CSG SYSTEMS INTERNATIONAL INC

FORM 10-K405
(Annual Report (Regulation S-K, item 405))

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Address	9555 MAROON CIRCLE ENGLEWOOD, CO 80112
Telephone	3037962850
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Industry	Computer Services
Sector	Technology
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

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.)

5251 DTC PARKWAY, SUITE 625
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 or any amendment to the Form 10-K. [X]

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 March 14, 1997 was $142,362,744.

Shares of common stock outstanding at March 14, 1997: 25,489,822

DOCUMENTS INCORPORATED BY REFERENCE

PORTIONS OF THE REGISTRANT'S PROXY STATEMENT FOR ITS ANNUAL MEETING OF STOCKHOLDERS TO BE FILED ON OR PRIOR TO APRIL 30, 1997, ARE INCORPORATED BY REFERENCE INTO PART III OF THE FORM 10-K.

CSG SYSTEMS INTERNATIONAL, INC.

1996 FORM 10-K

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ITEM 1. BUSINESS

GENERAL

CSG Systems International, Inc. (the Company or CSG) was formed in October 1994 and acquired all of the outstanding capital stock of Cable Services Group, Inc. from First Data Corporation (FDC) on November 30, 1994 (the Acquisition). The Company did not have any substantive operations from inception (October 17, 1994) through the Acquisition. Subsequent to the Acquisition, Cable Services Group, Inc.'s name was changed to CSG Systems, Inc. (CSG Systems). From its inception in 1982 until the Acquisition, CSG Systems was a division or subsidiary of FDC. On June 28, 1996, the Company acquired all of the outstanding shares of Bytel Limited (Bytel). Bytel is a United Kingdom company which provides customer management software and related services to the cable and telecommunications industries in the United Kingdom. The Company's financial statements and financial information included herein include Bytel's results of operations since the acquisition date. References in this Item 1 to the Company include CSG Systems and Bytel through which the Company conducts its operations.

The Company's principal executive offices are located at 5251 DTC Parkway, Suite 625, Englewood, Colorado 80111, and the telephone number at that address is (303) 796-2850. The Company's common stock is traded over the counter on the National Market under the NASDAQ symbol "CSGS".

COMPANY OVERVIEW

The Company provides customer management solutions for the converging communications markets. These markets include the cable television, direct broadcast satellite (DBS), telecommunications, and on-line services industries. The Company offers its clients a full range of processing, software, and professional services which automate customer management functions, including billing, sales support, order processing, invoice calculation and production, management reporting, and customer analysis for target marketing.

The Company's business is concentrated in the U.S. within the cable television, DBS, and on-line services industries. During 1996, the Company derived 76.6% of its revenues from companies in the U.S. cable television industry, including six of the ten largest service providers. The Company's U.S. clients also include four Regional Bell Operating Companies (RBOCs), two DBS service providers, and an on-line services company. At December 31, 1996, the Company was servicing client sites having an aggregate of 19.2 million customers in the U.S., compared to 18.0 million customers serviced as of December 31, 1995. The Company generated revenue of $132.3 million in 1996 compared to $96.4 million in 1995, an increase of 37.2%.

During 1996, the Company expanded its operations internationally, primarily through its acquisition of Bytel. Bytel was established in 1992 and, as one of the leading providers of customer care services in the United Kingdom, Bytel provides customer management solutions to business and residential telephony and cable television providers serving a total of approximately 850,000 customers, 65% of whom receive multiple services. During 1996, the Company generated 8% of its total revenues from international sources.

CUSTOMER MANAGEMENT SYSTEMS

Convergence and growing competition are increasing the complexity and cost of managing the interaction between communications service providers and their customers. Customer management systems are software-based processing systems which coordinate all aspects of the customer's interaction with a service provider, from initial setup and provisioning, to service activity monitoring, through billing and accounts receivable management. These systems have evolved differently within various segments of the converging markets.

The majority of cable television, DBS, and wireless service providers have elected to outsource billing, customer management, and related functions because of the significant level of technological expertise and capital resources required to develop and implement such systems successfully. The growing complexity of communication services, the manner in which they are packaged and priced, and the increasing regionalization of customer management support has led service providers to demand enhanced flexibility and functionality from their customer management systems. Service providers want open systems-based customer management solutions which will integrate with their corporate management information systems, thus enabling service providers to use data generated from customer interaction for operational and other strategic purposes such as marketing and sales.

THE CSG SOLUTION

The Company's primary processing product, Communications Control System (CCS(TM)), delivers a complete set of customer service functions, ranging from sales support, order processing, scheduling, inventory control, trouble calls, and communications with the headend, through invoice calculation and production to management reporting, as well as the customer information necessary for target marketing. The Company has developed and is developing new software products and services to enhance the functionality of its current products and to offer new customer management solutions to its clients to meet the needs of the converging communications markets.

CSG SERVICES AND PRODUCTS

The Company has three main business lines serving the converging communications markets: processing and related services (offered in a service bureau environment); software products; and professional services.

Processing and Related Services

Processing fees are typically billed based on the number of a client's customers serviced; ancillary services are typically billed on a per transaction basis; and customized print and mail services are billed on a usage basis. Typically, the Company signs multi-year processing contracts with its clients which include provisions for annual price increases. The Company's primary processing and related services products are as follows:

CCS and Related Products. CCS is a customer management system used primarily by clients in the cable television and DBS industries. The primary purpose of CCS is to provide the Company's clients with a complete set of customer management and information services, including enrollment of new customers, event ordering, scheduling of on-site video service installations and repairs, customer service support, and billing. Designed for high volume transaction processing, CCS is offered as a service bureau application, with clients accessing it through a telecommunications network via terminals or personal computers. The Company maintains all records and files for its clients and performs statement processing and invoice mailing in conjunction with the other services. The Company provides a wide variety of ancillary services to its clients, such as addressability support, pay-per-view, and microfiche. The CCS system offers flexible reporting capabilities and interfaces with all major vendors so clients can utilize pay-per-view, automated number identification and audio response units.

For the years ended December 31, 1996, 1995 and 1994, the Company generated 77.3%, 84.7%, and 80.1%, respectively, of its total revenues from CCS and related services and software products.

CableMAX. The Company also supports a personal computer based customer management system, CableMAX, that has functionality similar to that of CCS, but on a more basic level suitable for smaller cable systems. CableMAX is targeted at cable sites with less than 2,500 subscribers.

Financial Services. CSG offers a comprehensive set of financial services (e.g., credit card processing, electronic funds transfer, automated refund check processing, electronic lockbox service, etc.) designed to improve operational efficiencies by saving employee time and improving a client's cash flow.

Statement Printing and Mailing. The Company provides statement printing and mailing services for all of its CCS and CableMAX clients, and will offer this service in connection with its CSG Phoenix(TM) product. The Company also provides specialized printing and mailing for convergence clients not on CSG's systems and for customers in other industries. The Company's statement processing center currently prints and mails in excess of an average of 20 million pieces per month and handles multiple billing cycles for all clients. The Company offers its clients a number of marketing services based on information contained in the CCS customer database, including insert design and printing, direct mailing, and data downloads used to support market research.

Enhanced Statement Presentation(TM) (ESP(TM)). This product enables clients to customize all aspects of their billing statements, create a unique identity, and build a stronger link to the customer. ESP enables clients to send specialized messages or coupons on monthly bills, depending on buying patterns, payment histories, and other customer specific information.

Software Products Currently Available

The Company licenses its software products under both perpetual and multi- year term licenses. The Company's available software products include the following:

ACSR(TM) and related modules. Advanced Customer Service Representative(TM) (ACSR) is a client/server-based front end to the CCS product that employs a graphical user interface. ACSR features include a customizable reference library, easy navigation through pull-down items and an icon toolbar, e-mail and a news bulletin board, and pop-up windows and pull-down menus. ACSR runs on a local area network at the client's service center, which is connected to the CCS mainframe. Customer Interaction Tracking(TM) (CIT(TM)) is an add-on module to ACSR which allows customer service representatives, using a relational database management system, to track and recall automatically all interaction and activity with customers. ACSR Telephony is an add-on module to ACSR which provides clients with an integrated customer management system for billing and servicing telephony customers independently or in conjunction with other business lines.

CSG Vantage(TM). CSG Vantage is a software and services product used in conjunction with CCS. Data is maintained by the Company in a specially designed database which is updated daily from CCS. Clients are provided with an ad hoc query and reporting tool that runs on local personal computers to access detailed information stored in the database allowing clients to analyze operations, identify trends, and target markets.

CSG VantagePoint(TM). CSG VantagePoint is the Company's enterprise-wide data warehouse product which can be licensed for use at the client's own facility. The software product combines information from multiple operational systems (e.g., CCS, other billing providers, customer support, CSG Phoenix, etc.) and enhances that data with selected demographic, psychographic and survey data that may be obtained from outside vendors or collected by the client, into a single database structure. The database structure facilitates the analysis and identifications of the demographic, psychographic and transactional parameters of the client and non-client bases. The product offers a modular approach, enabling a provider to select the applications most appropriate for their individual situation.

CSG.web(TM). CSG.web provides clients with a secure World Wide Web (WWW) interactive interface for its client's customers. CSG.web enables customers to upgrade their services, order pay-per-view events, view information regarding available services, and view and pay their statements on-line via the WWW. CSG.web is incorporated into the client's web site, running on their web server, which is connected to the CCS mainframe.

SMS. Bytel's SMS product provides a full range of business support software solutions for the cable television and telecommunications industries, primarily in the United Kingdom. The product's functionality includes customer care, tariffing, provisioning and activation, addressability, collections, equipment inventory, call record processing, rating, dispatch, trouble tickets, mediation, billing, fault management, sales and marketing, and management reporting.

Software Maintenance and Support

The Company provides maintenance services on all of its software products. Maintenance is billed annually and is typically based upon a percentage of the software license fee paid by the customer. Virtually all new software customers purchase maintenance services. Maintenance is typically sold for multi-year periods in conjunction with the software license. Maintenance services typically consist of enhancements and updates to the software products, as well as telephone support concerning the operation of the programs.

Software Products in Development

CSG Phoenix. The Company is developing its next generation customer management system to meet the changing needs of service providers competing in the converging communications markets. CSG Phoenix uses a three-tier client/server architecture, composed of the graphical user interface, the business logic, and the database. CSG Phoenix uses an open systems approach including a UNIX operating system, C and C++ programming languages, APIs, and object-oriented design, analysis, and implementation. CSG Phoenix will support various languages, currencies and regulatory environments to address convergence opportunities internationally.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional discussion of CSG Phoenix development.

Professional Services

The Company formed the Advanced Business Solutions (ABS) group in mid-1995 to address the unique needs of clients through specialized services such as technical consulting, custom application development, business process definition, project management, decision support systems, training, software and systems integration, data warehousing, and network analysis, design and implementation. ABS supports clients in implementing the Company's solutions and enables clients to take advantage of the full range of functionality offered by the Company's products and services.

CLIENTS

The Company's business is concentrated in the U.S. within the cable television, DBS and on-line services industries. Some of the Company's largest clients in their relevant geographic and industry markets are as follows:

United States:

Cable Television Clients	RBOCs (video services)	DBS
Comcast Cable Communications	Ameritech New Media Enterprises	Comcast Cable Communications
Continental Cablevision, Inc.	Pacific Bell Video Services	Echostar Satellite Corporation
Century Communications Corp.	SBC Services, Inc.	TCI Satellite Entertainment, Inc.
Falcon Holding Group, L.P.	US WEST Communications, Inc.	Time Warner Programming Co.
FrontierVision Operating Partners, L.P.		
Greater Media Cablevision, Inc.		
Intermedia Partners I, L.P.	**High-Speed Data Services**	**On-Line Services**
MediaOne, Inc.	Time Warner Cable (Road Runner)	Prodigy Services Corp.
Tele-Communications, Inc. (TCI)	Cablevision Systems Corp. (Optimum)	
Time Warner Cable		
TKR Cable Company		

International:

A2000 Holding, N.V.	Foxtel Management Pty Limited
Bell Canada	Scottish Telecom
Bell Cablemedia, plc	TeleWest
Cabletel	
Eurobell	

During the years ended December 31, 1996, 1995, and 1994, revenues from Time Warner Cable and its affiliated companies represented approximately 22.9%, 27.9% and 27.3% of total revenues, and revenues from TCI represented approximately 25.9%, 25.2% and 23.0% of total revenues, respectively. The Company has separate processing agreements with multiple affiliates of Time Warner Cable and provides products and services to them under separately negotiated and executed contracts. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional discussion regarding significant customers.

CLIENT AND PRODUCT SUPPORT

The Company's clients typically rely on CSG for ongoing support and training needs relating to the Company's products. As of December 31, 1996, the client and product support group consisted of 222 employees, or approximately one- fourth of the Company's total employees. The Company's client support includes a 24-hour-a-day, seven-day-a-week help desk.

SALES AND MARKETING

The Company has assembled a direct sales and sales support organization. The market for the Company's products and services is concentrated, with each existing and potential client representing multiple revenue opportunities. The Company has organized its sales efforts around senior level account managers who are responsible for new revenues and renewal of existing contracts within an account. Account managers are supported by direct sales and sales support personnel who are experienced in the various products and services that the Company provides. In order to enhance its sales and marketing efforts, the Company has hired account managers, sales support engineers, and product sales professionals from the cable and telecommunication industries with experience in selling large client/server and relational database systems. Sales territories are divided into geographic regions within the United States, Europe, Latin America and the Pacific Rim.

RESEARCH AND DEVELOPMENT

The Company's product development efforts are focused on developing new products and improving existing products. The Company believes that the timely development of new applications and enhancements is essential to maintain its competitive position in the marketplace.

In developing new products, the Company works closely with clients and leading technology vendors to determine product requirements. For example, the Company works closely with IBM and Oracle to help ensure compatibility with new operating system releases and evolutionary changes to hardware and software. Clients often provide additional information on product and operational requirements and serve as beta test participants.

The Company's research and development staff consisted of 213 employees as of December 31, 1996, compared to 195 as of December 31, 1995. The Company's total research and development expense, excluding purchased research and development, was $20.2 million, $14.3 million, and $8.7 million for the years ended December 31, 1996, 1995, and 1994, or 15.3%, 14.8%, and 10.4% of total revenues, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional discussion.

COMPETITION

The market for customer management systems in the converging communications industries is highly competitive. The Company competes with both independent providers and in-house developers of customer management systems. The Company believes its most significant competitors are USCS International, Inc. (USCS), Cincinnati Bell Information Systems (CBIS), a major cellular billing vendor, which acquired Information Systems Development (ISD), and in-house systems. As the Company enters additional market segments, it expects to encounter additional competitors. Some of the Company's actual and potential competitors have substantially greater financial, marketing and technological resources than the Company.

The Company believes that the principal competitive factors in its markets include time to market, flexibility and architecture of the system, breadth of product features, product quality, customer service and support, quality of research and development effort, and price.

PROPRIETARY RIGHTS AND LICENSES

The Company relies on a combination of trade secrets and copyright laws, license agreements, non-disclosure and other contractual provisions, and technical measures to protect its proprietary rights. The Company has no patents. The Company distributes its products under service and software license agreements which typically grant clients non-exclusive licenses to use the products. Use of the software products is restricted and subject to terms and conditions prohibiting unauthorized reproduction or transfer of the software products. The Company also seeks to protect the source code of its software as a trade secret and as a copyrighted work. Despite these precautions, there can be no assurance that misappropriation of the Company's software products and technology will not occur. Although the Company believes that its 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 the Company. The Company also incorporates via licenses or reselling arrangements a variety of third party software products that provide specialized functionality within its own software products.

In December 1996, CSG settled claims for indemnification against FDC arising from CSG's acquisition from FDC of CSG Systems. The claims related to certain patents held by Ronald A. Katz Technology Licensing Partnership L.P. (RAKTL) which allegedly were infringed by the use of certain CSG products. The terms of the settlement were not material to CSG. In connection with the settlement, CSG entered into a non-exclusive patent license agreement with RAKTL, the terms of which are not expected by CSG to have a material effect on its business or future results of operations.

EMPLOYEES

As of December 31, 1996, the Company had a total of 892 employees, of whom 78 were engaged in administration, 40 in sales and marketing, 132 in systems and programming, 213 in research and development, 222 in client and product support, 30 professional services consultants, and 177 in statement production. The Company's success is dependent upon its ability to attract and retain qualified employees. None of the Company's employees are subject to a collective bargaining agreement. The Company believes that its relations with its employees are good.

FDC DATA PROCESSING FACILITY

The Company outsources to FDC certain data processing and related services required for operation of the CCS system. The Company's proprietary software is run in FDC's facility to obtain the necessary mainframe computer capacity and support without making the substantial capital investment that would be necessary for the Company to provide this capacity directly. The Company's clients are connected to the FDC facility through a combination of private and commercially provided networks. FDC provides the services pursuant to a recently renewed five year agreement. The Company believes it could obtain data processing services from alternative sources, if necessary. See Note 8 to the Company's Consolidated Financial Statements for additional discussion.

ITEM 2. PROPERTIES

The Company leases five facilities, including those leases entered into subsequent to December 31, 1996, totaling approximately 70,000 square feet in Denver, Colorado and surrounding communities. The Company utilizes these facilities primarily for i) corporate headquarters, ii) sales and marketing activities, iii) business offices for its professional consultants, and iv) certain research and development activities. The leases for these facilities expire in the years 1997 through 2004.

The Company leases three facilities totaling approximately 172,000 square feet in Omaha, Nebraska. The Company utilizes these facilities primarily for
i) client services and product support, ii) systems and

programming activities, iii) research and development activities, iv) statement production and mailing, and v) general and administrative functions. The leases for these facilities expire in the years 1998 through 2007.

The Company leases office space in Slough, Berkshire, in the United Kingdom for its U.K. operations. The lease for this facility expires in 2002.

The Company believes that its facilities are adequate for its current needs and that additional suitable space will be available as required. The Company also believes that it will be able to extend leases as they terminate. See Note 8 to the Company's Consolidated Financial Statements for information regarding the Company's obligations under its facilities leases.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. In the opinion of the Company's management, after consultation with legal counsel, the Company is not presently a party to any material pending or threatened legal proceedings except as further described below.

In October 1996, a former senior vice president of CSG Systems filed a lawsuit against the Company and certain of its officers in the District Court of Arapahoe County, Colorado. The suit claims that certain amendments to stock agreements between the plaintiff and the Company are unenforceable, and that the plaintiff's rights were otherwise violated in connection with those amendments. The plaintiff is seeking damages of approximately $1.8 million, and in addition, seeks to have such damages trebled under certain Colorado statutes that the plaintiff claims are applicable. The Company denies the allegations and intends to vigorously defend the lawsuit at all stages.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is traded over-the-counter 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 the Company's common stock as reported by NASDAQ/NMS since the Company's Initial Public Offering on February 28, 1996.

	HIGH	LOW
1996		
First quarter	$25 1/2	$20 1/2
Second quarter	37 1/4	22 3/8
Third quarter	26 1/4	19 1/2
Fourth quarter	21 3/8	14 3/8

On March 14, 1997, the last sale price of the Company's common stock as reported by NASDAQ/NMS was $19.00 per share. There were 306 holders of record of the Company's common stock as of March 14, 1997.

