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CSGS - Q3 2011 CSG Systems International Inc Earnings Conference Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the CSG Systems third quarter 2011 conference call. At this time, all participants are in a listen-only mode. Following the presentation, there will be a question-and-answer session, and instructions will be given at that time. (Operator Instructions). And as a reminder, this call is being recorded today, November 1, 2011. I would now like to turn the call over to Liz Bauer, Vice President of Investor Relations. Please go ahead.

Liz Bauer - *CSG Systems, Inc. - VP, IR*

Thank you, Craig. And thanks to everyone for joining us. Today's discussion will contain a number of forward-looking statements. These will include, but are not limited to, statements regarding our projected financial results, our ability to meet our clients needs, through our products, services, and performance, and our ability to successfully integrate and manage acquired businesses in order to achieve their strategic operating and financial goals.

While these statements reflect our best current judgment, they are subject to risks and uncertainties that could cause our actual results to differ materially. Please note that these forward-looking statements reflect our opinions only as of the date of this call, and we undertake no obligation to revise or publicly release any revision to these forward-looking statements in light of new or future events.



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In addition to factors noted during this call, more comprehensive discussion of our risk factors can be found in today's press release, as well as our most recently filed 10-K and 10-Q, which are all available on the investor relations section of our website. Also, we will discuss certain financial information that is not prepared in accordance with GAAP. We use this non-GAAP information in our internal analysis in order to exclude significant items that may have a disproportionate effect in a particular period. We believe that isolating the effects of such events enables us, as well as investors, to consistently analyze the critical components of our operating results, and to have meaningful comparisons to our prior periods.

For more information regarding our use of non-GAAP financial measures, we refer you to today's earnings release and the non-GAAP reconciliation tables on our website, which will also be furnished to the SEC on forms 8-K. With me today on the phone are Peter Kalan, our Chief Executive Officer and Randy Wiese, our Chief Financial Officer. With that, I'd like to now turn the call over to Peter.

Peter Kalan - *CSG Systems, Inc. - President and CEO*

Thank you, Liz, and thanks to everyone for joining us on the call. For the third quarter of 2011, we generated revenues of \$183 million and non-GAAP earnings per share of \$0.58, both of which are an improvement over our second-quarter results. We're making progress as we continue the transformation of our Company to a global leader in business enabling solutions. This transformation has included more than just acquiring an international software and services Company and functionally aligning the two Companies.

It has involved looking at our combined value proposition, and identifying new ways to leverage and expand our products and domain expertise. This investment in time, in our products, and in our delivery models will ensure that we are the Company that providers rely on to help them successfully execute on their business strategies. We're early on in this process, but believe the investments we're making will result in even stronger relationships with the leading communications service providers in the world. Our clients have been very receptive to the actions we've taken, and this quarter, we have had some early successes, which I believe demonstrate that we're making progress.

Before we get to those successes, let me provide you with an update on the business environment, and the specific challenges that we've experienced this year. First, the overall business climate seems to be one of cautiousness. Communications service providers are looking for ways to make do with the systems and solutions that they already have in place, by making smaller incremental changes or additions to their existing operations. The sales process is elongated as a result of companies taking extra steps to mitigate any risk associated with changes to their existing operations. In addition, budgets for many of our clients have been re-allocated from those focused on the customer experience to those focused on addressing new competitive threats. As a result, we see decisions on the large transformational billing systems in our pipeline continue to be delayed.

Importantly, we've not lost these deals to competitors, nor have the project been shelved. These are opportunities to replace legacy systems, which will provide near-term stability and position these companies for their future business needs. We continue to actively work these billing opportunities, and are still optimistic that they will come to fruition. These deals have progressed far enough along in the sales cycle, that we continue to believe that when the decisions are made to move forward, CSG will be the billing partner for these companies.

Second, our Asia-Pacific sales team continues the rebuilding process that was started last March. We believe that we have a solid team assembled to pursue new business, while at the same time continuing to get broader and deeper into our existing clients operations. While this rebuilding will take some time, we believe that we've taken the right steps to deliver improved results by next year. In addition, the economic instability of the European Union, coupled with the geopolitical changes in the Middle East and Africa, continue to dampen the opportunities that we have in this region. We have a solid group of clients, but the instability is slowing decisions.

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And finally, clients continue to watch their bottom lines to ensure that they're spending their dollars in the most effective manner. This has resulted in a slowdown in spending on discretionary items, like marketing and print-related services. Near term, we're not seeing signs that this spend will return to the spending that we've seen in previous years.

Next, let me share with you some activities that demonstrate the progress we're making towards our long-term goals. When we announced the Intec acquisition last year, we said that there were three reasons that we felt that this acquisition would strengthen our position in the marketplace. The acquisition would expand our capabilities and enable us to better service our existing clients. It would provide us with additional domain expertise in the wireless and prepaid markets, along with expanded delivery models, which are valued by our clients. And finally, it would introduce us to new geographies and verticals that would provide us with an opportunity for us to leverage our R&D investments and products.

