We anticipate the level of R&D investment in the near-term to be relatively consistent with that of 2018.

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

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

Revenue Management & Digital Monetization: Our solutions provide global service providers with a robust, integrated real-time revenue management framework in either a cloud-based or stand-alone environment to optimize and monetize transactions at every stage of the customer lifecycle. We support more than 480 million end users worldwide on behalf of our

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