DIVIDENDS

The Company has not declared or paid cash dividends on its common stock since its incorporation.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data have been derived from the audited financial statements of the Company and CSG Systems, Inc., formerly Cable Services Group, Inc. (the Predecessor). The selected financial data presented below should be read in conjunction with, and is qualified by reference to "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's and the Predecessor's Consolidated Financial Statements. The information below is not necessarily indicative of the results of future operations.

	COMPANY(1)(2)			PREDECESSOR		
	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995	ONE MONTH ENDED DECEMBER 31, 1994	11 MONTHS ENDED NOVEMBER 30, 1994	YEAR ENDED DECEMBER 31, 1993	YEAR ENDED DECEMBER 31, 1992
	(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)					
STATEMENTS OF OPERATIONS DATA:						
Revenues:						
Processing and related services	$ 113,422	$ 96,343	$ 7,757	$76,081	$75,578	$71,258
Software license and maintenance fees	14,736	57	--	--	--	--
Professional services	4,139	4	--	--	--	--
Total revenues	132,297	96,404	7,757	76,081	75,578	71,258
Expenses:						
Cost of revenues:						
Cost of processing and related services:						
Direct costs	52,027	46,670	3,647	34,977	34,503	34,883
Amortization of acquired software(5)	11,003	11,000	917	--	2	97
Amortization of client contracts and related intangibles(5)	4,092	4,092	341	1,594	1,518	1,324
Total cost of processing and related services	67,122	61,762	4,905	36,571	36,023	36,304
Cost of software license and maintenance fees	5,040	--	--	--	--	--
Cost of professional services	2,083	--	--	--	--	--
Total cost of revenues	74,245	61,762	4,905	36,571	36,023	36,304
Gross margin	58,052	34,642	2,852	39,510	39,555	34,954
Operating expenses:						
Research and development	20,206	14,278	1,044	7,680	5,591	3,269
Charge for purchased research and development(5)	--	--	40,953	--	--	--
Selling and marketing	8,213	3,770	293	3,054	2,012	1,681
General and administrative:						
General and administrative	13,702	11,406	3,073	9,461	11,431	11,064
Amortization of goodwill and other intangibles(5)	6,392	5,680	547	826	1,052	1,052
Stock-based employee compensation(5)	3,570	841	--	--	--	--
Depreciation	5,121	5,687	433	3,520	3,847	4,115
Total operating expenses	57,204	41,662	46,343	24,541	23,933	21,181
Operating income (loss)	848	(7,020)	(43,491)	14,969	15,622	13,773
Other income (expense):						
Interest expense	(4,168)	(9,070)	(769)	(1,067)	(1,941)	(2,883)
Interest income	844	663	39	227	205	226
Total other	(3,324)	(8,407)	(730)	(840)	(1,736)	(2,657)
Income (loss) before income taxes, extraordinary item and discontinued operations	(2,476)	(15,427)	(44,221)	14,129	13,886	11,116
Income tax (provision) benefit	--	--	3,757	(5,519)	(5,539)	(4,389)
Income (loss) before extraordinary item and discontinued operations	(2,476)	(15,427)	(40,464)	8,610	8,347	6,727
Extraordinary loss from early extinguishment of debt(3)	(1,260)	--	--	--	--	--
Income (loss) from continuing operations	(3,736)	(15,427)	(40,464)	8,610	8,347	6,727
Discontinued operations(4):						
Loss from operations	--	(3,093)	(239)	--	--	--
Loss from disposition	--	(660)	--	--	--	--
Total loss from discontinued operations	--	(3,753)	(239)	--	--	--
Net income (loss)	$ (3,736)	$ (19,180)	$ (40,703)	$ 8,610	$ 8,347	$ 6,727
Net loss per common and equivalent share(8):						
Loss before extraordinary item and discontinued operations	$ (0.10)	$ (0.69)	$ (1.80)			
Extraordinary loss from early extinguishment of debt	(0.05)	--	--			
Loss from discontinued operations	--	(0.17)	(0.01)			
Net loss	$ (0.15)	$ (0.86)	$ (1.81)			
Weighted average common and equivalent shares	24,988,244	22,494,748	22,494,748			

	COMPANY(1)(2)			PREDECESSOR		
	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995	ONE MONTH ENDED DECEMBER 31, 1994	11 MONTHS ENDED NOVEMBER 30, 1994	YEAR ENDED DECEMBER 31, 1993	YEAR ENDED DECEMBER 31, 1992
	(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)					
OTHER OPERATIONAL DATA:						
Number of client's customers served(7)...	19,212	17,975	16,435	16,347	15,410	15,266
BALANCE SHEET DATA:						
Cash and cash equivalents...........	$ 6,134	$ 3,603	$ 6,650	$ 22	$ 61	$ 24
Working Capital........	4,430	2,359	4,681	8,356	7,570	10,457
Total assets...........	114,910	105,553	130,160	65,695	64,298	69,483
Long-term obligations(3)(6).....	32,500	85,068	95,000	10,438	16,375	27,784
Redeemable convertible preferred stock(3)....	--	62,985	59,363	--	--	--
Stockholders' equity (deficit)(3)..........	41,964	(61,988)	(40,429)	43,031	35,980	31,133

(1) The Company was formed in October 1994 and acquired all of the outstanding capital stock of the Predecessor from FDC on November 30, 1994 (the Acquisition). The Company did not have any substantive operations prior to the Acquisition. The Company's Consolidated Financial Statements include the accounts of the Predecessor since November 30, 1994. The statements of operations data after November 30, 1994, are not comparable to data for prior periods due to the effects of the Acquisition. The Acquisition was accounted for as a purchase and the Consolidated Financial Statements since the date of the Acquisition are presented on the new basis of accounting established for the purchased assets and liabilities. See Note 3 to the Company's Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional discussion.
(2) On June 28, 1996, the Company acquired all of the outstanding capital stock of Bytel Limited (Bytel). The acquisition was accounted for using the purchase method of accounting. The Company's Consolidated Financial Statements include Bytel's results of operations since the acquisition date. See Note 3 to the Company's Consolidated Financial Statements for additional discussion.
(3) The Company completed an initial public offering (IPO) of its common stock in March 1996. The Company sold 3,335,000 shares of common stock at a price of $15 per share, resulting in net proceeds to the Company, after deducting the underwriting discount and offering expenses, of $44.8 million. The net proceeds from the IPO were used to repay long-term debt of $40.3 million and to pay accrued dividends of $4.5 million on Redeemable Convertible Preferred Stock. As of the closing of the IPO, all of the 8,999,999 outstanding shares of Redeemable Convertible Preferred Stock were automatically converted into 17,999,998 shares of common stock, at which time all accrued dividends were paid. Upon repayment of the long-term debt, the Company incurred an extraordinary loss of $1.3 million for the write- off of deferred financing costs attributable to the portion of the long- term debt repaid. See Notes 4 and 5 to the Company's Consolidated Financial Statements for additional discussion.
(4) Contemporaneously with the Acquisition, the Company purchased from FDC all of the outstanding capital stock of Anasazi Inc. (Anasazi). On August 31, 1995, the Company completed a substantial divestiture of Anasazi and now carries its remaining investment under the cost method of accounting. The loss from discontinued operations in 1995 and 1994 of $3.8 million and $0.2 million, respectively, reflects Anasazi's operating loss and loss on disposition as of and for the eight months ended August 31, 1995, and the operating loss for the one month ended December 31, 1994. Anasazi's results of operations subsequent to August 31, 1995, are not included in the Company's results of operations. See Note 9 to the Company's Consolidated Financial Statements for additional discussion.
(5) These charges after November 30, 1994, are principally the result of certain one-time or Acquisition-related expenses. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."
(6) The Company's debt was incurred as part of the Acquisition. See Note 5 to the Company's Consolidated Financial Statements for additional discussion. The long-term debt prior to the Acquisition represents an intercompany loan from FDC.
(7) This represents the number of customers of the Company's clients which were serviced by the Company as of the end of the period indicated.
(8) Net loss per common and equivalent share and the shares used in the per share computation have been computed on the basis described in Note 2 to the Company's Consolidated Financial Statements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Acquisition. CSG Systems International, Inc. (the Company or CSG) was formed in October 1994 and acquired all of the outstanding capital stock of Cable Services Group, Inc. from First Data Corporation (FDC) on November 30, 1994 (the Acquisition). The Company did not have any substantive operations since inception (October 17, 1994) through the Acquisition. Subsequent to the Acquisition, Cable Services Group, Inc.'s name was changed to CSG Systems, Inc. (CSG Systems). From its inception in 1982 until the Acquisition, CSG Systems was a division or subsidiary of FDC. The Company acquired CSG Systems for approximately $137 million in cash and accounted for the Acquisition using the purchase method of accounting. As a result of the Acquisition, the Company incurred certain one-time or acquisition-related charges. These acquisition- related charges included an immediate charge of $40.9 million as of the Acquisition date for purchased research and development which had not yet reached technological feasibility, as well as periodic amortization of acquired software, client contracts and related intangibles, noncompete agreement, goodwill and stock-based employee compensation. These expenses are hereafter referred to as the "Acquisition Charges". The Acquisition Charges totaled $24.4 million, $21.6 million, and $42.8 million for the years ended December 31, 1996 and 1995, and the period from inception (October 17, 1994) through December 31, 1994, respectively. See Notes 3 and 10 to the Company's Consolidated Financial Statements for additional information regarding the Acquisition and Acquisition Charges.

Public Offering. The Company completed an initial public offering (IPO) of its common stock in March 1996. The Company sold 3,335,000 shares of common stock at a price of $15 per share, resulting in net proceeds to the Company, after deducting the underwriting discount and offering expenses, of approximately $44.8 million. The net proceeds from the IPO were used to repay long-term debt of $40.3 million and to pay accrued dividends of $4.5 million on Redeemable Convertible Preferred Stock. As of the closing of the IPO, all of the 8,999,999 outstanding shares of Redeemable Convertible Preferred Stock were automatically converted into 17,999,998 shares of common stock, at which time all accrued dividends were paid. Upon repayment of the long-term debt, the Company incurred an extraordinary loss of $1.3 million for the write-off of deferred financing costs attributable to the portion of the long-term debt repaid. In conjunction with the repayment of the long-term debt, the Company reduced the interest rates on its remaining long-term debt by favorably amending its credit facility with its bank in April 1996. The substantial repayment of long-term debt as well as the reduced interest rates in April 1996 was the primary reason for the decrease in interest expense from $9.1 million in 1995 to $4.2 million in 1996. See Notes 4 and 5 to the Company's Consolidated Financial Statements for additional information regarding the Company's Redeemable Convertible Preferred Stock and long-term debt.

Discontinued Operations. Contemporaneously with the Acquisition, the Company purchased from FDC all of the outstanding capital stock of Anasazi Inc. (Anasazi) for $6 million cash. Anasazi provides central reservation systems and services for the hospitality and travel industries. On August 31, 1995, the Company completed a substantial divestiture of Anasazi and now carries its remaining investment under the cost method of accounting. The loss from discontinued operations in 1995 and 1994 of $3.8 million and $0.2 million, respectively, reflects Anasazi's operating loss and loss on disposition as of and for the eight months ended August 31, 1995, and the operating loss for the one month ended December 31, 1994. Anasazi's results of operations subsequent to August 31, 1995, are not included in the Company's results of operations. The carrying value of the Company's investment in Anasazi as of December 31, 1996, consisting of convertible preferred stock and stock warrants of Anasazi, was $0.7 million. See Note 9 to the Company's Consolidated Financial Statements for additional information regarding discontinued operations.

Impact of Acquisition Charges and Other Nonrecurring Charges. As discussed above, the Company has incurred Acquisition Charges and other one-time, nonrecurring charges for extraordinary loss on early extinguishment of debt and loss from discontinued operations, which are reflected in the Company's historical results of operations. The total of these expenses were $25.7 million, $25.4 million and $43.0 million for the years ended 1996 and 1995, and the period from inception (October 17, 1994) through December 31, 1994, respectively. The Company's pro forma results of operations excluding these items is shown in the following table. In addition to the exclusion of these expenses from the calculation, the pro forma results of operations were computed using an effective income tax rate of 38%. The shares used in the calculation of pro forma earnings per common and equivalent share for 1996 include the weighted average equivalent shares from stock options on a primary basis.

	FOR THE YEAR ENDED DECEMBER 31, 1996	FOR THE YEAR ENDED DECEMBER 31, 1995	FOR THE PERIOD FROM INCEPTION (OCTOBER 17, 1994) THROUGH DECEMBER, 31 1994
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
PRO FORMA RESULTS OF OPERATIONS:			
Operating income (loss)......	$ 25,194	$ 14,593	$ (733)
Income (loss) before income taxes.......................	21,870	6,186	(1,463)
Net income (loss)............	13,559	3,835	(907)
Earnings (loss) per common and equivalent share........	0.54	0.17	(0.04)
Weighted average common and equivalent shares...........	25,294	22,495	22,495

The Company's pro forma earnings before interest, income taxes, depreciation and amortization (EBITDA) was $31.0 million, $20.3 million, and $20.6 million for the years ended 1996, 1995 and 1994, respectively. The Company's pro forma calculation of EBITDA also excludes the charges related to the above mentioned expenses for purchased research and development, extraordinary loss on early extinguishment of debt and loss from discontinued operations. The 1994 EBITDA combines the Company's EBITDA for the one month ended December 31, 1994 and CSG Systems' EBITDA for the eleven months ended November 30, 1994, without adjustment. EBITDA is not intended to represent cash flows for the periods.

Bytel Limited. On June 28, 1996, the Company acquired all of the outstanding shares of Bytel Limited (Bytel) for $3.1 million in cash and assumption of certain liabilities of $1.6 million. The acquisition was accounted for using the purchase method of accounting. The cost in excess of the fair value of the net tangible assets acquired of $4.2 million was allocated to goodwill and is being amortized over seven years on a straight-line basis. The Company's Consolidated Financial Statements include Bytel's results of operations since the acquisition date. Bytel is a United Kingdom company which provides customer management software and related services to the cable and telecommunications industries in the United Kingdom.

Revenues. The Company provides customer management solutions, encompassing processing and related services, software products and professional services, for the converging cable television, telecommunications, direct broadcast satellite (DBS), and on-line services industries. The Company's products and services automate the full spectrum of billing and customer services functions, including sales support and order processing, invoice calculation and production, and management reporting and market analysis. The Company's revenues are derived principally from processing and related services, which represented 85.8% and 99.9% of the Company's total revenues for 1996 and 1995, respectively. Processing and related services consist of processing fees, ancillary services and certain customized print and mail services. Processing fees are typically billed based on the number of a client's customers serviced, ancillary services are typically billed on a per transaction basis, and customized print and mail services are billed on a usage basis. Typically, the Company signs multi-year processing contracts with its clients which include provisions for annual price increases. The Company's processing and related services are derived principally from its Communications Control System (CCS(TM)) product and ancillary services to CCS.

Although the Company believes that the majority of its revenues will continue to come from processing and related services over the next several years, the Company has developed new software products and professional services. The software products include, among others, Advanced Customer Service Representative(TM) (ACSR(TM)), ACSR Telephony, CSG Vantage(TM), and CSG VantagePoint(TM). Revenue from these new software products and professional services, including revenue from the acquired software products and related services of Bytel, were $18.9 million, or 14.2% of total revenues, for the year ended December 31, 1996, compared to $0.1 million for the year ended December 31, 1995. See "Business" on page 3 for additional discussion of the Company's products and services.

RESULTS OF OPERATIONS (IN THOUSANDS)

The following table sets forth certain financial data and the percentage of total revenues of the Company for the periods indicated. The Company's results of operations include CSG Systems' results of operations since the Acquisition. For purposes of the following analysis, CSG Systems' results of operations for the eleven months ended November 30, 1994, have been combined with the Company's results of operations for the one month ended December 31, 1994, by adding the corresponding items without adjustment. This computation was done to permit useful comparison between the aggregated twelve months ended December 31, 1996, 1995 and 1994. The results of Bytel's operations for the six months ended December 31, 1996, are included in the following table and considered in the discussion of the Company's operations that follow:

	TWELVE MONTHS ENDED DECEMBER 31,					
	1996		1995		1994	
	AMOUNT	% OF REVENUE	AMOUNT	% OF REVENUE	AMOUNT	% OF REVENUE
					(COMBINED)	
Revenues:						
Processing and related services	$113,422	85.8%	$ 96,343	99.9%	$ 83,838	100.0%
Software license and maintenance fees	14,736	11.1	57	0.1	--	--
Professional services	4,139	3.1	4	--	--	--
Total revenues	132,297	100.0	96,404	100.0	83,838	100.0
Expenses:						
Cost of revenues:						
Cost of processing and related services:						
Direct costs	52,027	39.3	46,670	48.4	38,624	46.1
Amortization of acquired software	11,003	8.3	11,000	11.4	917	1.1
Amortization of client contracts and related intangibles	4,092	3.1	4,092	4.2	1,935	2.3
Total cost of processing and related services	67,122	50.7	61,762	64.0	41,476	49.5
Cost of software license and maintenance fees	5,040	3.8	--	--	--	--
Cost of professional services	2,083	1.6	--	--	--	--
Total cost of revenues	74,245	56.1	61,762	64.0	41,476	49.5
Gross margin	58,052	43.9	34,642	36.0	42,362	50.5
Operating expenses:						
Research and development	20,206	15.3	14,278	14.8	8,724	10.4
Charge for purchased research and development	--	--	--	--	40,953	48.8
Selling and marketing	8,213	6.2	3,770	3.9	3,347	4.0
General and administrative:						
General and administrative	13,702	10.4	11,406	11.8	12,534	15.0
Amortization of noncompete agreements and goodwill	6,392	4.8	5,680	5.9	1,373	1.6
Stock-based employee compensation	3,570	2.7	841	0.9	--	--
Depreciation	5,121	3.9	5,687	5.9	3,953	4.7
Total operating expenses	57,204	43.3	41,662	43.2	70,884	84.5
Operating income (loss)	848	0.6	(7,020)	(7.2)	(28,522)	(34.0)
Other income (expense):						

Interest expense	(4,168)	(3.1)	(9,070)	(9.4)	(1,836)	(2.2)
Interest income	844	0.6	663	0.7	266	0.3
Total other	(3,324)	(2.5)	(8,407)	(8.7)	(1,570)	(1.9)
Loss before income taxes, extraordinary item and discontinued operations	(2,476)	(1.9)	(15,427)	(15.9)	(30,092)	(35.9)
Income tax provision	--	--	--	--	(1,762)	(2.1)
Loss before extraordinary item and discontinued operations	(2,476)	(1.9)	(15,427)	(15.9)	(31,854)	(38.0)
Extraordinary loss from early extinguishment of debt	(1,260)	(0.9)	--	--	--	--
Loss from continuing operations	(3,736)	(2.8)	(15,427)	(15.9)	(31,854)	(38.0)
Discontinued operations:						
Loss from operations	--	--	(3,093)	(3.2)	(239)	(0.3)
Loss from disposition	--	--	(660)	(0.7)	--	--
Total loss from discontinued operations	--	--	(3,753)	(3.9)	(239)	(0.3)
Net loss	$ (3,736)	(2.8%)	$(19,180)	(19.8%)	$(32,093)	(38.3%)

TWELVE MONTHS ENDED DECEMBER 31, 1996 AND 1995

Revenues. Total revenues in 1996 increased 37.2% to $132.3 million, from $96.4 million in 1995, due primarily to i) increased revenue from the Company's existing processing and related ancillary services, and ii) increased revenue from the Company's new software products and professional services.