Last quarter, we had our first cross sell of the CSG solution into an existing Intec customer. This quarter we had our first sales of an Intec solution into two major CSG customers. Let me provide some additional details surrounding each of these wins. First, we sold our Interactivate solution to Dish Network to help them more seamlessly package price, and market additional services that are provided through orders, like high-speed data to consumers that are provided through Dish partners.

This is an example of helping a client with a scalable and leverageable solution to extend their product offering and improve the efficiency in customer service. With Interactivate, our clients like Dish Network can identify what products and services are available to their subscribers and turn those services on in real-time, with customers having all their support and maintenance handled by one company, Dish Network. Additionally, they'll have one bill for their communications products and services, resulting in a more simplified customer experience.

In addition this quarter, Comcast started using our Interactivate product to manage real-time communications with their customers. This offering is aimed at improving the customers' understanding of their first bill, and reducing the number of calls that come into a call center by providing a preview of new customers' first bill prior to arrival.

If you remember when you signed up for cable or telephone services, there's a number of charges on your first bill that include many prorated and service charges. Well, when many consumers get that first bill, which could be up to 45 days later, they've forgotten that these charges are included and they call the provider to get clarification. And as a result, providers see an increase in call volumes as a result of new orders.

With Interactivate, servicing as a real-time messaging broker, an e-mail is sent to the new Comcast customer with an exact replica of their bill showing all charges that will be on their first statement, including all of the one-time charges related to installation, taxes, and equipment fees, so that the customer can visually see what the customer service rep reviewed with them when they placed their order, thereby eliminating any sticker shock or confusion, and reducing the number of calls that come into the call center.

Though we're less than a year into our acquisition of Intec, we've integrated products into our solutions aimed at helping our cable and satellite customers compete more effectively. These examples demonstrate how this acquisition will add to our capabilities and expertise, allowing us to get deeper and more embedded with our clients.

On the international front, our clients continue to turn to us to help them grow their revenues and their businesses. While the macroeconomic environment is somewhat difficult, we continue to strengthen our relationships with our clients and identify new ways to help them solve their problems. We just held our EMEA client conference last month, and the turnout was fantastic. While each client may be facing different challenges or competitive threats in their businesses, one message came through loud and clear. They told me time and time again that they liked doing business with us and they trust us. When I met with many of them, I walked away with the confidence that the investments that we're making are the right ones to help our clients be successful over the long term.

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As we've discussed in the past, our clients' businesses are evolving and changing at an accelerated pace. The lines of distinction between cable, wireless, and traditional wireline provider have not only blurred, they're nonexistent in many cases. Simplifying and standardizing the customer experience is important.

Ensuring that the consumer has access to the content that they want, anywhere, at anytime, is important. Managing partner relationships is important, as is personalizing the products and services. All these activities bode well for CSG. We enable our clients to leverage their existing networks and infrastructure and generate new revenues by rolling out new products. And we have an extensive suite of products that enable our clients to standardize and simplify the customer experience.

Finally, before turning it over to Randy to review our financial results for the quarter, I'd like to reiterate what actions we're taking that we believe will drive long-term results. First, we continue to invest in our relationships with our clients so that we can become an even more integral part of their operations and teams. Our clients trust us and look to us to help them solve problems and be more competitive. Second, we'll continue to add to our deep domain expertise and product sets.

We have a proven history of adding to our capabilities, and as a result, getting broader and deeper in our clients' operations. This is an enviable position, and results in establishing long-term results with our clients. Third, we'll continue to leverage our strong operational experience to benefit our clients, our employees, and our shareholders. By continually identifying new ways to improve the efficiency and effectiveness of our own solutions, we're able to not only positively impact the bottom line of our clients, but also our own Company.

And finally, we'll continually invest in our people so that we can continue to differentiate ourselves through our combination of people and products. We believe that people solve problems. People create opportunities, and people drive success. And it doesn't matter if you're a content provider in Europe, a cable operator in North America, or a mobile operator in APAC. We've been told that the key strength and differentiator is our people. Our clients' worlds are changing, and we're committed to ensuring that we have the people with the right skills to help our clients successfully navigate the changing landscape.

While we're not to end of job on the transformation of our Company, I'm pleased with the progress we're making. As I said earlier, we have a lot of work ahead of us as we transform the Company from a North American focused partner to a global leader in providing business enabling solutions. I'd like to thank our employees for their hard work and commitment to our united cause, and thank our shareholders for the interest in our Company. Now I'd like to turn it over to Randy to go through our financial performance for this quarter.

Randy Wiese - *CSG Systems, Inc. - EVP and CFO*

Thank you, Peter. Welcome to all of you on the call today to discuss our financial results for the third quarter and our guidance for the remainder of the year. Overall, our results were in line with our expectations for the quarter. I will now walk you through our financial results in more detail. Total revenues for the quarter were \$183 million, up 37% over the same quarter last year, with the increase attributed to Intec Telecom being included in this year's results. Sequentially, total revenues were up slightly from the second quarter.

