

CSG SYSTEMS INTERNATIONAL INC  
Form 10-Q  
November 09, 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 September 30, 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 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 November 2, 2018: 33,328,416

CSG SYSTEMS INTERNATIONAL, INC.

FORM 10-Q for the Quarter Ended September 30, 2018

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## CSG SYSTEMS INTERNATIONAL, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS - UNAUDITED

(in thousands, except per share amounts)

	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 197,172	\$ 122,243
Short-term investments	2,130	139,117
Total cash, cash equivalents and short-term investments	199,302	261,360
Trade accounts receivable:		
Billed, net of allowance of \$4,182 and \$4,149	246,731	219,531
Unbilled	36,847	31,187
Income taxes receivable	7,452	13,839
Other current assets	38,706	28,349
Total current assets	529,038	554,266
Non-current assets:		
Property and equipment, net of depreciation of \$108,266 and \$123,126	78,265	44,651
Software, net of amortization of \$116,761 and \$108,986	31,953	26,906
Goodwill	210,697	210,080
Client contracts, net of amortization of zero and \$97,109	-	43,626
Acquired client contracts, net of amortization of \$81,286 and zero	39,863	-
Client contract costs, net of amortization of \$37,038 and zero	35,584	-
Deferred income taxes	11,011	14,057
Other assets	10,898	10,948
Total non-current assets	418,271	350,268
Total assets	\$ 947,309	\$ 904,534
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 7,500	\$ 22,500
Client deposits	36,079	31,053
Trade accounts payable	39,054	38,420
Accrued employee compensation	56,578	62,984
Deferred revenue	41,388	41,885
Income taxes payable	448	1,216
Other current liabilities	21,590	24,535
Total current liabilities	202,637	222,593
Non-current liabilities:		
Long-term debt, net of unamortized discounts of \$15,641 and \$18,264	353,109	309,236
Deferred revenue	13,578	12,346
Income taxes payable	2,372	2,415
Deferred income taxes	5,881	4,584
Other non-current liabilities	11,313	10,614
Total non-current liabilities	386,253	339,195
Total liabilities	588,890	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; 33,451 and 33,516 shares outstanding	693	689
Common stock warrants; 439 warrants vested; 1,425 issued	9,082	9,082
Additional paid-in capital	436,412	427,091
Treasury stock, at cost; 34,470 and 34,075 shares	(831,585 )	(814,732 )
Accumulated other comprehensive income (loss):		
Unrealized loss on short-term investments, net of tax	(7 )	(88 )
Cumulative foreign currency translation adjustments	(37,364 )	(28,734 )
Accumulated earnings	781,188	749,438
Total stockholders' equity	358,419	342,746
Total liabilities and stockholders' equity	\$ 947,309	\$ 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		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
<b>Revenues:</b>				
Cloud and related solutions	\$ 186,473	\$ 164,789	\$ 551,390	\$ 481,445
Software and services	14,283	15,726	39,573	46,680
Maintenance	12,299	18,680	36,829	56,253
Total revenues	213,055	199,195	627,792	584,378
Cost of revenues (exclusive of depreciation, shown separately below):				
Cloud and related solutions	95,092	79,856	277,212	233,194
Software and services	8,669	9,725	25,816	31,404
Maintenance	5,291	10,136	16,612	30,487
Total cost of revenues	109,052	99,717	319,640	295,085
Other operating expenses:				
Research and development	31,477	30,324	91,809	85,103
Selling, general and administrative	39,243	35,816	120,515	109,981
Depreciation	4,831	3,344	13,293	9,975
Restructuring and reorganization charges	2,799	1,618	7,028	4,597
Total operating expenses	187,402	170,819	552,285	504,741
Operating income	25,653	28,376	75,507	79,637
Other income (expense):				
Interest expense	(4,456 )	(4,186 )	(13,202 )	(12,638 )
Amortization of original issue discount	(671 )	(634 )	(1,984 )	(2,147 )
Interest and investment income, net	675	800	2,256	2,310
Loss on extinguishment of debt	-	-	(810 )	-
Other, net	(709 )	(970 )	(347 )	(1,123 )
Total other	(5,161 )	(4,990 )	(14,087 )	(13,598 )
Income before income taxes	20,492	23,386	61,420	66,039
Income tax provision	(4,391 )	(8,806 )	(16,188 )	(19,641 )
Net income	\$ 16,101	\$ 14,580	\$ 45,232	\$ 46,398
<b>Weighted-average shares outstanding:</b>				
Basic	32,507	32,561	32,541	32,383
Diluted	32,806	32,901	32,939	32,825
<b>Earnings per common share:</b>				
Basic	\$ 0.50	\$ 0.45	\$ 1.39	\$ 1.43
Diluted	0.49	0.44	1.37	1.41

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		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Net income	\$16,101	\$ 14,580	\$45,232	\$ 46,398
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	(109	)		