

CSG SYSTEMS INTERNATIONAL INC  
Form 10-Q  
May 04, 2018

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, 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 47-0783182  
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

6175 S. Willow Drive, 10<sup>th</sup> Floor

Greenwood Village, Colorado 80111

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(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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES            NO

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

(Do not check if a smaller reporting company)

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, 2018: 33,653,228

CSG SYSTEMS INTERNATIONAL, INC.

FORM 10-Q for the Quarter Ended March 31, 2018

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## CSG SYSTEMS INTERNATIONAL, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS - UNAUDITED

(in thousands, except per share amounts)

	March 31, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 147,503	\$ 122,243
Short-term investments	74,595	139,117
Total cash, cash equivalents and short-term investments	222,098	261,360
Trade accounts receivable:		
Billed, net of allowance of \$3,967 and \$4,149	213,051	219,531
Unbilled	35,426	31,187
Income taxes receivable	12,261	13,839
Other current assets	32,388	28,349
Total current assets	515,224	554,266
Non-current assets:		
Property and equipment, net of depreciation of \$109,074 and \$123,126	59,553	44,651
Software, net of amortization of \$111,881 and \$108,986	30,894	26,906
Goodwill	222,915	210,080
Client contracts, net of amortization of zero and \$97,109	-	43,626
Acquired client contracts, net of amortization of \$80,618 and zero	39,688	-
Client contract costs, net of amortization of \$25,304 and zero	38,357	-
Deferred income taxes	13,844	14,057
Other assets	7,963	10,948
Total non-current assets	413,214	350,268
Total assets	\$928,438	\$ 904,534
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$7,500	\$ 22,500
Client deposits	34,991	31,053
Trade accounts payable	35,536	38,420
Accrued employee compensation	46,027	62,984
Deferred revenue	38,197	41,885
Income taxes payable	1,502	1,216
Other current liabilities	20,948	24,535
Total current liabilities	184,701	222,593
Non-current liabilities:		
Long-term debt, net of unamortized discounts of \$17,741 and \$18,264	354,759	309,236
Deferred revenue	9,191	12,346
Income taxes payable	2,457	2,415
Deferred income taxes	8,412	4,584
Other non-current liabilities	10,843	10,614
Total non-current liabilities	385,662	339,195
Total liabilities	570,363	561,788
Stockholders' equity:		
Preferred stock, par value \$.01 per share; 10,000 shares authorized; zero shares issued and outstanding	-	-

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Common stock, par value \$.01 per share; 100,000 shares authorized; 33,674 and 33,516 shares outstanding	692	689
Common stock warrants; 439 and 439 warrants vested; 1,425 and 1,425 issued	9,082	9,082
Additional paid-in capital	425,926	427,091
Treasury stock, at cost; 34,200 and 34,075 shares	(820,434)	(814,732 )
Accumulated other comprehensive income (loss):		
Unrealized loss on short-term investments, net of tax	(182 )	(88 )
Cumulative foreign currency translation adjustments	(21,024 )	(28,734 )
Accumulated earnings	764,015	749,438
Total stockholders' equity	358,075	342,746
Total liabilities and stockholders' equity	\$928,438	\$ 904,534

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, 2018	March 31, 2017
<b>Revenues:</b>		
Cloud and related solutions	\$177,516	\$158,777
Software and services	11,959	15,058
Maintenance	12,229	18,635
Total revenues	201,704	192,470
<b>Cost of revenues (exclusive of depreciation, shown separately below):</b>		
Cloud and related solutions	86,908	76,052
Software and services	8,533	11,274
Maintenance	5,655	10,382
Total cost of revenues	101,096	97,708
<b>Other operating expenses:</b>		
Research and development	29,379	26,840
Selling, general and administrative	40,648	37,346
Depreciation	3,914	3,315
Restructuring and reorganization charges	900	248
Total operating expenses	175,937	165,457
Operating income	25,767	27,013
<b>Other income (expense):</b>		
Interest expense	(4,266 )	(4,306 )
Amortization of original issue discount	(652 )	(888 )
Interest and investment income, net	811	806
Loss on extinguishment of debt	(810 )	-
Other, net	(646 )	(275 )
Total other	(5,563 )	(4,663 )
Income before income taxes	20,204	22,350
Income tax provision	(6,190 )	(2,113 )
Net income	\$14,014	\$20,237
<b>Weighted-average shares outstanding:</b>		
Basic	32,528	32,016
Diluted	33,102	32,594
<b>Earnings per common share:</b>		
Basic	\$0.43	\$0.63
Diluted	0.42	0.62