For more color around our revenue base, I'd like to share with you breakdowns by material customers, geography, and delivery model. This quarter, we had three material clients that each individually generated revenues over 10% of our total revenues, Comcast, Dish Network, and Time-Warner. Together, they were 42% of our revenues in the quarter, as compared to having four material clients accounting for 67% of our revenues in the third quarter of last year. For the quarter, we generated 10% of revenues from the Europe, Middle East, and Africa region and 5% of our revenues from the Asia-Pacific region, compared to none from these regions in the same period last year. We generated 28% of our revenues from software and related services in the quarter, as compared to 7% during the third quarter of 2010.

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As observed in our results this year, we now have a more diversified revenue base as a global software and services provider. While our new business profile has introduced some variability in our quarterly revenues, we believe that this diversification provides us with additional opportunities for future growth with a broader customer base and expanded product portfolio.

Our non-GAAP operating income for the quarter was \$33 million, which compares to \$31 million in the same period last year, an increase of 7%. Our third quarter non-GAAP operating income was comparable to that of the second quarter. Our non-GAAP operating margin was 18% for the current quarter, compared to a 23% margin for the third quarter of 2010. This margin percentage is consistent with our current expectation of operating at the low end of our long-term target range of 18% to 20%, as we transform CSG to a global products and services organization. GAAP operating income for the quarter was \$23 million, or a margin of 12.5%.

For the third quarter, our adjusted EBITDA increased to \$44 million, or 24% of our total revenue. This represents an 11% growth over the same period last year. Non-GAAP EPS for the third quarter was \$0.58, which compares to \$0.59 for the third quarter of last year. For the quarter, foreign currency transaction gains contributed \$0.04 per share. Year-to-date, foreign currency transaction gains added just \$0.02 per share. Our estimated non-GAAP effective income tax rate was 39% for the quarter, consistent with our expectations. GAAP EPS for the third quarter was \$0.32.

And now onto our cash flows and balance sheet. Our cash flows from operations for the quarter were approximately \$30 million, which includes the expected negative impact of a one-time \$4 million payment for deferred income taxes that was triggered upon the retirement of our 2004 convertible debt balance this year. We will pay the remaining \$2 million in deferred taxes related to this matter in the fourth quarter. These results are consistent with our expectation for operating cash flows to return to normalized levels during the second half of this year. We view our cash generation capability continuing as a strong metric of our business model going forward.

We ended the third quarter with a cash balance of \$139 million, which is up slightly from the ending balance from last quarter. During the quarter, we repurchased approximately 578,000 shares of our common stock for approximately \$8 million. Our weighted average price is \$13.25 per share. For 2011 through the end of the third quarter, we lowered our debt position by \$68 million, and directed over \$19 million to capital expenditures. We ended the quarter with \$343 million in debt on our balance sheet. Based on our solid financial position and our history of being strong operators, we are very comfortable with the level of debt that we have on the balance sheet and the flexibility our capital structure provides us to manage and grow the business going forward.

Moving on to our guidance. Overall, we are maintaining our financial guidance for the full-year 2011, reflective of the revisions that we provided to you last quarter. Our 2011 revenue guidance remains at \$730 million to \$750 million. Based on our third-quarter performance and the shorter runway for deals to close by year end, it is more likely we will come in towards the lower end of this range. We're also maintaining our non-GAAP operating margin guidance of 18% for 2011. We continue to anticipate adjusted EBITDA will be in the range of \$172 million to \$176 million, or 24% of expected total revenues, which represents growth of approximately 10% over our 2010 adjusted EBITDA performance.

We are maintaining our guidance for non-GAAP EPS to fall between \$2.08 and \$2.18. This non-GAAP EPS guidance continues to reflect an estimated effective income tax rate of approximately 39% for the full year 2011. We continue to expect that we will generate approximately \$65 million in operating cash flows for 2011, and incur capital expenditures of approximately \$25 million.

Finally, note that our 2011 guidance does not anticipate any significant impact from foreign currency fluctuations, since we generate approximately 80% of our revenues in US dollars, and because of the difficulty in predicting foreign currency rates for the remainder of our business. We do have a portion of our foreign revenues and expenses in a natural hedge position, but we are still subject to foreign currency fluctuations in certain areas.



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To summarize, we believe this was a solid quarter for the Company. We returned to a more normalized operating cash flow for the Company, and demonstrated strong expense discipline in these challenging times. We have a solid business model and a strong capital structure that provides us with the financial strength to undertake our Company's transformation. We remain excited about our business and our long-term opportunities. With that, I'll open it up to the operator so that we can take any questions.

QUESTIONS AND ANSWERS

Operator

Thank you very much. Ladies and gentlemen, at this time we will begin the question-and-answer session. (Operator Instructions). And our first question does come from the line of Suhail Chandy with Wedbush Securities.