Processing and related services revenue in 1996 increased 17.7% to $113.4 million, from $96.3 million in 1995, due primarily to an increased number of customers of the Company's clients which were serviced by the Company and increased revenue per customer. Customers serviced as of December 31, 1996 and 1995, were 19.2 million and 18.0 million, respectively, an increase of 6.9%. The increase in the number of customers serviced was due primarily to internal customer growth experienced by existing clients and the addition of new clients. Revenue per customer increased due to annual price increases included in client contracts and increased usage of ancillary services by existing clients.

Revenue from the Company's new software products, primarily ACSR and CSG VantagePoint, and professional services, as well as revenue from the software products and related services of Bytel, were $18.9 million in 1996 compared to $0.1 million in 1995.

Gross Margin. Gross margin in 1996 increased 67.6% to $58.1 million, from $34.6 million in 1995, due primarily to revenue growth. The gross margin percentage increased to 43.9% in 1996, compared to 36.0% in 1995. The overall increase in the gross margin percentage is due primarily to i) an increase in the gross margin percentage for processing and related services, which resulted primarily from annual price increases included in client contracts, tight cost controls in delivering these services, increased usage of higher- margined ancillary services by existing customers, and the increased leverage from the larger revenue base in relation to the amortization of acquired software and amortization of client contracts and related intangibles recorded in 1996, and ii) a favorable change in revenue mix which included more higher- margined software products during 1996 than 1995. The Company's gross margin percentage for 1996 and 1995, excluding Acquisition Charges of $15.1 million for both years, was 55.3% and 51.6%, respectively.

Research and Development Expense. Research and development expense in 1996 increased 41.5% to $20.2 million, from $14.3 million in 1995, due primarily to increased development efforts on several new products which the Company developed in 1996 or is currently developing, principally CSG Phoenix(TM), and to enhancements of the Company's existing products. The increase in expense consists primarily of increases in salaries, benefits, and other programming- related expenses. The Company intends to continue to increase its research and development expenditures. The Company capitalized software development costs of approximately $3.1 million in 1996, which consisted of $2.5 million of internal costs and $0.6 million of purchased software. Costs capitalized in 1996 related to CSG Phoenix, ACSR Telephony, CSG.web(TM) and CSG VantagePoint. No software development costs were capitalized during 1995.

Selling and Marketing Expense. Selling and marketing expense in 1996 increased 117.9% to $8.2 million, from $3.8 million in 1995. As a percentage of revenues, selling and marketing expense increased to 6.2% in 1996, compared to 3.9% in 1995. The increase in expense is due primarily to a realignment of the Company's sales force. Subsequent to the Acquisition, a substantial portion of the previous sales force was terminated during the three months ended March 31, 1995, and senior management focused on sales responsibilities in 1995. The Company began building a new direct sales force in mid-1995 and continued to expand its sales force throughout 1996.

General and Administrative Expense. General and administrative (G&A) expense in 1996 increased 20.1% to $13.7 million, from $11.4 million in 1995. As a percentage of revenues, G&A expense decreased to 10.4% in 1996, compared to 11.8% in 1995. The increase in expense relates primarily to the development of the Company's management team and to related administrative staff added during 1996 and 1995 to support the Company's growth. The decrease in G&A expense as a percentage of revenue is due primarily to increased leverage from the larger revenue base in relation to the level of G&A expenses incurred.

Amortization of Noncompete Agreements and Goodwill. Amortization of noncompete agreements and goodwill in 1996 increased 12.5% to $6.4 million, from $5.7 million in 1995. The increase in expense relates to amortization of goodwill from the Bytel acquisition and amortization of an additional noncompete agreement acquired in April 1996.

Stock-Based Employee Compensation. During 1995 and 1994, the Company sold common stock to executive officers and key employees pursuant to performance stock agreements. The structure of the performance stock agreements required "variable" accounting for the related shares until the performance conditions were removed on October 19, 1995, thereby establishing a measurement date. At that date, the Company recognized total deferred compensation of $5.8 million which represented the difference between the price paid by the employees and the estimated fair value of the stock at October 19, 1995. The fair value of the stock was estimated by the Company to be $2.75 per share at that date. Prior to the completion of the IPO, the deferred compensation was being recognized as stock-based employee compensation expense on a straight-line basis from the time the shares were purchased through November 30, 2001. Upon completion of the IPO, shares owned by certain executive officers of the Company were no longer subject to the repurchase option. In addition, the repurchase option for the remaining performance stock shares decreased to 20 percent annually over a five-year period, commencing on the later of an employee's hire date or November 30, 1994. As a result, approximately $3.2 million of stock-based employee compensation expense was recorded when the IPO was completed in March 1996. Stock-based employee compensation expense for the years ended December 31, 1996 and 1995, was $3.6 million and $0.8 million, respectively. Deferred compensation of $1.2 million as of December 31, 1996, is reflected as a component of stockholders' equity in the Company's Consolidated Financial Statements. Amortization of the stock-based deferred compensation subsequent to 1996 will be approximately $0.4 million per year.

Interest Expense. Interest expense in 1996 decreased 54.0% to $4.2 million, from $9.1 million in 1995, with the decrease attributable to scheduled principal payments on the Company's long-term debt, the retirement of $40.3 million of long-term debt with proceeds from the IPO in March 1996, and a decrease in interest rates as a result of the Company favorably amending its long-term credit facility with its bank in April 1996.

Extraordinary Loss From Early Extinguishment Of Debt. Upon the repayment of the $40.3 million of long-term debt with IPO proceeds, the Company recorded an extraordinary charge of $1.3 million in March 1996, for the write-off of deferred financing costs attributable to the portion of the long-term debt repaid.

Discontinued Operations. The loss of $3.8 million in 1995, relates to the Company's investment in Anasazi which was disposed of in August 1995.

TWELVE MONTHS ENDED DECEMBER 31, 1995 AND 1994

Revenues. Total revenues in 1995 increased 15.0% to $96.4 million, from $83.8 million in 1994, due primarily to an increased number of customers of the Company's clients which were serviced by the Company and increased revenue per customer. Customers serviced as of December 31, 1995 and 1994, were 18.0 million and 16.4 million, respectively, an increase of 9.4%. The increase in the number of customers was due primarily to internal customer growth experienced by existing clients and the addition of new clients. Revenue per customer increased due to annual price increases included in client contracts and increased usage of ancillary services and customized print and mail services by existing clients.

Gross Margin. Gross margin in 1995 decreased 18.2% to $34.6 million, from $42.4 million in 1994. The gross margin percentage decreased to 36.0% in 1995, compared to 50.5% in 1994. These decreases are due primarily to i) increased direct costs as a percentage of revenues, and ii) increased amortization of acquired software and amortization of client contracts and related intangibles. The Company's gross margin percentage, excluding Acquisition Charges of $15.1 million and $1.3 million for 1995 and 1994, was 51.6% and 52.0%, respectively.

As a percentage of revenues, direct costs of processing and related services increased to 48.4% in 1995, compared to 46.1% in 1994. This increase is due primarily to the increased cost of services per customer, which resulted primarily from increased paper costs, increased data processing and related costs, increases in employee salaries and benefits, and the inclusion of costs of conversion for certain clients.

The increase in amortization of acquired software and amortization of client contracts and related intangibles in 1995, compared to 1994, relates primarily to the portion of the Acquisition purchase price allocated to these intangibles, as 1994 includes only one month of amortization compared to a full twelve months for 1995.

Research and Development Expense. Research and development expense in 1995 increased 63.7% to $14.3 million, from $8.7 million in 1994, due primarily to development of CSG Phoenix, ACSR and related products, and to enhancements of the Company's existing products. The increase consists primarily of increases in salaries, benefits, and other programming-related expenses. No software development costs were capitalized during 1995 or 1994.

Charge for Purchased Research and Development. A one-time charge of $40.9 million was taken in December 1994 for the portion of the Acquisition purchase price allocated to purchased research and development, related primarily to CSG Phoenix and ACSR, which had not reached technological feasibility as of the Acquisition date.

Selling and Marketing Expense. Selling and marketing expense in 1995 increased 12.6% to $3.8 million, from $3.3 million in 1994. As a percentage of revenues, selling and marketing expense decreased to 3.9% in 1995, compared to 4.0% in 1994. The increase in expense is due primarily to a realignment of the Company's sales force. Subsequent to the Acquisition, a substantial portion of the previous sales force was terminated, and senior management focused on sales responsibilities in 1995. The Company began building a new direct sales force in mid-1995 and has added staff since that time.

General and Administrative Expense. G&A expense in 1995 decreased 9.0% to $11.4 million, from $12.5 million in 1994. As a percentage of revenues, G&A expense decreased to 11.8% in 1995, compared to 15.0% in 1994. These decreases relate primarily to the elimination of corporate overhead charges and other costs which existed prior to the Acquisition.

Amortization of Noncompete Agreement and Goodwill. Amortization of noncompete agreement and goodwill in 1995 increased 313.7% to $5.7 million, from $1.4 million in 1994, due primarily to the portion of the Acquisition purchase price allocated to a noncompete agreement and goodwill, as 1994 includes only one month of amortization compared to a full twelve months for 1995.

Stock-Based Employee Compensation. Stock-based employee compensation of $0.8 million in 1995 relates to purchases of the Company's common stock by executive officers and key employees, as discussed above.

Depreciation Expense. Depreciation expense in 1995 increased 43.9% to $5.7 million, from $4.0 million in 1994. As a percentage of revenues, depreciation expense increased to 5.9% in 1995, compared to 4.7% in 1994. These increases are due primarily to the portion of the Acquisition purchase price allocated to fixed assets and depreciation from capital expenditures incurred in 1995 in support of research and development efforts and the overall growth of the Company.

Interest Expense. Interest expense in 1995 increased by 394.0% to $9.1 million, from $1.8 million in 1994, with the increase attributable to interest on the Company's long-term debt incurred as a result of the Acquisition.

Income tax expense. Income tax provision decreased to zero in 1995, from $1.8 million in 1994, as the Company had income in 1994 before the Acquisition and did not have income in 1995. No income tax benefit for the Company's net loss was recorded for 1995, as realization of future benefits was not sufficiently assured as of December 31, 1995.

Discontinued Operations. The loss of $3.8 million and $0.2 million from discontinued operations in 1995 and 1994, respectively, relates to the Company's investment in Anasazi, which was disposed of in August 1995.

GENERAL

Significant Customers. The Company has two significant clients, Time Warner and Tele-Communications, Inc. (TCI). Time Warner accounted for $30.3 million or 22.9% of total revenues for 1996, and $26.9 million or 27.9% of total revenues in 1995. TCI accounted for $34.3 million or 25.9% of total revenues in 1996, and $24.3 million or 25.2% of total revenues for 1995. The TCI amounts include revenue from both its cable television and Primestar DBS operations (i.e., TCI Satellite Entertainment, Inc.).

The Company's existing contract with TCI for its cable television operations, which was scheduled to expire December 31, 1996, has been extended automatically by its terms for one year. TCI has announced it is developing an in-house billing system for use in its cable television operations, and the Company expects TCI's in-house system to replace the Company's system in the future. The Company cannot estimate when TCI's in-house billing solution will be available or the timing of significant conversions from the Company's system to TCI's in-house billing solution. In December 1996, CSG signed a new contract with TCI Satellite Entertainment, Inc. as their exclusive provider of customer management services including the purchase of CSG Phoenix and CSG VantagePoint.

CSG Phoenix. Release Version 0.7 of CSG Phoenix, which is the Company's next generation customer management system for the converging communications industries, was delivered to two customers in December 1996 for testing and to facilitate their implementation planning activities. Release Version 1.1, which contains additional functionality for convergence including telephony, but does not contain certain functionality related to statement processing, is scheduled to be delivered by the end of March 1997 for testing and integration at customer sites. Release Version 1.2, which will include additional functionality originally scheduled for Release Version 1.0, is scheduled to be delivered to customer sites in the second quarter 1997. The Company presently expects a beta site to be installed in the third quarter of 1997. The CSG Phoenix system is being developed on a three-tier client/server, object- oriented architecture and is designed to enable clients to quickly deploy new convergence services such as voice, video and data, and to support large customer service sites. The statements regarding timing of the Company's delivery of CSG Phoenix and the installation of a beta site in the third quarter of 1997 are forward-looking statements. The actual timing is subject to delay due to the variety of factors inherent in the development and initial implementation of a new, complex software system. Installation is also subject to factors relating to the integration of the new system with the client's existing systems.

Income taxes. Although the Company incurred a net loss in 1996, the Company expects to pay U.S income taxes for 1996, due primarily to differences in the timing of recognition of the amortization of intangible assets for financial reporting and tax purposes. Based on its projections, the Company expects to pay U.S. income taxes for 1997. Bytel has an operating loss carryforward of approximately $1.1 million as of December 31, 1996, which has no expiration date. Based on this, the Company does not expect Bytel to pay any significant United Kingdom taxes for 1997.

At December 31, 1996, management of the Company evaluated its 1995 and 1996 operating results, as well as projections for 1997 and 1998, and concluded that it was more likely than not that certain of the Company's deferred tax assets would be realized. Accordingly, the Company has recognized a net deferred tax asset of $1.4 million. The Company has recorded a valuation allowance of approximately $24.0 million against the remaining net deferred tax assets since realization of these future benefits is not sufficiently assured as of December 31, 1996.

The Company intends to analyze the realizability of the net deferred tax assets at each future quarterly reporting period. The current quarterly results of operations, as well as the Company's projected results of operations, will determine the required valuation allowance at the end of each quarter. Based on its current projections of operating results for 1997 and 1998, the Company expects to realize additional deferred tax assets in 1997.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 1996, the Company's principal sources of liquidity included cash and cash equivalents of $6.1 million. The Company also has a revolving bank line of credit in the amount of $5.0 million, of which there were no borrowings outstanding. The line of credit expires December 31, 2000.

During 1996, the Company generated $29.1 million in net cash flow from operating activities and received a $2.0 million principal payment on a note receivable from Anasazi. Cash generated from these sources was used to fund capital expenditures of $8.2 million, additions to software of $3.6 million, acquisitions of $4.9 million and to repay long-term debt of $12.3 million. Also, in March 1996, the Company sold 3,335,000 shares of common stock at an initial public offering price of $15 per share, resulting in net proceeds to the Company, after deducting underwriting discounts and offering expenses, of approximately $44.8 million. The net proceeds from the IPO were used to repay long-term debt of $40.3 million and to pay accrued dividends of $4.5 million on Redeemable Convertible Preferred Stock. As of the closing of the IPO, all of the 8,999,999 outstanding shares of Redeemable Convertible Preferred Stock were automatically converted into 17,999,998 shares of common stock, at which time the accrued dividends became payable. In conjunction with the $40.3 million repayment of long-term debt, the Company decreased the interest rates on its long-term debt by favorably amending its credit facility with its bank in April 1996.

The Company believes that cash generated from operations and the amount available under the revolving bank line of credit will be sufficient to meet its anticipated cash requirements for operations (including research and development expenditures), income taxes, debt service, and anticipated capital expenditures through the next twelve months.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
CSG Systems International, Inc.:

We have audited the accompanying consolidated balance sheets of CSG Systems International, Inc., a Delaware corporation, and Subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity and cash flows for years ended December 31, 1996 and 1995, and the period from inception (October 17, 1994) through December 31, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CSG Systems International, Inc. and Subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for the years ended December 31, 1996 and 1995, and the period from inception (October 17, 1994) through December 31, 1994, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Omaha, Nebraska
January 27, 1997

CSG SYSTEMS INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	DECEMBER 31, 1996	DECEMBER 31, 1995
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 6,134	$ 3,603
Accounts receivable-		
Trade-		
Billed, net of allowance of $819 and $521	33,141	22,400
Unbilled	5,220	803
Other	1,342	1,925
Deferred income taxes	45	--
Other current assets	2,574	585
Total current assets	48,456	29,316
Property and equipment, net	13,093	9,881
Investment in discontinued operations	732	2,732
Software, net	13,629	21,083
Noncompete agreements and goodwill, net	25,730	25,657
Client contracts and related intangibles, net	9,752	13,846
Deferred income taxes	1,356	--
Other assets	2,162	3,038
Total assets	$114,910	$105,553
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt	$ 10,000	$ 10,000
Customer deposits	6,450	5,505
Trade accounts payable	12,620	6,110
Accrued liabilities	8,177	4,421
Deferred revenue	5,384	622
Accrued income taxes	945	--
Other current liabilities	450	299
Total current liabilities	44,026	26,957
Long-term debt, net of current maturities	22,500	75,068
Deferred revenue	6,420	2,531
Commitments and contingencies (Note 8)		
Redeemable convertible preferred stock, par value $.01 per share; zero shares and 9,500,000 shares authorized; zero shares and 8,999,999 shares issued and outstanding	--	62,985
Stockholders' equity (deficit):		
Preferred stock, par value $.01 per share; 10,000,000 shares and zero shares authorized; zero shares issued and outstanding	--	--
Common stock, par value $.01 per share; 100,000,000 shares and 50,000,000 shares authorized; 2,890,522 shares and 18,256,998 shares reserved for redeemable convertible preferred stock, employee stock purchase plan and stock incentive plans; 25,488,876 shares and 4,243,000 shares issued and outstanding	255	42
Additional paid-in capital	111,367	7,720
Deferred employee compensation	(1,207)	(4,968)
Notes receivable from employee stockholders	(861)	(976)
Accumulated translation adjustments	573	--
Accumulated deficit	(68,163)	(63,806)
Total stockholders' equity (deficit)	41,964	(61,988)
Total liabilities and stockholders' equity	$114,910	$105,553

The accompanying notes are an integral part of these consolidated financial statements.

CSG SYSTEMS INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995	FOR THE PERIOD FROM INCEPTION (OCTOBER 17, 1994) THROUGH DECEMBER 31, 1994
Revenues:			
Processing and related services	$ 113,422	$ 96,343	$ 7,757
Software license and maintenance fees	14,736	57	--
Professional services	4,139	4	--
Total revenues	132,297	96,404	7,757
Expenses:			
Cost of revenues:			
Cost of processing and related services:			
Direct costs	52,027	46,670	3,647
Amortization of acquired software	11,003	11,000	917
Amortization of client contracts and related intangibles	4,092	4,092	341
Total cost of processing and related services	67,122	61,762	4,905
Cost of software license and maintenance fees	5,040	--	--
Cost of professional services	2,083	--	--
Total cost of revenues	74,245	61,762	4,905
Gross margin	58,052	34,642	2,852
Operating expenses:			
Research and development	20,206	14,278	1,044
Charge for purchased research and development	--	--	40,953
Selling and marketing	8,213	3,770	293
General and administrative:			
General and administrative	13,702	11,406	3,073
Amortization of noncompete agreements and goodwill	6,392	5,680	547
Stock-based employee compensation	3,570	841	--
Depreciation	5,121	5,687	433
Total operating expenses	57,204	41,662	46,343
Operating income (loss)	848	(7,020)	(43,491)
Other income (expense):			
Interest expense	(4,168)	(9,070)	(769)
Interest income	844	663	39
Total other	(3,324)	(8,407)	(730)
Loss before income taxes, extraordinary item and discontinued operations	(2,476)	(15,427)	(44,221)
Income tax benefit	--	--	3,757
Loss before extraordinary item and discontinued operations	(2,476)	(15,427)	(40,464)
Extraordinary loss from early extinguishment of debt	(1,260)	--	--
Loss from continuing operations	(3,736)	(15,427)	(40,464)
Discontinued operations:			
Loss from operations	--	(3,093)	(239)
Loss from disposition	--	(660)	--

Total loss from discontinued operations	--	(3,753)	(239)
Net loss	$ (3,736)	$ (19,180)	$ (40,703)
Net loss per common and equivalent share:			
Loss before extraordinary item and discontinued operations	$ (0.10)	$ (0.69)	$ (1.80)
Extraordinary loss from early extinguishment of debt	(0.05)	--	--
Loss from discontinued operations	--	(0.17)	(0.01)
Net loss	$ (0.15)	$ (0.86)	$ (1.81)
Weighted average common and equivalent shares	24,988,244	22,494,748	22,494,748

The accompanying notes are an integral part of these consolidated financial statements.