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, 2018	March 31, 2017
Net income	\$ 14,014	\$ 20,237
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	7,710	4,339
Unrealized holding gains (losses) on short-term investments arising during period	(94 )	44
Other comprehensive income, net of tax	7,616	4,383
Total comprehensive income, net of tax	\$ 21,630	\$ 24,620

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, 2018	March 31, 2017
Cash flows from operating activities:		
Net income	\$14,014	\$20,237
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation	3,914	3,315
Amortization	9,946	7,471
Amortization of original issue discount	652	888
Asset impairment	339	-
Gain on short-term investments and other	(17 )	(57 )
Loss on extinguishment of debt	810	-
Deferred income taxes	4,017	5,971
Stock-based compensation	4,572	5,670
Changes in operating assets and liabilities, net of acquired amounts:		
Trade accounts receivable, net	25,459	5,650
Other current and non-current assets	(4,629 )	2,793
Income taxes payable/receivable	1,035	(5,692 )
Trade accounts payable and accrued liabilities	(26,926 )	(21,943 )
Deferred revenue	(3,331 )	5,661
Net cash provided by operating activities	29,855	29,964
Cash flows from investing activities:		
Purchases of property and equipment	(12,235 )	(9,557 )
Purchases of short-term investments	(15,070 )	(17,983 )
Proceeds from sale/maturity of short-term investments	79,508	37,782
Acquisition of and investments in business, net of cash acquired	(68,636 )	-
Acquisition of and investments in client contracts	-	(4,363 )
Net cash provided by (used in) investing activities	(16,433 )	5,879
Cash flows from financing activities:		
Proceeds from issuance of common stock	484	385
Payment of cash dividends	(7,437 )	(7,033 )
Repurchase of common stock	(11,920 )	(11,224 )
Proceeds from long-term debt	150,000	-
Payments on long-term debt	(120,000)	(3,750 )
Settlement of convertible notes	-	(34,771 )
Payments of deferred financing costs	(1,442 )	-
Net cash provided by (used in) financing activities	9,685	(56,393 )
Effect of exchange rate fluctuations on cash	2,153	1,621
Net increase (decrease) in cash and cash equivalents	25,260	(18,929 )

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Cash and cash equivalents, beginning of period	122,243	126,351
Cash and cash equivalents, end of period	\$147,503	\$107,422

Supplemental disclosures of cash flow information:

Cash paid during the period for-

Interest	\$5,844	\$6,539
Income taxes	1,162	1,835

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, 2018 and December 31, 2017, and for the quarters ended March 31, 2018 and 2017, in accordance with accounting principles generally accepted in the United States of America (“U.S.”) (“GAAP”) for interim financial information, and pursuant to the instructions to Form 10-Q and the rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of our management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of our financial position and operating results have been included. The unaudited Condensed Consolidated Financial Statements (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, 2017 (our “2017 10-K”), filed with the SEC. The results of operations for the quarter ended March 31, 2018 are not necessarily indicative of the expected results for the entire year ending December 31, 2018.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**Revenue.** We adopted Topic 606 Revenue from Contracts with Customers (“ASC 606”) as of January 1, 2018 using the cumulative effect method and have applied ASC 606 to all contracts with clients that had not been completed as of the date of initial application. In conjunction with the adoption of ASC 606, we recorded a cumulative adjustment increasing beginning retained earnings (net of tax) by approximately \$7 million, primarily related to contracts that we were previously required to defer revenue as we did not have vendor specific objective evidence (“VSOE”) of fair value for certain undelivered elements. Since we adopted ASC 606 using the cumulative effect method, comparative information in our Financial Statements has not been adjusted and continues to be as previously reported.

The following tables summarize the impacts of adopting ASC 606 on our Financial Statements as of and for the quarter ended March 31, 2018 (in thousands, except per share amounts):

	As of March 31, 2018		
Condensed Balance Sheet	As Reported	Adjustments	Balances without adoption of ASC

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			606
Unbilled trade accounts receivable	\$35,426	\$ (697 )	\$34,729
Other current assets	32,388	3,184	35,572
Client contracts, net of amortization	-	70,376	70,376
Acquired client contracts, net of amortization	39,688	(39,688 )	-
Client contract costs, net of amortization	38,357	(38,357 )	-
Other non-current assets	7,963	4,485	12,448
Other assets	774,616	-	774,616
Total assets (1)	\$928,438	\$ (697 )	\$927,741
Deferred revenue	\$47,388	\$ 3,781	\$51,169
Deferred income taxes	8,412	(366 )	8,046
Other liabilities	514,563	-	514,563