Suhail Chandy - Wedbush Securities - Analyst

Thanks. This is Suhail sitting in for Scott. Two questions if I may, the last transformational deals that are waiting in the wings, could you possibly give us some color on likely timing? Would it be first-half 2012 or maybe second half 2012? That would be really helpful.

Peter Kalan - CSG Systems, Inc. - President and CEO

Well, Suhail, this is Peter. I'm not in a position to give you an idea of timing because these are in our clients hands. We do feel comfortable that there is a need that our solutions are the solutions that are best fit to solve the needs of our clients. And once they're through their -- finalizing their evaluation and decisioning stage, we think we'll be the vendor of choice and then can start the projects. But until those steps happen, it's impossible to try to prognosticate when those will happen.

Suhail Chandy - Wedbush Securities - Analyst

Thanks, Peter. And one other question would be, given that now you have some cross-selling wins under the belt, the transformation with Intec appears to be progressing at a steady pace. Do you think that as an integrated entity, how would you measure the progress? 90% done, or a little more to go?

Peter Kalan - CSG Systems, Inc. - President and CEO

Well, Suhail, I think there's several aspects to consider on this. One is we spent -- if I was to gauge it, the first six months to nine months bringing the organizations together and functionally aligning them. And within that, we had to rebuild the sales organization in Asia-Pacific, which was more work than we had originally anticipated, so we think we've gotten at least organizationally, the foundational pieces in place.

But the real work and value that has to take place is how you bring solutions together so that they work together and solve the problems in our client. And those are much longer process, it's a much longer evolution, both in how you deliver products to clients as well as the technology that's deployed. But what we've seen is, through the strength of our people, great opportunities to get some quick hits like we did with Interactivate, like we did with our communication services, to [credo] last quarter. So we've had some quick hits, but I think the real value is when you make a real difference in a client's -- in their business and bring more value, and that takes longer. So I think we're -- we've still got a lot of work to do there.



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Suhail Chandy - *Wedbush Securities - Analyst*

Great. Thanks. I'll go back into queue now.

Peter Kalan - *CSG Systems, Inc. - President and CEO*

Thanks.

Operator

And our next question does come from line of Daniel Meron with RBC Capital Markets.

Daniel Meron - *RBC Capital Markets - Analyst*

Hey, Peter, Randy. Good to see that the execution is back on track here. Can you give us a sense on, first of all, a little bit more color on the geographic dynamic? Do you see more openness from your customers, or just in marketplace to have CSG included in more bids than Intec had beforehand, for example? And then what dynamics do you see in Europe, more specifically, as far as the business. I might have missed it earlier on the call? Thank you.

Peter Kalan - *CSG Systems, Inc. - President and CEO*

Sure. Well, first of all, on the willingness to include CSG and engage on their inquiries and their RFPs and such, I can tell you between my recent visits in Europe as well as my recent visits with executives with both prospects and existing clients in North America, the response has been positive. They think that the combination of the Intec assets and people with the -- CSG's people and our financial strength is a great positive, and it puts us long-term in a better position to win.

The clients have commented to me that they like that the culture of CSG and the way that we do business with clients is consistent with what they were seeing with the business that they've done with Intec, so that's a positive. Because they don't expect that they're going to see a shift from how they been supported, so there is a continuity on that, coupled with our financial strength and broader investments into R&D, that's a positive.

So net-net, we have seen clients embrace us, with the opportunities to engage more with them on solutions. Those are long processes, but we are clearly getting the opportunity to see more things with our clients, and with prospect as well, than either Company independently did on their own. So that's a positive.

On EMEA, we continue to see a cautiousness in EMEA, whether it's because of the EU, whether it's because of the challenges in the Middle East and the geo-political instability in areas there that have been a decent marketplace for us. We're just seeing cautiousness in there that we want to make sure that we're doing the right things for clients, but we're seeing them delay some of their decisions and not be as progressive as we had hoped they would be. So that's having some impact on the way that we're seeing business unfold.

Daniel Meron - *RBC Capital Markets - Analyst*

Okay. That's helpful. And then just the last one for me before I yield the floor, as we think into next year, is there a way to think about core growth in cable versus what you expect out of Intec or out of the various regions? Is that the right way to look at it? If you can give us some qualitative thoughts on that, that would be helpful. Thank you.

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Peter Kalan - *CSG Systems, Inc. - President and CEO*

Well, Daniel, I think there's a lot of things that will impact what the opportunities and the growth potential is for us in the coming years. And it's not fair to look at them individually or even in total right now, because there's a lot of moving parts between how APAC advances for us, or how EMEA, from a economic factor unfolds, the timing of our transformational deals, when those happen, as well as the behavior of our cable clients. So I think it's too early. We'll be -- when we come back to you in February, we'll be able to give you some outlook at that point, but we're going to hold on that right now.

Daniel Meron - *RBC Capital Markets - Analyst*

Okay. Thank you very much. Good luck. Bye, Peter.