CSG SYSTEMS INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995,
AND THE PERIOD FROM INCEPTION (OCTOBER 17, 1994) TO DECEMBER 31, 1994
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	DEFERRED EMPLOYEE COMPENSATION	NOTES RECEIVABLE FROM EMPLOYEE STOCKHOLDERS	ACCUMULATED TRANSLATION ADJUSTMENTS	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
Balance, October 17, 1994	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --
Issuance of 2,587,500 shares of common stock for cash ($.22 per share)	--	26	549	--	--	--	--	575
Accretion of redeemable convertible preferred stock	--	--	--	--	--	--	(4)	(4)
Accrued dividends on redeemable convertible preferred stock	--	--	--	--	--	--	(297)	(297)
Net loss	--	--	--	--	--	--	(40,703)	(40,703)
Balance, December 31, 1994	--	26	549	--	--	--	(41,004)	(40,429)
Issuance of 1,655,500 shares of common stock under employee stock purchase plan (ranging from $.22 to $4.25 per share)	--	16	7,171	(5,809)	(976)	--	--	402
Amortization of deferred stock-based employee compensation expense	--	--	--	841	--	--	--	841
Accretion of redeemable convertible preferred stock	--	--	--	--	--	--	(36)	(36)
Accrued dividends on redeemable convertible preferred stock	--	--	--	--	--	--	(3,586)	(3,586)
Net loss	--	--	--	--	--	--	(19,180)	(19,180)
Balance, December 31, 1995	--	42	7,720	(4,968)	(976)	--	(63,806)	(61,988)
Issuance of 3,335,000 shares of common stock for cash pursuant to initial public offering, net of issuance costs ($13.43 per share)	--	33	44,761	--	--	--	--	44,794
Accrued dividends on redeemable convertible preferred stock	--	--	--	--	--	--	(614)	(614)
Conversion of 8,999,999 shares of redeemable convertible preferred stock into 17,999,998 shares of common stock	--	180	58,929	--	--	--	--	59,109
Amortization of deferred stock-based employee compensation expense	--	--	--	3,570	--	--	--	3,570
Purchase and cancellation of 105,600 shares of common stock (ranging from $.22 per share to $.45 per share)	--	--	(221)	191	5	--	--	(25)
Issuance of 5,925 shares of common stock as compensation ($15 per share)	--	--	89	--	--	--	--	89
Exercise of stock options for 4,800								

shares of common stock (ranging from $1.25 per share to $3.25 per share).................	--	--	6	--	--	--	--	6
Employee purchase of 5,753 shares of common stock pursuant to employee stock purchase plan (ranging from $13.07 per share to $17.19 per share)......	--	--	83	--	--	--	--	83
Accretion of redeemable convertible preferred stock..................	--	--	--	--	--	--	(7)	(7)
Payment of note receivable from employee stockholder...	--	--	--	--	110	--	--	110
Translation adjustments............	--	--	--	--	--	573	--	573
Net loss................	--	--	--	--	--	--	(3,736)	(3,736)
	-----	-----	--------	-------	-----	-----	--------	-------
Balance, December 31, 1996...................	$ --	$ 255	$111,367	$(1,207)	$(861)	$ 573	$(68,163)	$41,964
	=====	=====	========	=======	=====	=====	========	=======

The accompanying notes are an integral part of these consolidated financial statements.

CSG SYSTEMS INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995	FOR THE PERIOD FROM INCEPTION (OCTOBER 17, 1994) THROUGH DECEMBER 31, 1994
Cash flows from operating activities:			
Net loss	$ (3,736)	$(19,180)	$ (40,703)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities--			
Depreciation	5,121	5,687	433
Amortization	22,180	21,686	1,805
Income tax benefit	--	--	(3,757)
Purchased research and development	--	--	40,953
Stock-based employee compensation	3,570	841	--
Extraordinary loss from early extinguishment of debt	1,260	--	--
Loss from discontinued operations	--	3,753	239
Changes in operating assets and liabilities:			
Trade accounts receivable, net	(12,673)	(3,265)	(937)
Other receivables	583	157	(2,055)
Deferred income taxes	(1,401)	--	--
Other current and noncurrent assets	(2,968)	(117)	(294)
Customer deposits	945	977	--
Trade accounts payable and accrued liabilities	7,447	(1,565)	3,711
Deferred revenue	8,651	2,800	6
Other current liabilities	151	3	95
Net cash provided by (used in) operating activities	29,130	11,777	(504)
Cash flows from investing activities:			
Acquisition of businesses, net of cash acquired	(4,918)	--	(137,013)
Purchases of property and equipment, net	(8,181)	(5,202)	(238)
Additions to software	(3,553)	--	--
Net investment in discontinued operations	2,000	(92)	(6,632)
Net cash used in investing activities	(14,652)	(5,294)	(143,883)
Cash flows from financing activities:			
Proceeds from issuance of common stock	44,883	402	575
Proceeds from issuance of redeemable convertible preferred stock	--	--	59,062
Payment of note receivable from employee stockholder	110	--	--
Purchase and cancellation of common stock	(25)	--	--
Payment of dividends for redeemable convertible preferred stock	(4,497)	--	--
Proceeds from long-term debt and revolving credit facility	--	--	95,351
Payments on long-term debt and revolving credit facility	(52,568)	(9,932)	(351)
Deferred financing costs	--	--	(3,600)
Net cash provided by (used in) financing activities	(12,097)	(9,530)	151,037
Effect of exchange rate fluctuations on cash	150	--	--
Net increase (decrease) in cash and cash equivalents	2,531	(3,047)	6,650
Cash and cash equivalents, beginning of period	3,603	6,650	--
Cash and cash equivalents, end of period	$ 6,134	$ 3,603	$ 6,650

Supplemental disclosures of cash flow information:			
Cash paid (received) during the period for-			
Interest	$ 4,000	$ 8,463	$ --
Income taxes	$ (655)	$ 1,176	$ --

Supplemental disclosure of noncash financing activities:
During 1996, the Company converted 8,999,999 shares of redeemable convertible preferred stock into 17,999,998 shares of common stock.

During 1995, the Company issued common stock in connection with an employee stock purchase plan and received full recourse promissory notes from employees totaling $976.

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

CSG Systems International, Inc. (the Company or CSG) was formed on October 17, 1994, for the purpose of acquiring all of the outstanding capital stock of Cable Services Group, Inc. from First Data Corporation (FDC). The Company acquired all of the outstanding shares of Cable Services Group, Inc. on November 30, 1994 (the Acquisition) (Note 3). Subsequent to the Acquisition, Cable Services Group, Inc.'s name was changed to CSG Systems, Inc. (CSG Systems). The Company did not have any substantive operations prior to the acquisition of Cable Services Group, Inc. Contemporaneously with the Acquisition, the Company purchased all of the outstanding capital stock of Anasazi Inc. (Anasazi) (Note 9). On June 28, 1996, the Company purchased all of the outstanding shares of Bytel Limited (Bytel) (Note 3).

The Company provides customer management solutions, encompassing processing and related services, software products and professional services, for the converging cable television, direct broadcast satellite, telecommunications and on-line services industries. The Company's products and services automate the full spectrum of billing and customer services functions, including sales support and order processing, invoice calculation and production, and management reporting and market analysis.

The Company derived approximately 77.3 percent, 84.7 percent, and 77.2 percent of its total revenues in the years ended December 31, 1996 and 1995, and the period from inception (October 17, 1994) through December 31, 1994, respectively, from its core product, Communications Control System (CCS(TM)) and related products and ancillary services.

CSG has two significant clients which, in the aggregate, contributed approximately 48.8 percent, 53.1 percent, and 54.2 percent of total revenues for the years ended December 31, 1996 and 1995, and the period from inception (October 17, 1994) through December 31, 1994, respectively. The largest single client contributed approximately 25.9 percent, 27.9 percent and 31.5 percent of total revenues for the years ended December 31, 1996 and 1995, and the period from inception (October 17, 1994) through December 31, 1994, respectively.

The Company completed an initial public offering (IPO) of its common stock in March 1996. The Company sold 3,335,000 shares of common stock at an initial public offering price of $15 per share, resulting in net proceeds to the Company, after deducting underwriting discounts and offering expenses, of approximately $44.8 million. As of the closing of the IPO, all of the 8,999,999 outstanding shares of Redeemable Convertible Series A Preferred Stock (Redeemable Convertible Preferred Stock) were automatically converted into 17,999,998 shares of common stock. The Company used IPO proceeds to repay $40.3 million of outstanding bank indebtedness (Note 5) and to pay $4.5 million of accrued dividends on the Redeemable Convertible Preferred Stock (Note 4).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and CSG Systems since the acquisition of CSG Systems by the Company on November 30, 1994, and the accounts of Bytel since June 28, 1996. All material intercompany accounts and transactions have been eliminated.

Use of Estimates in Preparation of Consolidated Financial Statements

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles 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 the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Revenue Recognition

Processing and related services are recognized as the services are performed. Processing fees are typically billed based on the number of client's customers serviced, ancillary services are typically billed on a per transaction basis, and certain customized print and mail services are billed on a usage basis. Software license fees consist of both one-time perpetual licenses and term licenses. Perpetual license fees are typically recognized upon shipment, depending upon the nature and extent of the installation services, if any, to be provided by the Company. Term license fees and maintenance fees are recognized ratably over the contract term. Professional services are recognized as the related services are performed.

Payments received for revenues not yet recognized are reflected as deferred revenue in the accompanying consolidated balance sheets.

Property and Equipment

Property and equipment are recorded at cost and are depreciated over their estimated useful lives ranging from two to ten years. Depreciation is computed using the straight-line method.

Property and equipment at December 31 consists of the following (in thousands):

	1996	1995
Computer equipment	$ 15,546	$10,827
Leasehold improvements	1,205	1,055
Operating equipment	4,156	2,048
Furniture and equipment	1,971	1,674
Construction in process	857	--
Other	22	36
	23,757	15,640
Less--accumulated depreciation	(10,664)	(5,759)
Property and equipment, net	$ 13,093	$ 9,881

Software

Software at December 31 consists of the following (in thousands):

	1996	1995
Acquired software	$ 33,422	$ 33,000
Internally developed software	3,131	--
	36,553	33,000
Less--accumulated amortization	(22,924)	(11,917)
Software, net	$ 13,629	$ 21,083

Acquired software resulted from the Acquisition and is stated at cost.

The Company capitalizes certain software development costs when the resulting products reach technological feasibility and begins amortization of such costs upon the general availability of the products for licensing. Capitalized costs of $3.1 million for 1996 include $2.5 million of internal development costs and $0.6 million of purchased software.

Amortization of internally developed software and acquired software costs begins when the products are available for general release to clients and is computed separately for each product as the greater of (a) the ratio of current gross revenue for a product to the total of current and anticipated gross revenue for the product or (b) the straight-line method over the remaining estimated economic life of the product. Currently, estimated lives of two to three years are used in the calculation of amortization.

Noncompete Agreements and Goodwill

Noncompete agreements and goodwill as of December 31 are as follows (in thousands):

	1996	1995
Noncompete agreements	$26,812	$25,000
Goodwill	11,490	6,812
	38,302	31,812
Less-accumulated amortization	(12,572)	(6,155)
Noncompete agreements and goodwill, net	$25,730	$25,657

The noncompete agreements resulted from acquisitions and are being amortized on a straight-line basis over the terms of the agreements, ranging from three to five years. Goodwill resulted from acquisitions and is being amortized over seven to ten years on a straight-line basis (Note 3).

Client Contracts and Related Intangibles

Client contracts and client conversion methodologies resulted from the Acquisition and are being amortized over their estimated lives of five and three years, respectively. As of December 31, 1996 and 1995, accumulated amortization for these items was $8.5 million and $4.4 million, respectively.

Realizability of Long-Lived and Intangible Assets

The Company continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived and intangible assets may warrant revision or that the remaining balance of these assets may not be recoverable. When factors indicate that these assets should be evaluated for possible impairment, the Company uses an estimate of the Company's undiscounted future cash flows over the remaining life of these assets in measuring whether these assets are realizable. No adjustments to the carrying value of these assets or their estimated lives have been made since the inception of the Company.

Financial Instruments with Market Risk and Concentrations of Credit Risk

In the normal course of business, the Company is exposed to credit risk resulting from the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. The Company regularly monitors credit risk exposures and takes steps to mitigate the likelihood of these exposures resulting in a loss. The primary counterparties to the Company's accounts receivable and sources of the Company's revenues consist of cable television providers throughout the United States.

Translation of Foreign Currency

The Company's foreign subsidiary, Bytel, uses the British pound as its functional currency. Bytel's assets and liabilities are translated into U.S. dollars at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at the average rates of exchange prevailing during the period. Translation gains and losses are included as a component of stockholders' equity. Transaction gains and losses related to intercompany accounts are not material and are included in the determination of net loss.

Net Loss Per Common and Equivalent Share

Net loss per common and equivalent share for the year ended December 31, 1996, is based on the weighted average number of shares of common stock and common equivalent shares related to Redeemable Convertible Preferred Stock. Pursuant to Securities and Exchange Commission Staff Accounting Bulletin No. 83, all shares and options issued prior to 1996 have been treated as if they were outstanding for all periods presented, including periods in which the effect is antidilutive.

Increase in Authorized Shares and Stock Split

In January 1996, the Company completed a two-for-one stock split of its common stock effected as a stock dividend. Accordingly, all share and per share amounts have been retroactively adjusted. In March 1996, the Company amended its Certificate of Incorporation to increase the number of authorized shares of common stock to 100,000,000 and to authorize 10,000,000 shares of preferred stock.

Reclassification

Certain December 31, 1995, amounts have been reclassified to conform to the December 31, 1996, presentation.

3. ACQUISITIONS

On November 30, 1994, the Company acquired all of the outstanding capital stock of CSG Systems for approximately $137 million in cash. The Acquisition was funded primarily from proceeds from the issuance of common and preferred stock (Note 4) and long-term debt (Note 5).

The acquisition of CSG Systems was recorded using the purchase method of accounting. Of the $137 million purchase price, $13 million was allocated to net tangible assets, with property and equipment of $10.2 million being the primary component. The cost in excess of the fair value of the net tangible assets was allocated to the following intangible assets (in thousands):

	AMOUNT	ASSET LIFE (YEARS)
Purchased research and development	$ 40,953	--
Acquired software	33,000	3
Noncompete agreement and goodwill:		
Noncompete agreement	25,000	5
Goodwill	6,812	10
Client contracts and related intangibles:		
Client contracts	15,000	5
Client conversion methodologies	3,280	3
	$124,045	

Purchased research and development represents research and development of software technologies which had not reached technological feasibility as of the Acquisition date. Purchased research and development was charged to operations as of the Acquisition date.

Acquired software represents the value assigned to existing software products, the noncompete agreement is with FDC and has a five-year term, client contracts represent the value assigned to existing client contracts as of the Acquisition date, and client conversion methodologies represent the value assigned to documented conversion methods, systems, materials and procedures that enable the Company to efficiently convert clients to the Company's systems.

The following represents the unaudited pro forma results of operations for the year ended December 31, 1994, as if the Acquisition had occurred on January 1, 1994 (in thousands, except per share amounts):

Total revenues	$ 83,838
Loss from continuing operations	(53,706)
Pro forma loss from continuing operations per common and equivalent share	$ (2.39)

On June 28, 1996, the Company acquired all of the outstanding shares of Bytel for approximately $3.1 million in cash and assumption of certain liabilities of $1.6 million (the Bytel Acquisition). The Bytel Acquisition was recorded using the purchase method of accounting. The cost in excess of the fair value of the net tangible assets acquired of $4.2 million was allocated to goodwill. Bytel is a United Kingdom company which provides customer management software to the cable and telecommunications industries in the United Kingdom.

The following represents the unaudited pro forma results of operations as if the Bytel Acquisition had occurred on January 1 (in thousands, except per share amounts):

	YEAR ENDED DECEMBER 31, 1996	1995
Total revenues	$136,536	$105,275
Loss before extraordinary item and discontinued operations	(3,850)	(17,660)
Pro forma loss before extraordinary item and discontinued operations per common and equivalent share	(.15)	(.79)

The pro forma financial information shown above does not purport to be indicative of results of operations that would have occurred had the acquisitions taken place at the beginning of the periods presented or of the future results of operations.

4. PREFERRED STOCK

The following table represents the Redeemable Convertible Preferred Stock activity (in thousands, except share and per share amounts):

Balance, at inception (October 17, 1994)	$ --
Issuance of 8,999,999 shares for cash ($6.56 per share)	59,062
Accretion	4
Accrued dividends	297
Balance, December 31, 1994	59,363
Accretion	36
Accrued dividends	3,586
Balance, December 31, 1995	62,985
Accretion	7
Accrued dividends	614
Payment of accrued dividends	(4,497)
Conversion into 17,999,998 shares of common stock	(59,109)
Balance, December 31, 1996	$ --

All Redeemable Convertible Preferred Stock converted into 17,999,998 shares of the Company's common stock upon completion of the IPO.

In conjunction with the Acquisition (Note 3), the Company sold for cash 8,999,999 shares of Redeemable Convertible Preferred Stock with a par value of $.01 per share. Total proceeds, net of issuance costs of $0.4 million, were $59.1 million ($6.56 per share).

The holders of Redeemable Convertible Preferred Stock were entitled to vote on all matters and were entitled to the number of votes equivalent to the number of shares of common stock into which such shares of Redeemable Convertible Preferred Stock were converted.

Prior to completion of the IPO, the holders of the outstanding shares of Redeemable Convertible Preferred Stock were entitled to receive cumulative annual dividends of $.3967 per share, prior to any dividends being paid on the Company's common stock. No dividends or other distributions could be made with respect to the Company's common stock until all accrued dividends on Redeemable Convertible Preferred Stock were paid. As of December 31, 1995 and 1994, the Company had not declared any dividends on Redeemable Convertible Preferred Stock. Cumulative accrued undeclared dividends on Redeemable Convertible Preferred Stock as of December 31, 1995 and 1994, were approximately $3.9 million and $0.3 million, respectively. Upon completion of the IPO and the resulting conversion into common stock, the Company paid dividends on the Redeemable Convertible Preferred Stock of $4.5 million.

Prior to completion of the IPO, the Company was required to redeem Redeemable Convertible Preferred Stock on November 30, 2005. The redemption price was payable in cash and was equal to $6.61 per share plus any accrued and unpaid dividends. The excess of the redemption value over the carrying value was being accreted through periodic charges to accumulated deficit over the life of the issue.