Operator

And our next question does come from the line of Howard Smith with First Analysis.

Howard Smith - *First Analysis Securities - Analyst*

Yes, good afternoon. Hi. I echo, it's nice to see you predictably on plan again. Two questions for you related to some comments you made in your opening remarks. The first, on the slowdown and discretionary spending among your traditional customer base, that's something you've referenced in the past. Are you seeing a further weakening given the macro environment during the third quarter, or is it just not returning?

Peter Kalan - *CSG Systems, Inc. - President and CEO*

Howard, that's a good clarification question. In fact, every question we get is a good question, I should say. But that clarification -- it's not a further deterioration. We're just not seeing a return. So we had always historically seen decent growth out of those five items; we're just not seeing a return of growth on those areas, and it has impacted where -- it's going to take us awhile to get back to some of those previous level that we had hoped to have.

Howard Smith - *First Analysis Securities - Analyst*

Okay. And then the other question I had is dealing with your comments about reallocating budget to competitive threats versus some customer facing initiatives, perhaps you could amplify or give theoretical examples of what you're referring to there?

Peter Kalan - *CSG Systems, Inc. - President and CEO*

Well, clearly there is more competition for subscribers, especially in North America these days. You see there is still a heavy dose on what I'll call the overbuilders, or the people that have put in new plants, that periodically try to get aggressive, and that's causing our clients to say, how do they reduce churn and hold clients, versus how do they elevate customer service?

Now, they sometimes go arm in arm, but clients are having to also compete with new threats of over-the-top. And those, potentially could be having some nominal impacts to our clients, such that they have to focus on how to expand the reach of their offerings? How do they make their content available on new devices? How do they make it available across not only their own pipe, but other people's pipes? And all those things are causing some shift in where our clients are having to spend money. And as a consumer of products from a cable client today, I can tell you that what I get presented with is chances to upgrade bandwidth and faster speeds. I get chances to consume content in new ways, and those are all positive things to the consumer



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side, but they're not driving the customer care and billing needs that we have, because these are value-added options that they're providing to consumers. So that might be the best way to think about those, Howard.

Howard Smith - *First Analysis Securities - Analyst*

Okay. Thank you very much.

Peter Kalan - *CSG Systems, Inc. - President and CEO*

You're welcome.

Operator

And our next question does come from the line of Ashwin Shirvaikar with Citigroup.

Phil Stiller - *Analyst*

Hi guys, this is Phil Stiller sitting in for Ashwin. I was wondering if you could provide an update on the implementation of the Dish transition to the new platform?

Peter Kalan - *CSG Systems, Inc. - President and CEO*

We are projected to be completed with that by mid-year 2012. We are still on pace, and so we have good confidence that we're going to be successful on that.

Phil Stiller - *Analyst*

Is there an update on the timeline where you may expect additional revenue from that transition?

Peter Kalan - *CSG Systems, Inc. - President and CEO*

Well, the additional revenue is not a function of moving to ACP from a contract perspective. It's what we're able to go out and sell to them incrementally, as they expand their business and as they're on the new platform. So once they're on the new platform, then we'll have the ability to upsell them new services. But importantly, one of the things that we shared on this call was that we did bring a new solution that's independent of ACP, and that was Interactivate, to help them as they bring some of their partner offerings to market and streamline their operations and streamline the way that they package and service those to the end consumer. So we've had some success on that. That was, we think, a very positive win, not only in adding more services to them, but bringing something brand-new to us that we didn't have nine months ago, before the Intec acquisition.

But the other pieces, you'll look to see are going to be assets that had been built to be deployed as an extension of ACP. Those opportunities will raise themselves after they've migrated to ACP, and that's going to be, we expect, as I said, by mid-year next year.



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Phil Stiller - - Analyst

Okay. That's helpful. The gross margin was a little light of our expectations. It's been down sequentially the last couple of quarters. Can you give us some color on what's going on there?

Randy Wiese - CSG Systems, Inc. - EVP and CFO

There's nothing specific going on. I think is relatively flat, and it's around 50% the last four quarters in a row, so there's nothing unusual going on there.

Phil Stiller - - Analyst

Okay. And what was the other income? As reported --

Randy Wiese - CSG Systems, Inc. - EVP and CFO

Other income -- yes, the other income item that I referenced in my comments was we had a foreign currency transaction gain of about \$0.04, about \$2 million. And that was really the strengthening of the dollar, right before the balance sheet, September 30 balance sheet date. The first six months of the year, we had a loss of about \$1 million, so the net gain for the year is about \$1 million. So it's pretty insignificant for the year. Okay. Great. Thanks, guys.

Operator

And our next question does come from the line of Tom Roderick with Stifel Nicholas.