5. DEBT

The Acquisition discussed in Note 3 was partially funded with debt placed through a $100.0 million loan agreement with a bank. The loan agreement consisted of two term loans, one in the amount of $50.0 million (Tranche A Loan) and one in the amount of $45.0 million (Tranche B Loan), and a Revolving Credit Facility in the amount of $5.0 million. The loan agreement was collateralized by substantially all of the Company's assets and CSG System's common stock. As of December 31, 1995, the accompanying consolidated balance sheet included $2.6 million of deferred financing costs related to this loan agreement which were being amortized to interest expense over the term of the loan agreement using a method which approximated the effective interest rate method. Interest rates under the loan agreement were based on an adjusted LIBOR rate or the bank's prime rate and were chosen at the option of the Company.

In conjunction with the IPO, the Company refinanced its loan agreement with its bank. The Company repaid approximately $40.6 million of the Tranche A and Tranche B Loans, principally with IPO proceeds. The remaining balance of the Tranche A and Tranche B Loans was refinanced with a single $40.0 million term note with the bank (the New Loan Agreement). In conjunction with the payment of the Tranche A and Tranche B Loans, the Company recorded an extraordinary loss of $1.3 million for the write-off of deferred financing costs. The Company did not recognize any income tax benefit related to the extraordinary loss. As of December 31, 1996, the accompanying consolidated balance sheet included $0.9 million of deferred financing costs which are being amortized to interest expense over the term of the New Loan Agreement using a method which approximates the effective interest rate method. Under the New Loan Agreement, the Company retained its $5.0 million Revolving Credit Facility. The Company pays an annual commitment fee of .375 percent on its unused Revolving Credit Facility. Interest rates under the New Loan Agreement for both the term loan and Revolving Credit Facility are based on an adjusted LIBOR rate or the bank's prime rate and are chosen at the option of the Company. The New Loan Agreement is collateralized by substantially all of the Company's assets and CSG System's common stock.

The carrying amount of the Company's long-term debt approximates fair value due to its variable interest rates.

Long-term debt as of December 31 consists of the following (in thousands):

	1996	1995
Bank Loan due December 31, 2000, quarterly principal payments ranging from $1.6 to $2.5 million, interest at adjusted LIBOR plus 1.0 percent (6.375 percent at December 31, 1996)..	$ 32,500	$ --
Tranche A Loan, originally due November 30, 1999, quarterly principal payments ranging from $2.5 to $3.1 million, interest at adjusted LIBOR plus 2.5 percent (ranging from 8.25 percent to 8.4375 percent at December 31, 1995), paid in full in 1996...............	--	41,293
Tranche B Loan, originally due November 30, 2001, quarterly principal payments ranging from $1.3 to $5.0 million scheduled to begin February 28, 1999, at adjusted LIBOR plus 3 percent (8.9735 percent at December 31, 1995), paid in full in 1996............	--	43,775
Revolving Credit Facility, due December 31, 2000, interest at adjusted LIBOR plus 1.0 percent (6.375 percent at December 31, 1996)..........................	--	--
	32,500	85,068
Less-current portion..................................	(10,000)	(10,000)
Long-term debt, net of current maturities...............	$ 22,500	$ 75,068

The Company was required to make early payments on Tranche A and Tranche B Loans upon the receipt of certain funds. During the years ended December 31, 1996 and 1995, respectively, the Company made early payments on Tranche A and Tranche B Loans of $2.0 million and $2.4 million.

There were no outstanding borrowings on the Revolving Credit Facility during the years ended December 31, 1996 and 1995. Maximum borrowings under the Revolving Credit Facility for the period from inception (October 17, 1994) through December 31, 1994, were $0.4 million. The average outstanding borrowings and the average interest rate during the period from inception (October 17, 1994) through December 31, 1994, were $0.2 million and 9.75 percent, respectively. The Company's ability to borrow under the Revolving Credit Facility is subject to maintenance of certain levels of eligible receivables. At December 31, 1996, all of the $5.0 million Revolving Credit Facility was available to the Company.

Interest expense for the years ended December 31, 1996 and 1995, and the period from inception (October 17, 1994) through December 31, 1994, includes amortization of deferred financing costs of approximately $0.6 million, $0.9 million and $0.1 million, respectively.

The New Loan Agreement, as amended, requires maintenance of certain financial ratios and contains other restrictive covenants, including restrictions on intercompany dividends and advances from CSG Systems, a fixed charge coverage ratio and limitations on the amount of annual capital expenditures. As of December 31, 1996, 1995 and 1994, the Company was in compliance with all covenants or had received the appropriate waivers from its bank.

As of December 31, 1996, scheduled maturities of the New Loan Agreement for each of the years ending December 31 are (in thousands):

1997	$10,000
1998	8,000
1999	8,000
2000	6,500
	$32,500

6. INCOME TAXES

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes." SFAS 109 is an asset and liability approach which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events which have been recognized in the Company's consolidated financial statements or tax returns. In estimating future tax consequences, SFAS 109 generally considers all expected future events other than enactment of or changes in the tax law or rates.

Income tax provision (benefit) consists of the following (in thousands):

	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995	FOR THE PERIOD FROM INCEPTION (OCTOBER 17, 1994) THROUGH DECEMBER 31, 1994
Current:			
Federal	$1,225	$ 249	$ --
State	230	47	--
	1,455	296	--
Deferred:			
Federal	(1,882)	(6,329)	(15,849)
State	(353)	(1,188)	(2,975)
	(2,235)	(7,517)	(18,824)
Increase in valuation allowance	780	7,221	15,067
Net income tax benefit	$ --	$ --	$ (3,757)

The difference between the income tax benefit computed at the statutory federal income tax rate and the financial statement benefit for income taxes is summarized as follows (in thousands):

	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995	FOR THE PERIOD FROM INCEPTION (OCTOBER 17, 1994) THROUGH DECEMBER 31, 1994
Benefit at federal rate of 34 percent	$(1,270)	$(6,521)	$(15,116)
Losses with no current benefit	1,149	5,962	11,325
Basis differences from acquisition	(1,346)	--	--
Amortization of nondeductible goodwill	231	227	19
Stock-based employee compensation	1,214	286	--
Other	22	46	15
	$ --	$ --	$ (3,757)

The deferred tax assets and liabilities result from differences in the timing of the recognition of certain income and expense items for tax and financial reporting purposes. The sources of these differences at December 31 are as follows (in thousands):

	1996	1995
Current deferred tax assets:		
Accrued expenses and reserves	$ 744	$ 1,599
Valuation allowance	(699)	(1,599)
	$ 45	$ --
Noncurrent deferred tax assets (liabilities):		
Purchased research and development	$13,040	$14,042
Software	4,743	2,275
Investment in discontinued operations	2,053	2,053
Client contracts and related intangibles	1,766	631
Noncompete agreements	2,467	1,057
Property and equipment	(262)	139
Other	883	492
	24,690	20,689
Valuation allowance	(23,334)	(20,689)
	$ 1,356	$ --

As part of the Bytel Acquisition, the Company acquired certain net deferred tax assets and established a valuation allowance of approximately $1.0 million against those net deferred tax assets as of the acquisition date. As of December 31, 1996, Bytel has a United Kingdom operating loss carry forward of approximately $1.1 million which has no expiration date.

At December 31, 1996, management evaluated its 1996 and 1995 operating results, as well as projections for 1997 and 1998 and concluded that it was more likely than not that certain of the deferred tax assets would be realized. Accordingly, the Company has recognized a deferred tax asset of $1.4 million. The Company has recorded a valuation allowance against the remaining deferred tax assets since realization of these future benefits is not sufficiently assured as of December 31, 1996.

7. EMPLOYEE RETIREMENT BENEFIT PLANS

Defined Benefit Retirement Plan

Certain employees of the Company participated in FDC's U.S. defined benefit pension plan prior to November 30, 1994. At that time, the employees' participation in the plan was terminated. Pursuant to the Acquisition, the obligation to fund the employees' accrued benefits through November 30, 1994, is solely the obligation of FDC. Effective December 1, 1994, the Company established a replacement plan for these employees which provided for service credit effective as of that date. No new participants were allowed to enter this plan after December 1, 1994.

Benefits under the plan are based on years of service and the employees' compensation during employment. Contributions to the plan are determined by an independent actuary on the basis of periodic valuations using the projected unit cost method. The Company's general funding policy is to contribute annually the maximum amount that can be deducted for income tax purposes. The periodic pension expense for the period from inception (October 17, 1994) through December 31, 1994, was not significant. The components of net periodic pension expense for the years ended December 31, 1996 and 1995, respectively, are as follows (in thousands):

	1996	1995
Service cost benefits earned during the year	$168	$129
Interest costs on projected benefit obligation	61	56
Actual return on plan assets	(28)	--
Net amortization and deferral	46	37
Net periodic pension expense	$247	$222

The following table summarizes the funded status of the plan and the related amounts recognized in the Company's consolidated balance sheets as of December
31 (in thousands):

	1996	1995
Actuarial present value of benefit obligations:		
Vested	$(263)	$(121)
Non-vested	(11)	(9)
Total accumulated benefit obligation	(274)	(130)
Impact of future salary increases	(669)	(581)
Projected benefit obligation	(943)	(711)
Fair value of plan assets	255	230
Projected benefit obligation in excess of plan assets	(688)	(481)
Unrecognized net gain	(4)	--
Unrecognized net transition liability	454	490
Net pension asset (liability) recognized in the Company's consolidated balance sheets	$(238)	$ 9

The most significant actuarial assumptions used in 1996 and 1995 in determining the pension expense and funded status of the plan are as follows:

Discount rate for valuing liabilities	8.5%
Expected long-term rate of return of assets	8.5%
Rate of increase in future compensation levels	5.0%
Cost-of-living adjustment	3.0%

Incentive Savings Plan

The Company sponsors a defined contribution plan covering substantially all employees of the Company. Participants may contribute up to 15 percent of their annual wages, subject to certain limitations, as pretax, salary deferral contributions. The Company makes certain matching and service related contributions to the plan. The Company's matching and service related contributions for the years ended December 31, 1996 and 1995, and the period from inception (October 17, 1994) through December 31, 1994, were approximately $1.5 million, $1.3 million and $0.1 million, respectively.

Deferred Compensation Plan

The Company established a non-qualified deferred compensation plan during 1996 for certain Company executives which allows the participants to defer a portion of their annual compensation. The Company provides a 25 percent matching contribution of the participant's deferral, up to a maximum of $6,250 per year. The Company also credits the participant's deferred account with a specified rate of return on an annual basis. The Company records the actuarially-determined present value of the vested obligations expected to be paid under the plan. As of December 31, 1996, the Company had recorded a liability of $113,000 for this obligation. The Company's expense for this plan for the year ended December 31, 1996, which includes Company contributions and interest expense, was $16,000.

8. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases certain office and production facilities under operating leases which run through 2007. Future aggregate minimum lease payments under these agreements for the years ending December 31, including those leases entered into subsequent to December 31, 1996, are as follows (in thousands):

1997	$ 2,593
1998	2,819
1999	2,590
2000	2,529
2001	2,439
Thereafter	7,853
	$20,823

Total rent expense for the years ended December 31, 1996 and 1995, and the period from inception (October 17, 1994) through December 31, 1994, was approximately $1.9 million, $1.8 million and $0.1 million, respectively.

Service Agreements

The Company has service agreements with FDC and subsidiaries for data processing services, communication charges and other related services. FDC provides data processing and related services required for the operation of the Company's CCS System.

Prior to 1997, the Company was charged a usage-base fee per customer for data processing and related services. The other services were charged based on usage and/or actual costs. The total amount paid under the service agreements for the years ended December 31, 1996 and 1995, and the period from inception (October 17, 1994) through December 31, 1994, was approximately $19.6 million, $16.9 million and $1.3 million, respectively.

Effective January 1, 1997, the Company renegotiated its services agreement with FDC and its subsidiaries. The new agreement expires December 31, 2001, and is cancelable at the Company's option with a) notice of six months any time after January 1, 2000, and b) payment of a termination fee equal to 20 percent of the fees paid in the twelve months preceding the notification of termination. Under the new agreement, the Company is charged based on usage and/or actual costs, and is subject to certain limitations as to the amount of increases or decreases in usage between years. The costs to be incurred under the new agreement are not expected to differ significantly from the previous agreement.

Legal Proceedings

From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. In the opinion of the Company's management, after consultation with legal counsel, the ultimate dispositions of such matters will not have a materially adverse effect on the Company's consolidated financial position or future results of operations.

In December 1996, CSG settled claims for indemnification against FDC arising from CSG's acquisition from FDC of CSG Systems. The claims related to certain patents held by Ronald A. Katz Technology Licensing Partnership L.P. (RAKTL) which allegedly were infringed by the use of certain CSG products. The terms of the settlement were not material to CSG. In connection with the settlement, CSG entered into a non-exclusive patent license agreement with RAKTL, the terms of which are not expected by CSG to have a material effect on its business or future results of operations.

9. DISCONTINUED OPERATIONS

The Company purchased all of the outstanding capital stock of Anasazi on November 30, 1994, for $6 million in cash. Anasazi provides central reservation systems and services for the hospitality and travel industry. On August 31, 1995, the company completed a tax-free reorganization of Anasazi. Stockholders of the Company purchased a controlling interest in Anasazi as part of the reorganization. As part of the reorganization, the Company received $2.0 million cash, surrendered all of its ownership rights in Anasazi's common stock and forgave a portion of a note receivable from Anasazi. In return for such consideration, the Company received a $2.7 million note receivable and shares of convertible preferred stock representing less than a 20 percent ownership interest in Anasazi. Interest on the note receivable was based on the prime interest rate and was being received monthly. The principal amount of the note was due August 1998. In January 1996, the Company received a $2.0 million principal payment on this note, reducing the principal balance of the note to $0.7 million. The proceeds from this payment were used to reduce the Company's indebtedness under its loan agreement. In June 1996, the Company converted the remaining $0.7 million note balance into convertible preferred stock and stock warrants of Anasazi.

The Company has accounted for the reorganization as discontinued operations. As a result, the loss from discontinued operations included in the consolidated statements consists of the net losses of Anasazi prior to September 1, 1995, and the loss on the disposition in August 1995. Revenues from Anasazi's operations for the eight months ended August 31, 1995, and the one month ended December 31, 1994, were $5.8 million and $0.6 million, respectively. The Company did not recognize any income tax benefit related to the loss from discontinued operations.

The Company accounts for its continuing investment in Anasazi after August 31, 1995, under the cost method of accounting. The carrying value of the Company's investment in Anasazi as of December 31, 1996, consisting of the convertible preferred stock and stock warrants of Anasazi, was $0.7 million.

10. COMMON STOCK

In connection with its formation, the Company reserved 4,500,000 shares of common stock for sale to executive officers and other employees of the Company. At the time of the Acquisition, the Company sold 2,587,500 shares of common stock to executive officers for $575,000 in cash ($.22 per share):
1,150,000 shares under stock purchase agreements and 1,437,500 shares under performance stock purchase agreements. Of the remaining reserved shares, 1,655,500 shares were reserved for sale under the Company's Employee Stock Purchase Plan, and 257,000 shares were reserved for issuance under the Company's 1995 Incentive Stock Plan (Note 11). The following table represents the activity for common stock of the Company acquired under employee stock purchase agreements since inception (October 17, 1994) through December 31, 1996:

	STOCK PURCHASE AGREEMENT SHARES	RESTRICTED STOCK SHARES	PERFORMANCE STOCK SHARES	TOTAL SHARES
Shares outstanding, inception (October 17, 1994)..............	--	--	--	--
Shares issued during the period........................	1,150,000	--	1,437,500	2,587,500
Shares outstanding, December 31, 1994............................	1,150,000	--	1,437,500	2,587,500
Shares issued during the year..	--	593,000	1,062,500	1,655,500
Shares outstanding, December 31, 1995............................	1,150,000	593,000	2,500,000	4,243,000
Shares repurchased and canceled in 1996.......................	--	(25,600)	(80,000)	(105,600)
Shares outstanding, December 31, 1996............................	1,150,000	567,400	2,420,000	4,137,400
Shares subject to repurchase, December 31, 1996...............	--	293,200	664,100	957,300

The 1,437,500 shares purchased under the performance stock purchase agreements for the period from inception (October 17, 1994) through December 31, 1994, were subject to a repurchase option of the Company at $.005 per share, exercisable upon termination of employment with the Company. These shares were originally scheduled to be released from the repurchase option not later than November 30, 2001. Upon completion of the IPO, these shares were no longer subject to the repurchase option.

Employee Stock Purchase Plan

The Company reserved 1,655,500 shares of common stock for sale to certain employees pursuant to the Employee Stock Purchase Plan (the Plan). During the year ended December 31, 1995, the Company sold 1,655,500 shares of common stock under the Plan for $1,378,000 (ranging from $.22 to $4.25 per share), consisting of $402,000 cash and $976,000 in full recourse promissory notes. Of the shares sold, 593,000 shares were sold under restricted stock agreements (Restricted Stock) and 1,062,500 shares were sold under performance stock agreements.

Restricted Stock. The Restricted Stock shares are subject to certain conditions and restrictions as prescribed by the Restricted Stock agreements. The Company has the option to repurchase the shares upon termination of employment, for the greater of the original purchase price or book value, as defined, depending upon the termination circumstances. These shares were scheduled to be released from the repurchase option not later than November 30, 2001. Upon completion of the IPO, 160,000 shares owned by certain executive officers were no longer subject to the repurchase option. In addition, the repurchase option for the remaining number of shares decreased to 20 percent annually over a five-year period, commencing on the later of an employee's hire date or November 30, 1994. During 1996, the Company repurchased 25,600 unvested shares from terminated employees for $6,000 (ranging from $.22 to $.45 per share).

Performance Stock. The shares sold under performance stock agreements are subject to certain conditions and restrictions as prescribed by the agreements. The Company has the option to repurchase the shares for the original purchase price upon termination of employment. These shares were scheduled to be released from the repurchase option not later than November 30, 2001. Upon completion of the IPO, the repurchase option for these shares decreased to 20 percent annually over a five-year period, commencing on the later of an employee's hire date or November 30, 1994. During 1996, the Company repurchased 80,000 unvested shares from terminated employees for $19,000 (ranging from $.22 to $.45 per share).

Certain Company employees financed a portion of their common stock purchases under the Plan with full recourse promissory notes. The notes accrue interest at seven percent annually and have terms of approximately five years. As of December 31, 1996, the outstanding balance of the promissory notes is approximately $861,000 and is reflected as a component of stockholders' equity.

Stock-Based Employee Compensation Expense

The structure of the performance stock agreements required "variable" accounting for the related shares until the performance conditions were removed on October 19, 1995, thereby establishing a measurement date. At that date, the Company recognized total deferred compensation of $5.8 million which represents the difference between the price paid by the employees and the estimated fair value of the stock at October 19, 1995. The fair value of the stock was estimated by the Company to be $2.75 per share at that date. Prior to the completion of the IPO, the deferred compensation was being recognized as stock-based employee compensation expense on a straight-line basis from the time the shares were purchased through November 30, 2001. Upon completion of the IPO, 1,437,500 of performance stock shares owned by certain executive officers of the Company were no longer subject to the repurchase option. In addition, the repurchase option for the remaining performance stock shares decreased to 20 percent annually over a five-year period, commencing on the later of an employee's hire date or November 30, 1994. As a result, approximately $3.2 million of stock-based employee compensation expense was recorded in the month the IPO was completed. Stock-based employee compensation expense for the years ended December 31, 1996 and 1995, was $3.6 million and $0.8 million, respectively. Deferred compensation of $1.2 million as of December 31, 1996, is reflected as a component of stockholders' equity. Amortization of the stock-based deferred compensation subsequent to 1996 will be approximately $0.4 million per year.