Tom Roderick - Stifel Nicolaus - Analyst

Hi, guys. Good afternoon. So I apologize, I probably will end up asking a question that's already been hit. I had to jump on late. But let me start with going back to the question on Intec, and I know there were a handful of deals that we were challenged early on in the year to get done. But it sounds to me like the broader environment still remains a little challenging. I guess I'm more interested in what you've managed to do on the execution front with respect to any improvements in various personnel, different regions that you've made some changes at? What success have you had on the execution front in making some organizational changes? And when do you expect to see some of the positive impacts of that?

Peter Kalan - CSG Systems, Inc. - President and CEO

Well, Tom, the most significant changes that we've had were in APAC. We rebuilt the leadership there; we put a new person in to the organization, as well as rebuild the sales and marketing team, and we're near completion on that. I think we've got the vast majority, if not all the key people that we wanted in place, and they're starting to build the relationships and build the network of opportunities for us. So we're in the -- I think coming out of the gate now, for that. But those take a while. Once we identified that we had a challenge there, we've been cautious of how fast we think that's going to rebound for us. But we think we're in a position to start reaping some benefits as we go through 2012.

On the broad basis, we've been extremely pleased with the Intec team. We do not think the delay on the transformational projects are a reflection of our talent or our assets. They're a reflection of what is the issues going on in the marketplace, some of the cautiousness and the anxiousness in the market, whether it's economic or operational disruption that people don't want to face right now. But I've met with several of the executives who are associated with these large transformational deals, and I

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can tell you that they're real opportunities. They are -- we are positively positioned, and as they move forward with their decisions, I think we're in a good position for us to win our fair share of these opportunities.

Tom Roderick - *Stifel Nicolaus - Analyst*

As you look at -- let me shift over to financial question, Randy, do you. As you look at the pace of investments you're making, we've now seen the margins bounce up off this 18% level, just by a little bit,, but you're executing nicely on the margin front, as you stabilized the business, post Intec. Is this the right level to think about for the next five or six quarters. Is there a need to still ramp the investments across the business, such that 18% might not be the floor? I'm just curious how you think about margins for the midterm.

Randy Wiese - *CSG Systems, Inc. - EVP and CFO*

Yes, I think, Tom, we set out our long-term goal of 18% to 20% as the target we're looking to achieve over long periods of time. We're willing to go below that for a period of time if the investments are right. And sometimes, we will operate above that, so I think the range of 18% to 20% feels good. Right now, we're at the bottom end of the range, because it's very reflective of the transformation of the Company. Our ability to bring that up from 18%, really is how successful we are on the revenue side. How much more revenue can we get? How much more leverage can we get on our sales staff? How much more leverage can we get on the R&D? That's a key factor. And also, the investment pace. We're always looking for ways to get closer to our clients, so we'll be very in tune to making the right investments going forward. I still say with the 18% to 20%, and at times we will be below, and sometimes we will be above that.

Tom Roderick - *Stifel Nicolaus - Analyst*

Okay. Great. Last question for me, we've heard a lot from you, more recently about the Content Direct product. I'm curious if you've got any update or feedback as far as new adoption of Content Direct or new interest from customers out there?

Peter Kalan - *CSG Systems, Inc. - President and CEO*

Tom, I'll take that one. We've continued to see progress and wins. There's -- I think if you look at the major studios, that we have similar to what we announced last time with Paramount, we're doing work with probably half of the major studios that are out there. And some of them, we've got work that we're doing that we can't announce at this point. But we're clearly seeing movement and embracing of what we're doing for content owners who want to go direct to consumers with new distribution models and in parallel, in concert with what they're doing with traditional aggregators and traditional cable and satellite providers. So we think we've got a good asset. We're just needing to see how this market really plays out. And it clearly in an interesting state of evolution right now.

Tom Roderick - *Stifel Nicolaus - Analyst*

That's great. Thanks for the detail. Nice job on the quarter, guys.

Peter Kalan - *CSG Systems, Inc. - President and CEO*

Thank you.

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Operator

And our next question does come from line of Lauren Choi with JPMorgan.

Lauren Choi - *JPMorgan - Analyst*

Hi guys, this is Lauren for Sterling Auty. First question just around the transmission of deals, can you talk about maybe what geographies these are from, and is it a few, or are they a large number? Also wanted to understand where in the pipeline these are. Are these imminent things that you expect to close, but again, pushed out or are they more long-term? And then as a follow-up, just in terms of gross margins -- not gross margins, overall margins for 2012, how do you think about upfront investments for these? Why now to invest in these? And in terms of just the balance between investments and opportunities?

Peter Kalan - *CSG Systems, Inc. - President and CEO*

Well, Lauren, I'll take the first piece around the transformational state of these and where they reside, and how we look at them from our opportunities. And I'll let Randy talk about the economic dynamics of investment and such. These are in multiple regions around the world. There's opportunities in the Americas; there's opportunities in EMEA, and there's opportunities in APAC. The numbers are where I can keep track of them all, between my hands and my toes, but -- so they are numerous, but they are not where they're just absolute incredible numbers out there. It is a state of where the economy is and where people are in their systems, but it's not just a few opportunities.

The dynamics of where they are in the sales opportunities and the pipelines, clearly, by us thinking that these were going to close earlier this year and then being pushed out would suggest that we're in a very good state, at least from traditional pipeline management of where they sit. And when I say that, is when clients start telling you that you are the vendor of choice, or you have made the cut down to a very small number. That usually relates to a fairly high -- a higher positioning in the pipeline management side. So we feel like these are very strong opportunities.

But I can't relate that to the imminent timing of when it's going to happen, because some of our clients have slowed their decision making. So you can almost separate timing versus where probability is, because probability is the opportunity to win versus the timing of when that's going to happen. And right now, we feel good about the probability; we just need the timing to come to us. Randy, on the other piece?

Randy Wiese - *CSG Systems, Inc. - EVP and CFO*

On the operating margins, to follow on to the last question is our ability on the operating margins, it either expands or it goes down or goes up, is really around, it's really too fast; that's the way I look at it. One is on the revenue opportunities, and really the investment pace we want to make for long-term returns. And as I said earlier, our target is 18% to 20%. We're at the low end of the range right now because we're in an investment mode, we're in a transformation mode. Whether or not we can expand that going forward really depends upon our ability to grow the revenues and what the investment opportunities are.

So we can't really give you much insight as to 2012. We'll do that as Peter mentioned, in February, but we like where we're at. We've got the best-in-class margins, and we will also show that we will invest in the long-term benefits of this Company.

Peter Kalan - *CSG Systems, Inc. - President and CEO*

Lauren, this Peter again. Was your question on margins also about whether or not there are unique investments that we have to make on any one transformational deal in itself, and whether it has an impact either way?

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Lauren Choi - JPMorgan - Analyst

Right.

Randy Wiese - CSG Systems, Inc. - EVP and CFO

I'm sorry, I missed that. So, these transformational deals will not require specific investment. They're primarily software and very professional services related and the professional services staff, we have on staff. So there is no specific investment we have to make. There's no capital expenditures that go along with this. Sorry, I misinterpreted question.

Lauren Choi - JPMorgan - Analyst

No problem.

Peter Kalan - CSG Systems, Inc. - President and CEO

And the pursuit of these opportunities are being done with normal resources within the Company, and so we haven't had to do anything to elevate our pursuit of these. And so, we think these have a very good returns for us for just the normal investment of what these efforts would be.

Lauren Choi - JPMorgan - Analyst

Okay. And just last question, so EMEA, obviously a macro issue there. Are there any, I guess, execution things that you can do despite -- you said that the Intec team is doing pretty well. That could change some things there, or it's pretty much macro in EMEA?

Peter Kalan - CSG Systems, Inc. - President and CEO

Well, you always have different deals that you can maybe try to do in new and creative ways on the execution side. But on the broader basis, I would say EMEA is going to have some impact from the geographic economic issues that can't overall be modified from execution. But there may be some tactical things we can do on certain opportunities that we're pursuing to see if we can get those to be moved in a different direction. And those are what you have creative sales teams and services teams trying to solve.

And I will say that, again, I met with the folks and our EMEA client conference, the tone and the sense of relationships with our existing clients, and even some of the prospects that were there, and our partners that were there, were about, they were positive tones. And those positive tones are what you can build off of, for what you're trying to solve for people. And so if there's ways for getting a deal done and getting them to elevate and move on to a decision, I'm sure we'll find some way to get that done.

Lauren Choi - JPMorgan - Analyst

Okay. Great. Sorry, I have one other one. So you sold the Intec product to Dish and Comcast. I was curious, are there other things at Intec that you can also cross sell into Dish and some of your domestic players?



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Peter Kalan - *CSG Systems, Inc. - President and CEO*

I absolutely believe there are. These were the intermediate -- or Interactivate asset that we sold in both of these. And when I think about the partner settlement engine, we'll look for opportunities to bring those to market. The single-view engine, the ability to bring some of the charging and prepay capabilities that single view has, and bring that to our clients and bring that on an integrated fashion are things that we could do.

It just cascades, as I think about sitting with a client and identifying what their problem is, and then working with them jointly to figure out if we have the solution set. And that's how that worked with Dish. It was Dish that started out as they had a problem, and we said, let us think about in concert with you how we can solve it and what we have a new asset. We saw an opportunity and were able to exploit that. And that's where you get a pretty interesting dynamic with the client, and it really builds upon the trust that we've built and the close proximity of relationships with our clients.

Lauren Choi - *JPMorgan - Analyst*

Okay. Great. Thank you.

Operator

And our next question does come from the line of Dorothy Gardner with Kelso Management.

Dorothy Gardner - *Kelso Management - Analyst*

Thank you for taking my question. Two questions, one is, prior to the Intertec acquisition, you had discussed going on a new software platform, and to lower your cost overall. Is that finished? Has the transition been made, or you're still working on it, or where are you on that?