11. STOCK-BASED COMPENSATION PLANS

Stock Incentive Plans

During 1995, the Company adopted the Incentive Stock Plan (the 1995 Plan) whereby 257,000 shares of the Company's common stock have been reserved for issuance to eligible employees of the Company in the form of stock options. The stock options are granted at prices set by the Board of Directors or a Committee of the Board (the Board), provided the minimum exercise price is no less than the fair market value of the Company's common stock at the date of the grant. The term of the outstanding options is 10 years. The 224,350 options outstanding under the 1995 Plan at December 31, 1996, vest annually over five years.

During 1996, the Company adopted the 1996 Stock Incentive Plan (the 1996 Plan) whereby 2,400,000 shares of the Company's common stock have been reserved for issuance to eligible employees of the Company in the form of stock options, stock appreciation rights, performance unit awards, restricted stock awards, or stock bonus awards.

During 1996, the Company granted 5,925 unrestricted stock bonus awards to various employees at no cost under the 1996 Plan. The Company recorded compensation expense of $89,000 ($15 per share) upon the grant of the stock bonus awards.

During 1996, the Company granted stock options under the 1996 Plan. Stock options under the 1996 Plan are granted at prices set by the Board, provided the minimum exercise price is no less than the fair market value of the Company's common stock at the date of the grant. The term of the outstanding options is 10 years. The vesting periods of the options are determined under the discretion of the Board. For the 1,210,380 options outstanding under the 1996 plan at December 31, 1996, 100,000 options vest annually over three years with the remaining shares vesting annually over five years.

A summary of the stock options issued under the 1996 Plan and 1995 Plan and changes during the years ending December 31 are as follows:

	YEAR ENDED DECEMBER 31,			
	1996		1995	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, beginning of year	251,750	$ 1.35	--	$ --
Granted	1,223,380	21.78	251,750	1.35
Exercised	(4,800)	1.33	--	--
Forfeited	(35,600)	7.36	--	--
Outstanding, end of year	1,434,730	$18.62	251,750	$1.35
Options exercisable at year-end	42,150		--	
Weighted-average fair value of options granted during the year	$ 9.77		$ .30	

The following table summarizes information about the Company's stock options as of December 31, 1996:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
$1.25--$3.75	224,350	8.65	$ 1.36	42,150	$1.36
$15.00--$22.125	762,000	9.50	17.51	--	--
$28.75--$29.875	448,380	9.34	29.15	--	--
$1.25--$29.875	1,434,730	9.31	$18.62	42,150	$1.36

In January 1997, the Company granted 573,500 options at $19.375 per share under the 1996 Plan which vest annually over 4 years. These options are not reflected in the above tables as they were granted subsequent to December 31, 1996.

Employee Stock Purchase Plan

During 1996, the Company adopted the 1996 Employee Stock Purchase Plan whereby 250,000 shares of the Company's common stock have been reserved for sale to employees of the Company and its subsidiaries through payroll deductions. The price for shares purchased under the plan is 85% of market value on the last day of the purchase period. Purchases are made at the end of each month. During 1996, 5,753 shares have been purchased under the plan for $83,000 ($13.07 to $17.19 per share.)

Stock-Based Compensation Plans

At December 31, 1996, the Company had three stock-based compensation plans, as described above. The Company accounts for these plans under APB Opinion No. 25, under which no compensation expense has been recognized in 1996 or 1995, except for the $89,000 recognized in 1996 for the 5,925 shares granted as stock bonus awards under the 1996 Plan, as discussed above.

Had compensation expense for the Company's three stock-based compensation plans been based on the fair value at the grant dates for awards under those plans consistent with the method of Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation", the Company's net loss and net loss per common and equivalent share for 1996 and 1995 would approximate the pro forma amounts as follows (in thousands, except per share amounts):

	1996	1995
Net loss:		
As reported	$(3,736)	$(19,180)
Pro forma	(4,649)	(19,184)
Net loss per common and equivalent share:		
As reported	(.15)	(.86)
Pro forma	(.19)	(.86)

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for options granted in 1996 and 1995, respectively: risk-free interest rates of 6.1 percent and 6.3 percent; dividend yield of zero percent for both years; expected lives of 5.0 and 4.0 years; and volatility of 40.0 percent and zero percent. Consistent with SFAS 123, the Company assumed zero volatility for all options granted prior to the date the Company qualified as a public entity.

The effects of applying SFAS 123 in this pro forma disclosure are not indicative of future amounts. SFAS 123 applies only to 1996 and 1995, and additional awards in future years are anticipated.

12. UNAUDITED QUARTERLY FINANCIAL DATA (IN THOUSANDS, EXCEPT PER SHARE DATA)

	QUARTER ENDED			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
1996:				
Operating revenues	$26,757	$30,431	$35,320	$39,789
Gross margin	10,153	12,288	15,722	19,889
Operating income (loss)	(4,992)	(82)	1,541	4,381
Income (loss) before extraordinary item	(6,503)	(696)	948	3,775
Net income (loss)	(7,763)	(696)	948	3,775
Earnings (loss) per common and equivalent share:				
Income (loss) before extraordinary item	(.28)	(.03)	.04	.15
Net income (loss)	(.33)	(.03)	.04	.15
1995:				
Operating revenues	$22,844	$24,092	$23,789	$25,679
Gross margin	7,710	8,763	8,633	9,536
Operating loss	(1,044)	(910)	(2,160)	(2,906)
Loss from continuing operations	(3,302)	(3,010)	(4,236)	(4,879)
Net loss	(4,453)	(3,949)	(5,899)	(4,879)
Loss per common and equivalent share:				
Loss from continuing operations	(.15)	(.14)	(.19)	(.22)
Net loss	(.20)	(.18)	(.26)	(.22)

The first quarter of 1996 includes a $3.2 million nonrecurring charge to record stock-based compensation expense for certain employees vesting in their performance stock purchase agreements effective with the closing of the IPO. See Note 10 for additional discussion. In addition, the first quarter of 1996 includes a $1.3 million extraordinary charge for early extinguishment of debt. See Note 5 for additional discussion.

During the fourth quarter of 1996, the Company recorded a reduction in operating expenses of approximately $1.4 million related to favorable pricing adjustments for processing services previously recorded as expense ratably over the first three quarters of 1996.

During the first three quarters of 1995, the Company had losses from discontinued operations of $1.2 million, $0.9 million and $1.7 million, respectively. See Note 9 for additional discussion.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
Cable Services Group, Inc.:

We have audited the accompanying consolidated balance sheet of Cable Services Group, Inc. as of November 30, 1994, and the related consolidated statements of income, stockholder's equity and cash flows for the eleven months ended November 30, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cable Services Group, Inc. as of November 30, 1994, and the consolidated results of its operations and its cash flows for the eleven months ended November 30, 1994, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Omaha, Nebraska
December 22, 1995

CABLE SERVICES GROUP, INC.

CONSOLIDATED BALANCE SHEET

NOVEMBER 30, 1994
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

ASSETS	
Current Assets:	
Cash	$ 22
Accounts receivable, net of allowance of $217	17,779
Deferred income taxes	680
Other current assets	1,328
Total current assets	19,809
Equipment and furniture, at cost, net	6,248
Goodwill, net of accumulated amortization of $6,852	32,118
Other intangibles, net of accumulated amortization of $5,130	7,393
Other assets	127
	$65,695
LIABILITIES AND STOCKHOLDER'S EQUITY	
Current Liabilities:	
Customer deposits	$ 4,583
Trade accounts payable	3,983
Accrued employee-related liabilities	1,454
Intercompany payables--FDC and subsidiaries, net	465
Other accrued liabilities	621
Deferred revenue	347
Total current liabilities	11,453
Deferred income taxes	773
Intercompany loan--FDC	10,438
Commitments and contingencies (Note 6)	
Stockholder's Equity:	
Common stock, par value $1.00 per share, authorized, issued and outstanding 10 shares	--
Additional paid-in capital	29,515
Retained earnings	13,516
Total stockholder's equity	43,031
	$65,695

The accompanying notes are an integral part of this consolidated balance sheet.

CABLE SERVICES GROUP, INC.

CONSOLIDATED STATEMENT OF INCOME

FOR THE ELEVEN MONTHS ENDED NOVEMBER 30, 1994
(IN THOUSANDS)

Total revenue	$76,081
Expenses:	
Cost of revenues:	
Cost of services	34,977
Amortization of client contracts and related intangibles	1,594
Total cost of revenues	36,571
Gross margin	39,510
Operating expenses:	
Research and development	7,680
Selling and marketing	3,054
General and administrative:	
General and administrative	9,461
Amortization of goodwill	826
Depreciation	3,520
Total operating expenses	24,541
Operating income	14,969
Other income (expense):	
Interest expense paid to FDC	(1,067)
Interest income	227
Total other	(840)
Income before income taxes	14,129
Income tax provision	(5,519)
Net income	$ 8,610

The accompanying notes are an integral part of this consolidated financial statement.

CABLE SERVICES GROUP, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY

FOR THE ELEVEN MONTHS ENDED NOVEMBER 30, 1994
(IN THOUSANDS)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL
Balance, at January 1, 1994	$ --	$27,633	$ 8,347	$35,980
Net income	--	--	8,610	8,610
Cash dividends	--	--	(3,441)	(3,441)
Capital contribution	--	1,882	--	1,882
Balance, at November 30, 1994	$ --	$29,515	$13,516	$43,031

The accompanying notes are an integral part of this consolidated financial statement.

CABLE SERVICES GROUP, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE ELEVEN MONTHS ENDED NOVEMBER 30, 1994
(IN THOUSANDS)

Cash flows from operating activities:	
Net income	$ 8,610
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	3,520
Amortization	2,420
Changes in operating assets and liabilities:	
Accounts receivable, net	(2,476)
Deferred income taxes	557
Other current and noncurrent assets	(410)
Customer deposits	224
Trade accounts payable and accrued liabilities	1,813
Intercompany payables-FDC and subsidiaries, net	(1,078)
Deferred revenue	46
Net cash provided by operating activities	13,226
Cash flows from investing activities:	
Payments for other intangibles	(1,974)
Purchase of equipment and furniture, net	(3,795)
Net cash used in investing activities	(5,769)
Cash flows from financing activities:	
Net decrease in intercompany loan-FDC	(5,937)
Dividends paid to FDC	(3,441)
Capital contribution from FDC	1,882
Net cash used in financing activities	(7,496)
Net decrease in cash and cash equivalents	(39)
Cash and cash equivalents, at beginning of period	61
Cash and cash equivalents, at end of period	$ 22
Supplemental cash flow information:	
Income taxes paid to FDC	$ 5,700
Interest paid to FDC	$ 1,067

The accompanying notes are an integral part of this consolidated financial statement.

CABLE SERVICES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND BASIS OF PRESENTATION

Cable Services Group, Inc. (the Company or CSG), was a wholly owned subsidiary of First Data Resources Inc. (FDR) which is a wholly owned subsidiary of First Data Corporation (FDC).

Prior to January 1, 1994, the Company operated as a division of FDR (Cable Division) and IntelliTEK Computer Corporation (IntelliTEK) operated as a wholly owned subsidiary of FDR. Effective January 1, 1994, the newly created legal entity of CSG issued common stock to FDR in exchange for the net assets of the Cable Division and IntelliTEK. This transaction was accounted for in a manner similar to the pooling-of-interests method whereby the historical accounts have been combined effective January 1, 1994. Accordingly, the accompanying financial statements have been prepared to reflect the accounts of CSG and IntelliTEK on a consolidated basis. The Company believes there were no material costs incurred on behalf of the Company by its parent company which have not been reflected in the accompanying consolidated financial statements.

FDC sold the Company to CSG Systems International, Inc. effective November 30, 1994 (the Acquisition).

The Company provides billing and customer management solutions, encompassing processing services, software products and other services, for the converging cable television, direct broadcast satellite, telecommunications and on-line services industries. The Company's offerings automate the full spectrum of billing and customer services functions, including sales support and order processing, invoice calculation and production, and management reporting and market analysis.

The Company had two significant customers which, in the aggregate, contributed approximately 39 percent of the Company's consolidated revenues for the eleven months ended November 30, 1994. The largest single client contributed approximately 23 percent of the Company's consolidated revenues for the eleven months ended November 30, 1994.

In the normal course of business, the Company is exposed to credit risk resulting from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. The Company regularly monitors credit risk exposures and takes steps to mitigate the likelihood of these exposures resulting in a loss. The primary counterparties to the Company's accounts receivable and sources of the Company's revenues consist of cable television providers in the United States.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of CSG and IntelliTEK. All material intercompany accounts and transactions have been eliminated.

Equipment and Furniture

Equipment and furniture are depreciated over their estimated useful lives ranging from three to eight years. Depreciation is computed using the straight-line method.

Equipment and furniture at November 30, 1994, consists of the following (in thousands):

Computer and operating equipment	$ 16,944
Leasehold improvements	1,625
Furniture and fixtures	5,430
	23,999
Less accumulated depreciation	(17,751)
Equipment and furniture, net	$ 6,248

Goodwill and Other Intangibles

Goodwill represents the excess of purchase price over tangible and other identifiable assets acquired less liabilities assumed arising primarily from the 1988 acquisition of IntelliTEK and, to a lesser extent, the 1985 acquisition of Gill Management Services, Inc. and is being amortized over an estimated useful life of 40 years.

Other intangible assets consist principally of rights to provide processing services to clients. These costs are amortized as a percentage of expected revenue over the length of the contract or benefit period, typically 3 to 10 years, and are included in amortization of client contracts and related intangibles in the accompanying consolidated statements of income.

Software Development Costs

Internal costs of computer software development are expensed as incurred.

Revenue Recognition

The Company's revenues are derived principally from processing fees from its core product, Communications Control System (CCS(TM)), services ancillary to CCS, and customized print and mail services. Processing and related services are recognized as the services are performed. Processing fees are typically billed based on the number of customers serviced, ancillary services are typically billed on a per transaction basis, and certain customized print and mail services are billed on a usage basis.

Payments received for revenues not yet recognized are reflected as deferred revenue in the accompanying consolidated balance sheet.

3. RELATED-PARTY TRANSACTIONS

Interest expense in the consolidated statements of income represents interest paid on an intercompany loan from FDC. The loan bears interest at an annually adjusted floating rate (8.25 percent for the eleven months ended November 30, 1994) reflective of FDC's cost of external debt and is repaid based upon available cash flows of the Company.

The Company has entered into various transactions with FDC and its subsidiaries. The following table lists fees paid by the Company to FDC and its subsidiaries for the eleven months ended November 30, 1994 (in thousands):

Data processing and related services	$12,513
Communications	4,726
Professional and administrative services	2,982
Equipment maintenance and other	930
Benefits and incentives	1,036

The Company is charged a usage-based fee per customer for data processing and related services. The other expenses are charged based on usage and/or actual costs. Management does not believe that had the Company been operating other than as an affiliate of FDC, there would have been a material impact on net income.

4. INCOME TAXES

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes." SFAS 109 is an asset and liability approach which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events which have been recognized in the Company's consolidated financial statements or tax returns. In estimating future tax consequences, SFAS 109 generally considers all expected future events other than enactment of or changes in the tax law or rates.

The taxable income of the Company is included in the consolidated U.S. federal income tax return of FDC. Under an agreement with FDC, the provision for income taxes and tax benefits is determined by the Company on a stand- alone basis. Current income taxes are remitted to, and benefits received from, FDC.

The provision for income taxes for the eleven months ended November 30, 1994, consists of the following (in thousands):

Federal	$5,199
State and local	320
Total	$5,519

Deferred income taxes result from the recognition of temporary differences. Temporary differences are differences between the tax bases of assets and liabilities and their reported amounts in the financial statements that will result in differences between income for tax purposes and income for financial statement purposes in future years. The provision for income taxes for the eleven months ended November 30, 1994, consists of the following (in thousands):

Current	$5,360
Deferred	159
Total	$5,519

The Company's net deferred tax assets (liabilities) consist of the following as of November 30, 1994 (in thousands):

Deferred tax assets:	
Deferred revenue	$ 45
Other liabilities	1,058
Total deferred tax assets	1,103
Valuation allowance	--
Deferred tax assets, net of valuation allowance	1,103
Deferred tax liabilities:	
Depreciation and amortization	(1,147)
Other liabilities	(49)
Total deferred tax liabilities	(1,196)
Net deferred tax liabilities	$ (93)

Cash payments to FDC for net income taxes during the eleven months ended November 30, 1994, were $5.7 million. Included in intercompany payables-FDC and subsidiaries, net at November 30, 1994, was an income tax receivable from FDC for $1.1 million.

The reconciliation of income tax attributable to continuing operations computed at the U.S. federal statutory tax rate to income tax expense for the eleven months ended November 30, 1994, consists of the following (in thousands):

Tax at U.S. statutory rate (35 percent)	$4,945
Increases in taxes resulting from:	
State and local taxes, net of federal income tax benefit	208
Amortization of goodwill	311
All other	55
	$5,519

5. EMPLOYEE BENEFIT PLANS

Defined Benefit Retirement Plan

Eligible employees of the Company participate in FDC's U.S. defined benefit pension plan that covers substantially all full-time employees of FDC and its participating subsidiaries. Net pension costs for the eleven months ended November 30, 1994, were approximately $265,000.

Incentive Savings Plan

FDC has an incentive savings plan which allows eligible employees of FDC and its subsidiaries to contribute a percentage of their compensation and provides for certain matching and service related contributions. The Company's matching and service related contributions associated with the plan for the eleven months ended November 30, 1994, were approximately $617,000.

Long-Term Incentive Plan

Certain of the Company's officers, key employees and other individuals participate in the First Data Corporation 1992 Long-Term Incentive Plan (the 1992 Plan). Awards under the 1992 Plan may be in the form of stock options, stock appreciation rights, restricted stock, performance grants and other types of awards that the Compensation and Benefits Committee of FDC's Board of Directors deems to be consistent with the purposes of the 1992 Plan. FDC options granted to the Company's employees are generally at a price equivalent to the fair market value at the date of grant. As of November 30, 1994, FDC terminated the Company's employees participation in the plan. FDC settled all outstanding awards with the Company's employees at that time.

6. COMMITMENTS AND CONTINGENCIES

Operating Leases

FDC and the Company lease certain office and production facilities under cancelable and noncancelable agreements. Total rent expense was $1.1 million for the eleven months ended November 30, 1994.

In July 1994, the Company entered into a noncancelable sublease agreement with FDR for an office facility. The lease began August 1995 and extends through 2007 with a minimum annual rental commitment of 1.0 million. This lease replaces all prior office facility lease commitments.

At November 30, 1994, given effect of the new lease discussed above, the minimum aggregate rental commitment under all noncancelable leases was (in thousands): 1995, $1,092; 1996, $1,182; 1997, $1,182; 1998, $1,182; 1999, $1,182; and $7,948 for years thereafter. Most leases contain standard renewal clauses.

Legal Proceedings

The Company is involved in litigation primarily arising in the normal course of its business. In the opinion of management, the Company's recovery or liability, if any, under any pending litigation, would not materially affect its financial condition or operations.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

See the Proxy Statement for the Company's Annual Meeting of Stockholders, which information is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

See the Proxy Statement for the Company's Annual Meeting of Stockholders, which information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

See the Proxy Statement for the Company's Annual Meeting of Stockholders, which information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

See the Proxy Statement for the Company's Annual Meeting of Stockholders, which information is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Financial Statements, Financial Statement Schedules, and Exhibits:

(1) Financial Statements

The financial statements filed as part of this report are listed on the Index to Financial Statements on page 21.

(2) Financial Statement Schedules:

Index to Consolidated Financial Statement Schedules

(3) Exhibits

Exhibits are listed in the Exhibit Index on page 62.

The Exhibits include management contracts, compensatory plans and arrangements required to be filed as exhibits to the Form 10-K by Item 601(10)(iii) of Regulation S-K.

(b) Reports on Form 8-K

Form 8-K dated July 9, 1996, as amended by Form 8-K(A) filed on September 9, 1996, and Form 8-K(A) Amendment No. 2 filed on September 25, 1996, under Item 2, Acquisition or Disposition of

Assets, was filed with the Securities and Exchange Commission reporting the acquisition of the capital stock of Bytel Limited. The financial statements included in the Form 8-K(A) were as follows:

Financial statements for Bytel Limited as at and for the year ended 30 April 1996.

Pro forma combined financial statements for CSG Systems International, Inc. and Bytel Limited for the year and six months ended December 31, 1995, and June 30, 1996, respectively.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

CSG Systems International, Inc.

/s/ Neal C. Hansen
By: ___________________________________
NEAL C. HANSEN CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

Date: March 31, 1997

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN CAPACITIES AND ON THE DATES INDICATED.

SIGNATURE	TITLE	DATE
/s/ Neal C. Hansen ------------------------------------ NEAL C. HANSEN	Chairman of the Board, Chief Executive Officer	March 31, 1997
/s/ George F. Haddix, Ph.D. ------------------------------------ GEORGE F. HADDIX, PH.D.	President and Director	March 31, 1997
/s/ David I. Brenner ------------------------------------ DAVID I. BRENNER	Executive Vice President, Chief Financial Officer	March 31, 1997
/s/ Randy R. Wiese ------------------------------------ RANDY R. WIESE	Controller, Principal Accounting Officer	March 31, 1997
* ------------------------------------ ROYCE J. HOLLAND	Director	March 31, 1997
* ------------------------------------ BERNARD W. REZNICEK	Director	March 31, 1997
* ------------------------------------ ROCKWELL A. SCHNABEL	Director	March 31, 1997
* ------------------------------------ FRANK V. SICA	Director	March 31, 1997

* By: /s/ David I. Brenner

DAVID I. BRENNER
ATTORNEY-IN-FACT

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON SCHEDULE OF CSG SYSTEMS INTERNATIONAL, INC.

To the Board of Directors of CSG
Systems International, Inc.:

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements of CSG Systems International, Inc. and Subsidiaries included in this Form 10-K and have issued our report thereon dated January 27, 1997. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of CSG Systems International, Inc. listed in Item 14 of Part IV of this 10-K is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Omaha, Nebraska
January 27, 1997

CSG SYSTEMS INTERNATIONAL, INC.

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS
ALLOWANCE FOR DOUBTFUL ACCOUNTS

	FOR THE YEAR ENDED DECEMBER 31, 1996	FOR THE YEAR ENDED DECEMBER 31, 1995	FOR THE PERIOD FROM INCEPTION (OCTOBER 17, 1994) THROUGH DECEMBER 31, 1994
	(IN THOUSANDS)		
Balance, beginning of period	$ 521	$ 457	$--
Acquisition of businesses	101	--	217
Additions charged to expense	319	310	257
Reductions	(122)	(246)	(17)
Balance, end of period	$ 819	$ 521	$457

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON SCHEDULE OF CABLE SERVICES GROUP, INC.

To the Board of Directors of
Cable Services Group, Inc.:

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements of Cable Services Group, Inc. included in this Form 10-K and have issued our report thereon dated December 22, 1995. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of Cable Services Group, Inc. listed in Item 14 of Part IV of this 10-K is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Omaha, Nebraska
December 22, 1995

CABLE SERVICES GROUP, INC.

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS
ALLOWANCE FOR DOUBTFUL ACCOUNTS

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS: CHARGED TO COSTS AND EXPENSES	ADDITIONS: CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF PERIOD
	(IN THOUSANDS)				
Eleven months ended November 30, 1994......	$390	$--	$--	($173)	$217

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
2.01(1)	Agreement of Merger among CSG Systems International, Inc., CSG Acquisition Corporation, Cable Services Group, Inc. and First Data Resources Inc., dated October 26, 1994
2.02(1)	Agreement of Merger among CSG Systems International, Inc., Anasazi Acquisition Corporation, Anasazi Inc. and First Data Corporation, dated November 29, 1994
2.03(1)	Amendment Agreement between First Data Corporation, First Data Resources Inc., CSG Systems International, Inc., CSG Systems, Inc. and Anasazi Inc., dated April 27, 1995
2.04(1)	Pre-Merger Loan Agreement among CSG Acquisition Corporation, certain lenders, and Banque Paribas, as Agent, dated November 30, 1994
2.05(3)	Amended and Restated Loan Agreement among CSG Systems, Inc., certain lenders, and Banque Paribas, as Agent, dated April 26, 1996
2.06(1)	Anasazi Inc. Series A and B Preferred Stock Purchase Agreement among Anasazi Inc. and each of the purchasers listed on the Schedule of Purchasers attached thereto, dated August 31, 1995
2.07(1)	Founder Stock Purchase Agreement between CSG Systems International, Inc. and Neal C. Hansen, dated November 30, 1994
2.08(1)	Founder Stock Purchase Agreement between CSG Systems International, Inc. and George Haddix, dated November 30, 1994
2.09(1)	Founder Performance Stock Purchase Agreement between CSG Systems International, Inc. and Neal C. Hansen, dated November 30, 1994, and first and second amendments thereto
2.10(1)	Founder Performance Stock Purchase Agreement between CSG Systems International, Inc. and George Haddix, dated November 30, 1994, and first and second amendments thereto
2.11(1)	Series A Preferred Stock Purchase Agreement among CSG Systems International, Inc. and the purchasers listed on the Schedule of Purchasers attached thereto, dated November 30, 1994
2.12(1)	Stockholders Agreement among CSG Systems International, Inc. and each of the investors listed on the Schedule of Investors attached thereto, dated November 30, 1994
2.13(1)	Stockholders Agreement among Anasazi Inc. and each of the investors listed on the Schedule of Investors attached thereto, dated August 31, 1995
2.14(1)	Swap Transaction Cap letter agreements dated December 16, 1994
2.15(1)	Consent and Limited Waiver dated as of January 4, 1996, by and among CSG Systems, Inc., the Company, and Banque Paribas, as Agent
2.16(2)	Share Purchase Agreement among Cray Systems Ltd., Digital Equipment Company Ltd. and CSG Systems International, Inc. dated June 28, 1996
2.17(2)	Administration and Development Services Agreement between Cray Systems Ltd. and Bytel Limited dated June 28, 1996
2.18(4)	First Amendment and Limited Waiver, dated August 14, 1996, to the Amended and Restated Loan Agreement among CSG Systems, Inc., certain lenders and Banque Paribas, as Agent
3.01(1)	Restated Certificate of Incorporation of the Company
3.02(1)	Restated Bylaws of the Company
4.01(1)	Form of Common Stock Certificate
10.01(1)	CSG Systems International, Inc. 1995 Incentive Stock Plan
10.02(1)	CSG Employee Stock Purchase Plan
10.03(1)	CSG Systems International, Inc. 1996 Stock Incentive Plan

EXHIBIT NUMBER	DESCRIPTION
10.04(1)	Employee Performance Stock Purchase Agreement between CSG Systems International, Inc. and George Haddix, dated August 17, 1995, and first amendment thereto
10.05(1)	Employee Restricted Stock Purchase Agreement between CSG Systems International, Inc. and John P. Pogge, dated March 6, 1995
10.06(1)	Employee Performance Stock Purchase Agreement between CSG Systems International, Inc. and John P. Pogge, dated March 6, 1995, and first and second amendments thereto
10.07(1)	Employee Performance Stock Purchase Agreement between CSG Systems International, Inc. and John P. Pogge, dated May 16, 1995, and first and second amendments thereto
10.08(1)	Employee Restricted Stock Purchase Agreement between CSG Systems International, Inc. and David I. Brenner, dated February 14, 1995
10.09(1)	Employee Performance Stock Purchase Agreement between CSG Systems International, Inc. and David I. Brenner, dated February 14, 1995, and first and second amendments thereto
10.10(1)	Employee Performance Stock Purchase Agreement between CSG Systems International, Inc. and David I. Brenner, dated May 16, 1995, and first and second amendments thereto
10.11(1)	Registration Rights Agreement among CSG Systems International, Inc. and the purchasers listed on the Schedule of Purchasers attached thereto, dated November 30, 1994
10.12(1)	Guaranty by CSG Systems International, Inc. in favor of certain lenders and Banque Paribas, as Agent, dated November 30, 1994
10.13(1)	Registration Rights Agreement among Anasazi Inc. and the purchasers listed on the Schedule of Purchasers attached thereto, dated August 31, 1995
10.14(1)	Employment Agreement with Neal C. Hansen
10.15(1)	Employment Agreement with George F. Haddix
10.16(1)	Indemnification Agreements between CSG Systems International, Inc. and its directors and certain officers
10.17(1)	Lease, Assignment and Acceptance of Lease, Assignment and Assumption of Lease, and First Amendment to Lease respecting facility at 2525 North 117th Avenue, Omaha, Nebraska
10.18(1)	Lease, Assignment and Assumption of Leases, and Lease Amendment respecting facility at 14301 Chandler Road, Omaha, Nebraska
10.19(1)	Lease and Sublease respecting facility at 4949 Pearl East Circle, Boulder, Colorado
10.20(1)	Lease and Sublease respecting facility at 5251 DTC Parkway, Englewood, Colorado
10.21(1)*	Services Agreement between First Data Technologies, Inc. and Cable Services Group, Inc., dated October 26, 1994
10.22(1)*	Subscriber Billing Service Agreement between First Data Resources Inc. and TCI Cable Management Corporation, dated April 29, 1992, and Addendum to the Subscriber Billing Service Agreement, dated April 8, 1994
10.23(1)*	Subscriber Billing Service Agreement between Paragon Communications and First Data Resources Inc. dated January 1, 1989, and the first amendment thereto, and Consent to Assignment and Delegation
10.24(1)*	Subscriber Billing Service Agreement between Time Warner Cable and First Data Resources Inc. dated October 27, 1993, and first and second amendments thereto
10.25(1)*	Subscriber Billing Service Agreement between American Cablevision of Coronado and First Data Resources Inc. dated January 5, 1990, and the first amendment thereto

EXHIBIT NUMBER	DESCRIPTION
10.26(1)*	Subscriber Billing Service Agreement between Southwestern Cable TV and First Data Resources Inc. dated October 1, 1985, and amendments thereto
10.27(1)*	Subscriber Billing Service Agreement between First Data Resources Inc. and Manhattan Cable Television, Inc. dated September 25, 1991
10.28(1)*	Subscriber Billing Service Agreement between First Data Resources Inc. and Cablevision Industries Corporation, and addenda one, two and three thereto
10.29(1)*	Subscriber Billing Service Agreement between Warner Cable Communications, Inc. and First Data Resources Inc. dated July 1, 1991, the first and second amendments thereto, and consents to assignment and delegation with respect thereto
10.30(1)*	Subscriber Billing Service Agreement between Time Warner Cable and First Data Resources Inc. dated October 18, 1993
10.31(1)*	Subscriber Billing Service Agreement between Cable Services Group, Inc. and Time Warner Cable of New York dated December 9, 1994, and addenda one and two thereto
10.32(1)*	Subscriber Billing Service Agreement between Cable Services Group, Inc. and Time Warner Programming Co. dated April 30, 1994
10.33(1)*	Subscriber Billing Service Agreement between Paragon Communications and First Data Resources Inc. dated March 9, 1989, and First Amendment thereto dated June 30, 1993, and Consent to Assignment and delegation dated March 1, 1994
10.34(1)*	Subscriber Billing Service Agreement between KBLCOM Inc. and First Data Resources Inc. dated June 20, 1989, Consent to Assignment and Delegation dated January 1, 1994, and Addendum I to Subscriber Billing Service Agreement dated July 27, 1994
10.35(1)*	Subscriber Billing Service Agreement between Paragon Communications and First Data Resources Inc. dated April 14, 1989, and First Amendment thereto dated December 20, 1991, and Consent to Assignment and Delegation dated January 1, 1994
10.36(1)*	Subscriber Billing Service Agreement between Paragon Communications Inc. and First Data Resources Inc. dated March 1, 1989, the first, second, third and fourth amendments thereto, and Consent to Assignment and Delegation
10.37(1)*	Printing and Mailing Services Agreement between CSG Systems, Inc. and PageMart, Inc., dated August 29, 1995
10.38(1)*	First Amendment to Services Agreement between First Data Technologies, Inc. and CSG Systems, Inc. dated December 8, 1995, and Second Amendment to Services Agreement between First Data Technologies, Inc. and CSG Systems, Inc. dated January 30, 1996
10.39	CSG Systems, Inc. Wealth Accumulation Plan, as amended November 14, 1996 (previously filed as Exhibit 10.38 to the Registrant's Quarterly Report for the period ended September 30, 1996)
10.40*	Amended and Restated Services Agreement between First Data Technologies, Inc. and CSG Systems, Inc., formerly known as Cable Services Group, Inc., dated December 31, 1996
10.41	Third Amendment to Subscriber Billing Service Agreement between CSG Systems, Inc. and TCI Cable Management Corporation, dated March 1, 1996
10.42	Fourth Amendment to Subscriber Billing Service Agreement between CSG Systems, Inc. and TCI Cable Management Corporation, dated March 29, 1996
10.43	Fifth Amendment to Subscriber Billing Service Agreement between CSG Systems, Inc. and TCI Cable Management Corporation, dated September 30, 1996
11.01	Statement re: Computation of Per Share Earnings
21.01	Subsidiaries of the Company

EXHIBIT NUMBER	DESCRIPTION
23.01	Consent of Arthur Andersen LLP
24.01	Power of Attorney
27.01	Financial Data Schedule (EDGAR Version Only)
99.01	Safe Harbor for Forward-Looking Statements Under the Private Securities Litigation Reform Act of 1995--Certain Cautionary Statements and Risk Factors

(1) Incorporated by reference to the exhibit of the same number to the Registration Statement No. 333-244 on Form S-1.
(2) Incorporated by reference to the exhibit of the same number to the Registrant's Current Report on Form 8-K dated July 9, 1996.
(3) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 1996.
(4) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 1996. *Confidential Treatment

EXHIBIT 10.40

Pages where confidential treatment has been requested are stamped "Confidential Treatment Requested and the Redacted Material has been separately filed with the Commission," and places where information has been redacted has been marked with (**).

AMENDED AND RESTATED

SERVICES AGREEMENT

BETWEEN

FIRST DATA TECHNOLOGIES, INC.

AND

CSG SYSTEMS, INC.,

FORMERLY KNOWN AS

CABLE SERVICES GROUP, INC.

CONFIDENTIAL - DO NOT DISCLOSE

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CONFIDENTIAL - DO NOT DISCLOSE

SCHEDULES

THIS AMENDED AND RESTATED SERVICES AGREEMENT (the "Services Agreement") is entered into as of December 31, 1996, by and between First Data Technologies, Inc., a Delaware corporation ("FDT"), and CSG Systems, Inc. (formerly known as Cable Services Group, Inc.), a Delaware corporation ("CSG").

RECITALS

A. FDT is presently engaged in the business of providing data processing services;

B. CSG and FDT previously entered into a services agreement dated as of October 26, 1994, as amended by that certain First Amendment to Services Agreement between FDT and CSG executed December 8, 1995, and as further amended by that certain Second Amendment to Services Agreement between FDT and CSG executed January 30, 1996, and as further amended by that Third Amendment to Services Agreement between FDT and CSG executed November 25, 1996 (collectively, the "Original Agreement");

C. CSG and FDT desire to amend and restate their obligations relating to the terms and conditions governing the data processing services which FDT will continue to provide to CSG.

NOW, THEREFORE, in consideration of the premises and the mutual covenants, representations, warranties, conditions and agreements hereinafter expressed, the Parties hereto agree as follows:

SECTION 1 DEFINITIONS

When used herein, the following terms shall have the meaning set forth below:

1.1 "Additional Services" has the meaning stated in Section 2.15.

1.2 "Affiliate" means an Entity which, directly or indirectly, owns or controls, is owned or is controlled by or is under common ownership or control with another Entity. As used herein, "control" means the power to direct the management or affairs of an Entity, and "ownership" means the beneficial ownership of 50% or more of the voting equity securities or other equivalent voting interests of the Entity.

1.3 "Applications Software" means the CSG-Vendor Software and the CSG Proprietary Software.

1.4 "Business" shall have the meaning set forth in that certain Stock Purchase Agreement dated as of October 26, 1994 between CSG Holdings, Inc. and First Data Resources, Inc.

1.5 "Claim" has the meaning specified in Section 6.3.1.

1.6 "Confidential Information" has the meaning stated in Section 10.1.

1.7 "CSG" means CSG Systems, Inc. (formerly known as Cable Services Group, Inc.), a Delaware corporation, and its permitted successors and permitted assigns.

1.8 "CSG Batch Job Targets" means the time periods identified on Schedule 2.10 relating to CSG's batch cycles.

1.9 "CSG Client" shall mean any current or future Entity for which CSG provides data processing services through FDT in accordance with the terms and conditions of the Services Agreement.

1.10 "CSG's Clients' Locations" means each of CSG's Clients' business locations which are connected to the Platform to permit a CSG Client to receive the benefit of the FDT Services in accordance with the terms and conditions of this Services Agreement.

1.11 "CSG Data" has the meaning specified in Section 5.1.

1.12 "CSG Proprietary Software" means New CSG Proprietary Software and Existing CSG Proprietary Software.

1.13 "CSG-Vendor Software" means the Software licensed to CSG by third party vendors (excluding FDT and its Affiliates) and to be used by FDT to provide the FDT Services, together with all developments, improvements, modifications, additions, expansions, new versions, new releases, rewrites, enhancements, upgrades or other changes of any kind thereto. The CSG-Vendor Software is set forth in Schedule 2.3, as it may be amended from time-to-time.

1.14 "Damaged Party" has the meaning stated in Section 12.5.

1.15 "Data Processing Materials" has the meaning stated in Section 5.5.

1.16 "Declared Disaster" has the meaning stated in Schedule 2.11.

1.17 "Development Software" means that portion of the Systems Software as set forth in Schedule 1.17 that CSG may execute and use for development of CSG **Proprietary Software.**

1.18 "Dispute" means any and all disputes, controversies and claims between the

Parties arising from or in connection with this Services Agreement or the relationship of the Parties under this Services Agreement whether based on contract, tort, common law, equity, statute, regulation, order or otherwise.

1.19 "Effective Date" shall mean January 1, 1997.

1.20 "Entity" means an individual, corporation, limited liability company, partnership, sole proprietorship, joint venture, or other form of organization or governmental agency or authority.