The second question is, on the Microsoft IPTV, how does that fit into your customer base? Is that -- do you deal with somebody? Is this a new person you deal with, or with some of your old customers, or what's the connection there?

Peter Kalan - *CSG Systems, Inc. - President and CEO*

Well, let me make sure for the first question you asked about the benefits of moving to a new software platform. There's only two things that we've announced over the last two years that we were doing. One was we moved to a new data center. And that was not a software environment; that was a hardware environment that we moved to a new partner on that. The full benefits of that are now on our run rate, correct, Randy?

Randy Wiese - *CSG Systems, Inc. - EVP and CFO*

Correct.

Peter Kalan - *CSG Systems, Inc. - President and CEO*

And the costs of making that effort have been fully expensed in prior periods. That one's done. The second piece is, as we were just talking about on one of the previous questions, Dish Network, at the beginning of this year, is committed to migrate off of one platform, the standalone solution that they were using from us, to our common platform of ACP. So that is a function of just bringing them to the common platform that everybody else is on. And that one, as I mentioned, is proceeding through mid-year 2012, and that's when we anticipate having them over on that platform.



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As it relates to Microsoft IPTV, that's a platform for clients to be able to present content to the consumer in their households, or on different devices. Through our clients, some of them are looking to possibly bring the IPTV platform onto their networks, similar to what some of the telcos have built their operating environments off of. And that is something that we don't have to work specifically with, because that's within our clients networks. But from the content direct side, where we really provide content over the top, to consumers on behalf of content owners, any device that is separate from the cable networks, whether it's one of the gaming environments, or whether it's a new device that comes out to the consumer that has the IPTV solution set on it, then that might be a way for our solutions to present that content to those devices. Our content direct people have a working relationship with Microsoft, as we do on other parts of our business, on tool sets and assets that we use for Microsoft. So we do have inter-relationships with that, but it's nothing that's a strategic piece that we're pursuing by itself.

Dorothy Gardner - *Kelso Management - Analyst*

Is the Microsoft platform competitive with you? Does it go around you? Do you see it as a threat to your business?

Peter Kalan - *CSG Systems, Inc. - President and CEO*

No. It's a way to have consumers receive content. Our content direct platform is -- can facilitate the content management and the content monetization to the consumer and present it to an IPTV device. So at this point, we don't view that as an overarching competitive issue, nor would what Microsoft is trying to do with the cable operator.

Dorothy Gardner - *Kelso Management - Analyst*

Okay. Thank you.

Operator

And our next question does come from line of Julio Quinteros with Goldman Sachs.

Gio John - *Goldman Sachs - Analyst*

Hi, this is Geo John on behalf of Julio. Most of my questions have been answered, just wanted a clarification on the 2011 guidance. Based on your commentary that you expect to come towards the lower end of the revenue guidance range, is that because most of your customers have frozen their budgets entering into fourth quarter and awaiting onto the 2012 budget for sets? And what will make revenues come towards the higher end of the range? Would it require an improvement in the macro environment? Thanks.

Peter Kalan - *CSG Systems, Inc. - President and CEO*

Well, I'll go first, and then Randy can talk about some of the other specifics. This is not a macro environment issue. This is a -- these are the progression of specific deals and then the accounting treatment of how those deals get recognized on our books. When you look at our business, we've got a big portion of our business that's processing, so when clients sign up to use a service, we ratably recognize that revenue as the products are delivered and the transaction processing is delivered.

On the software side, the accounting treatment on that also creates a longer-term. Randy, if you want to talk about how we do that, that might be some helpful for Gio John.



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Randy Wiese - *CSG Systems, Inc. - EVP and CFO*

On those cases, it really is, you're right, Peter. It does elongate the revenue recognition because it's on percentage of completion; it's not just not selling the software; it's selling the software and installing it. So it takes multiple periods to recognize the full value of the deal. I think the other thing is when we issued our guidance back in August for the \$730 million to \$750 million, there was essentially five months of runway left for the rest of the year. You can now see how we did in Q3, and there's only two months left of runway, so it's just a matter of the calendar as well. So that's why we think we're coming in closer to the lower end.

Gio John - *Goldman Sachs - Analyst*

Okay. Thank you.

Operator

(Operator Instructions). And at this time, I'm showing no further questions in the queue. I would like to turn the call back over to Peter Kalan for any closing comments.

Peter Kalan - *CSG Systems, Inc. - President and CEO*

Thank you, Craig, and thank you for all those who participated on the call. We continue to be very focused on advancing the Company on a day-to-day basis, as well as what we have to do every quarter, but we've got our eye on the long-term transformation of the Company, and making ourselves a stronger solution set, not only for our clients today, but for the additional clients we want to win over the coming years. So we'll continue to be stalwart. I thank our employees for all that they do, and I thank our investors for their support of us. Bye.

Operator

Thank you. Ladies and gentlemen, this does conclude the conference for today. We do thank you for your participation. You may now disconnect your lines at this time.

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