1.21 "Existing CSG Proprietary Software" means the applications, job control language and system and other Software owned by CSG and to be used by FDT to provide the FDT Services, that is identified in Schedule 1.21 of this **Services Agreement.**

1.22 "Existing FDT Proprietary Software" means the Software owned, developed by, or licensed by an Affiliate of FDT in connection with the provision of FDT Services under this Services Agreement, as set forth in Schedule 5.3 of this Services Agreement.

1.23 "Failed Criteria" shall have the meaning stated in Section 11.2.

1.24 "FDT" means First Data Technologies, Inc., a Delaware corporation, and its permitted successors and permitted assigns.

1.25 "FDT Data Center" means the data center maintained by or on behalf of FDT in Englewood, Colorado or any other data or information processing centers maintained by or on behalf of FDT or any of its Affiliates and used to provide the FDT Services.

1.26 "FDT Proprietary Software" means New FDT Proprietary Software and Existing FDT Proprietary Software.

1.27 "FDT Service Charges" means the fees charged by FDT for the FDT Services as set forth in Schedule 1.27.

1.28 "FDT Services" means the data processing services and systems currently provided by FDT to CSG which are set forth on Schedule 1.27 and those Additional Services that FDT agrees to provide.

1.29 "Indemnified Party" means a Party or Parties seeking or entitled to indemnification pursuant to the provisions of Section 6.

1.30 "Indemnifying Party" means the Party or Parties hereto responsible for indemnifying an Indemnified Party pursuant to Section 6.

1.31 "Infringement Claims" has the meaning stated in Section 6.1.1.

1.32 "Losses and Expenses" has the meaning stated in Section 7.1.

1.33 "New CSG Proprietary Software" means all developments, improvements, modifications, additions, expansions, new versions, new releases, rewrites, enhancements, upgrades or other changes of any kind to Existing CSG Proprietary Software, or any new Software owned or developed by CSG following the date of execution of this Services Agreement and provided to FDT for use in connection with the provision of the FDT Services that is not identified in Schedule 1.21 of this Services Agreement.

1.34 "New FDT Proprietary Software" means all developments, improvements, modifications, additions, expansions, new versions, new releases, rewrites, enhancements, upgrades or other changes of any kind to Existing FDT Proprietary Software, or any new Software owned or developed by FDT following the date of execution of this Services Agreement and used in connection with the provision of FDT Services under this Services Agreement that is not identified in Schedule **5.3 of this Services Agreement.**

1.35 "Operations Procedures" has the meaning stated in Section 2.9.

1.36 "Original Agreement" has the meaning specified in the second recital to this Services Agreement.

1.37 "Original CSG Proprietary Software" means that portion of the Existing CSG Proprietary Software that existed as of the effective date of the Original Agreement.

1.38 "Original Term" means the period of time commencing on the Effective Date and ending on the fifth anniversary of the Effective Date.

1.39 "Other Party" has the meaning stated in Section 12.5.

1.40 "Party" means a party to this Services Agreement and its permitted successors and permitted assigns.

1.41 "Performance Criteria" has the meaning stated in Section 2.13.

1.42 "Plan" has the meaning stated in Schedule 2.11.

1.43 "Platform" means the hardware owned or operated by FDT and the network provided by FDT for data telecommunications and data processing and retrieval established between the FDT Data Center, CSG, and CSG's Clients' Locations, it being understood that such Platform is provided by FDT on a non-exclusive basis. The Platform is further described in Schedule 1.43.

1.44 "Services Agreement" means this Amended and Restated Services Agreement between CSG and FDT as it may be amended from time to time.

1.45 "Software" means (i) computer programs, including application programs, operating programs, file programs and utility programs, and (ii) tangible media upon which such programs and documentation are recorded, including hard copy, tapes and disks.

1.46 "Stock Purchase Agreement" means that agreement entered into as of October 26, 1994 between CSG Holdings, Inc. and First Data Resources Inc.

1.47 "Systems Software" means the Software licensed by FDT to be used to provide FDT Services, but shall not include the FDT Proprietary Software or the Applications Software. The current set of Systems Software is set forth in

Schedule 1.47. Such schedule may be amended from time to time.

1.48 "Team 35 Software" has the meaning stated in Schedule 5.6.

1.49 "Term" means the Original Term and any mutually agreed extension thereto.

1.50 "Termination Assistance" has the meaning stated in Section 11.5.

1.51 "Termination for Convenience Fee" shall mean a payment equaling twenty percent (20%) of the sum of the FDT Service Charges owed and/or paid by CSG to FDT for the twelve (12) month period prior to the date that CSG notified FDT of CSG's intent to terminate this Services Agreement for its convenience pursuant to Section 11.4.

1.52 "Termination Licensed Materials" has the meaning stated in Schedule 11.8

1.53 "Third Party Provider" has the meaning stated in Section 2.12.

SECTION 2 PROVISION OF THE FDT SERVICES

2.1 FDT Services. FDT shall make available to and perform for CSG and CSG shall use the FDT Services during the Term. Notwithstanding the foregoing, if CSG delivers notification to FDT pursuant to Sections 11.1, 11.2 or 11.4, that CSG is terminating this Services Agreement, then after such notification CSG may arrange for CSG or a third party to provide the FDT Services for CSG after the termination date and CSG may take all actions in preparation therefor as may be reasonably necessary to enable CSG or such third party to provide such FDT

Services immediately after the termination date; provided however, the foregoing shall not be construed to prevent CSG from initiating preliminary discussions with any such third party prior to giving written notice to FDT.

2.2 Platform; FDT Data Center Raised Floor.

2.2.1 Platform. FDT will provide the Platform and shall have all rights in connection therewith including the right to change the configuration of the Platform during the Term of this Services Agreement. FDT shall provide CSG with at least thirty (30) days advance written notice of any change in the Platform. Such changes shall not materially adversely affect the operations of CSG or CSG Clients. Except for those components (if any) identified on Schedule 1.43 as being owned by CSG, the Platform shall remain solely the property of FDT, its lessors or providers, if any, and CSG shall have no ownership interests or other rights therein. CSG may request changes to the Platform, and all such requests shall be deemed a request for Additional Services and be subject to Section 2.15. Commencing January 1, 1998, no later than January 31 during each year of the Term, FDT shall add to the Platform, four (4) additional tape drives (having a transfer rate (as specified by the manufacturer) of 14 megabytes per second), all of which shall not be an Additional Service. FDT shall provide upgraded DASD relating to the Platform in accordance with the DASD upgrade practices used by FDT from time to time.

2.2.2 FDT Data Center Raised Floor. CSG shall have the right, subject to security, space, environmental and other limitations, to collocate computer, telecommunications and other equipment at the FDT Data Center and to interconnect such equipment to the FDT Platform; provided that CSG will at no time during the Term of this Services Agreement (except as set forth in Section 2.2.3), require more than 900 non-contiguous square feet of raised floor space in the FDT Data Center for those purposes. FDT shall provide for utilities, HVAC, back-up power generators, and security with respect to such collocated equipment. CSG and third party support personnel retained by CSG or the CSG Client shall have reasonable access to the FDT Data Center on a 24 hour per day, 7 day a week basis to maintain and service such collocated equipment.

2.2.3 Additional FDT Data Center Raised Floor. After July 1, 1997, and upon sixty (60) days prior written notice to FDT, CSG shall also have the right, subject to security, space, environmental and other limitations, to collocate additional computer, telecommunications and other equipment at the FDT Data Center and to interconnect such equipment to the FDT Platform; provided that CSG will at no time during the Term of this Services Agreement require more than an additional 900 non-contiguous square feet of raised floor space (for a total of 1800 square feet) in the FDT Data Center for those purposes, it being understood that such additional non-contiguous space will be provided by FDT to CSG for ($**) (annually) per square foot. FDT shall provide for utilities, HVAC, back-up power generators, and security with respect to such collocated equipment. CSG and third party support personnel retained by CSG or the CSG Client shall have reasonable access to the FDT Data Center on a 24 hour per day, 7 day a week basis to maintain and service such collocated equipment.

2.3 CSG-Vendor Software. CSG will secure for FDT, at CSG's expense, the rights to access, operate (at or from any location where FDT will provide the FDT Services), and modify the Vertex Software included within CSG-Vendor Software to the extent required for FDT's pro vision of the FDT Services under this Services Agreement. To the extent necessary, CSG will secure for FDT, at CSG's expense, a license for the other Software included within the CSG-Vendor Software. Such license shall provide for the rights set forth in the first sentence of this Section 2.3, including upgrades to such Software and maintenance therefor.

2.4 Maintenance of Current Vendor Supported Software Releases. Within one
(1) year following the Effective Date, CSG shall cause all CSG-Vendor Software to be the most current release (or one generation behind the most current release), unless the most current release (or one generation behind the most current release) of any CSG-Vendor Software is incompatible with the Team 35 Software. Thereafter, CSG shall cause all CSG-Vendor Software to be the most current release (or one generation behind the most current release) within one
(1) year of the commercial release of the next version of any CSG-Vendor Software, unless the most current release (or one generation behind the most current release) of any CSG-Vendor Software is incompatible with the Team 35 Software. Within one (1) year following the Effective Date, FDT shall cause all Systems Software to be the most current release (or one generation behind the most current release) unless the most current release (or one generation behind the most current release) of any Systems Software is incompatible with the Team 35 Software. Thereafter, FDT shall cause all Systems Software to be the most current release (or one generation behind the most current release) within one (1) year following the commercial release of the next version of any Systems Software, unless the most current release (or one generation behind the most current release) of any Systems Software is incompatible with the Team 35 Software. CSG shall, at its sole cost and expense, upon the reasonable request of FDT, cooperate with FDT in testing the implementation of all CSG-Vendor Software and Systems Software. The Parties agree to use commercially reasonable efforts to coordinate the timing and installation of new releases of CSG-Vendor Software and Systems Software so as to not unreasonably disrupt or materially adversely affect the provision of FDT Services.

2.5 Use of Other Software.

2.5.1 FDT Affiliate Software. The Parties shall investigate from time to time the possibility of using Software developed by FDT Affiliates (such as that Software commonly known as "Tape Access Method"), to augment the CSG-Vendor Software. If such investigation results in the Parties determining that the use of such Software is desirable, the Parties shall negotiate the terms and conditions (including costs) associated with such use.

2.5.2 Third Party Software. If CSG requires FDT to acquire additional Software for use by FDT in the provision of FDT Services, FDT shall use commercially reasonable efforts to identify other FDT clients with whom CSG can share the costs associated with such Software, it being understood that if no other FDT clients use such Software, the costs associated with such Software shall be the sole responsibility of CSG.

2.6 Information and Reports. In accordance with the Performance Criteria, FDT will provide to CSG the output information or such other reports as the Parties may mutually agree, provided, however, that FDT's obligations for output or reports are specifically conditioned upon receipt of timely input received from CSG and CSG's Clients.

2.7 Backup. Pursuant to written instructions from CSG, FDT will back-up and maintain copies of the CSG Data, the Applications Software and Team 35 Software on magnetic or other media in accordance with FDT's standard procedures. In connection with such backup, FDT, in accordance with the fees set forth in Schedule 1.27, will arrange for off-site storage for CSG Data, as well as periodic pick-up and delivery to the off-site storage site. CSG will be solely responsible for CSG Data that CSG recalls from the off-site storage site to the FDT Data Center before it is scheduled to be returned from the off-site storage site.

2.8 Security. FDT will implement and maintain reasonable security procedures relating to CSG's access to the FDT Proprietary Software, the Development Software, and access to the corresponding data of CSG Clients, including administering the procedures relating to the assignment and administration of all log-on identification numbers, and CSG shall be responsible for taking appropriate security measures relating to log-on identification numbers, passwords and access. FDT has provided CSG with a description of security procedures currently used by FDT, and FDT will provide reasonable prior written notice of any material changes in such procedures. From time to time, CSG will notify FDT which employees of CSG are to be granted access to the FDT Proprietary Software, Development Software and CSG Data and the authorized level of such access, all in accordance with FDT's standard procedures.

2.9 Operations Procedures. CSG and FDT shall each use commercially reasonable efforts to comply with the Operations Procedures set forth on Schedule 2.9 (the "Operations Procedures") in order for FDT to provide the FDT Services; provided, however, that if CSG is unable to give any notice specified on Schedule 2.9 within the required time frame, FDT will use commercially reasonable efforts to accommodate the time frame requested by CSG (provided FDT shall be under no obligation to incur additional costs to accommodate such time frame or be responsible for the adverse impact on the Performance Criteria). The Operations Procedures may from time to time be changed by FDT so long as the changes do not materially (a) increase the duties of CSG or its obligations hereunder, or (b) adversely affect the business operations of CSG or CSG Clients. To the extent practicable, FDT agrees to give CSG reasonable advance written

notice of such changes, except for changes which are implemented in short time frames for which no such notice can be given, such as changes necessary to correct situations in the FDT Data Center requiring immediate attention. FDT further agrees to use commercially reasonable efforts to minimize changes that will materially adversely affect CSG or CSG Clients, all of which requires CSG's prior written consent, which consent shall not be unreasonably withheld or delayed. THE OPERATING PROCEDURES ARE DEMARCATIONS OF RESPONSIBILITIES AND PROCEDURES THAT CSG AND FDT WILL EACH USE COMMERCIALLY REASONABLE EFFORTS TO ACHIEVE AND PERFORM, IT BEING UNDERSTOOD THAT NOTWITHSTANDING ANYTHING TO THE CONTRARY SET FORTH IN THIS SERVICES AGREEMENT:
(a) THE OPERATING PROCEDURES MAY NOT BE ACHIEVED OR PERFORMED; AND (b) THE FAILURE BY FDT OR CSG TO ACHIEVE OR PERFORM ANY OPERATIONS PROCEDURE SHALL NOT BE DEEMED TO BE A BREACH OF THIS SERVICES AGREEMENT.

2.10 CSG Batch Job Targets. The CSG Batch Job Targets (and improvements resulting from the use of the Timberline Hardware) set forth in Schedule 2.10 are targets and improvements that CSG and FDT will each use commercially reasonable efforts to achieve, IT BEING UNDERSTOOD THAT NOTWITHSTANDING ANYTHING TO THE CONTRARY SET FORTH IN THIS SERVICES AGREEMENT: (a) THE CSG BATCH JOB TARGETS (AND IMPROVEMENTS (IF ANY) RESULTING FROM THE USE OF THE TIMBERLINE HARDWARE) MAY NOT BE ACHIEVED; AND (b) THE FAILURE BY FDT OR CSG TO ACHIEVE THE CSG BATCH JOB TARGETS (OR IMPROVEMENTS (IF ANY) RESULTING FROM THE USE OF THE TIMBERLINE HARDWARE) SHALL NOT BE DEEMED TO BE A BREACH OF THIS SERVICES AGREEMENT.

2.11 Disaster Recovery. In the event of a Declared Disaster affecting the CSG Data, FDT will use commercially reasonable efforts to recover the critical components of the Systems Software, FDT Proprietary Software (excluding the Team 35 Software), and the FDT managed networks in accordance with the Plan. As compensation for any services provided by FDT in maintaining and implementing the Plan, CSG agrees to pay FDT the associated fees and charges for such FDT Services set forth in Schedule 1.27 and Schedule 2.11, as applicable. It is CSG's sole responsibility to recover the Applications Software and the Team 35 Software, and to direct FDT in regard to the CSG Data in accordance with Section 2.7.

2.12 Systems Software: Data Telecommunications. FDT may procure from one or more qualified subcontractors or third party vendors (the "Third Party Providers") the data tele communications services and Systems Software used to provide FDT Services, except to the extent that CSG has previously contracted for such services directly. FDT also will be responsible for obtaining from any such Third Party Providers the appropriate maintenance for data telecommunications and hardware equipment. CSG agrees to pay FDT the applicable FDT Service Charge. Annually during the Term, the Parties will review the quality of service and pricing offered by the Third Party Providers. Following the annual review, FDT will take such action that the Parties mutually determine appropriate, which may include renegotiation with current Third Party Providers or termination of existing service or license agreements and negotiation with new Third Party Providers. FDT shall keep CSG apprised of negotiations with Third Party Providers. The Parties acknowledge that each of the Parties share certain connections to a network commonly known as the Advantis network. Notwithstanding anything to the contrary set forth in this Services Agreement, each Party shall pay their respective usage fees however designated for their respective use of the Advantis network.

2.13 Performance Criteria.

2.13.1 Performance Criteria. FDT shall use commercially reasonable efforts to provide and to perform the FDT Services in all material respects in accordance with each of the performance criteria set forth in Schedule 2.13 (the "Performance Criteria"). Without limiting the foregoing, any request by CSG for a new or additional Performance Criteria shall be deemed a request for Additional Services in accordance with Section 2.15.

2.13.2 Exclusions. There shall be excluded from the measurement of compliance with any Performance Criteria any failure to meet such Performance Criteria if, during, and to the extent that such failure is related to (i) any matter constituting force majeure, as provided in Section 12.4; (ii) any material failure by CSG to perform its obligations under this Services Agreement (including those set forth in the Operations Procedures), or where CSG's approval, acceptance, consent or similar action is required under this Services Agreement, any unreasonable delay or any withholding of action; (iii) the performance or nonperformance of any Applications Software or the Team 35 Software; (iv) the performance or nonperformance of any CSG vendor; (v) ad hoc reporting jobs, special production jobs, testing procedures or other services that are given priority at the request of CSG; (vi) any significant change in the manner in which CSG conducts its business or operations adversely affecting FDT's ability to meet any Performance Criteria; and (vii) any failure of CSG or CSG Clients to provide CSG Data in the time deemed reasonably necessary by FDT to meet an output delivery schedule.

2.14 Audit Rights.

2.14.1 CSG Audits. Upon the request and reasonable advance written notice of CSG, FDT will provide to CSG, its auditors and regulators, if any, and to CSG Clients in accordance with their agreements with CSG (as directed by CSG and subject to the need for confidentiality obligations from them as set forth below) access during regular business hours to the appropriate management personnel of FDT, and to CSG Data and records of CSG directly relating to the FDT Services. Such access shall be limited to performing audits of FDT and its business, to verify the accuracy of the fees and charges for the FDT Services, and FDT's compliance with the Performance Criteria. Such requests for access shall not be made more frequently than once a year, with the exception of requests to provide access to CSG's regulators. FDT will provide to such auditors and regulators any assistance of a routine nature that they reasonably require. To the extent that FDT's assistance in such audits exceeds more than sixty (60) man hours of FDT time in any calendar year, CSG shall reimburse FDT for such assistance in excess of sixty (60) hours at FDT's then current commercial rates. CSG and the third party auditors and regulators must comply with all reasonable security and confidentiality procedures (including the execution of nondisclosure agreements), established by FDT at any facility to which access is granted, and audits shall not unreasonably interfere with FDT's normal business operations. CSG shall use commercially reasonable efforts to cause non-CSG third party auditors and regulators to provide FDT in advance with a draft copy of each written report or other output containing comments concerning FDT or the FDT Services and an opportunity to reply to comments that will be made in the final report.

2.14.2 FDT Audits. From time to time during the Term, FDT will allow a third party, selected by FDT, to perform an audit of the electronic data processing environment maintained by FDT to provide the FDT Services contemplated under this Services Agreement. Upon request, FDT shall provide CSG with a copy of the results of the audit. CSG may provide a copy of the audit to its clients who have specifically agreed to hold the audit confidential in conformance with an agreement in the form of or conforming to Schedule 2.14.

2.15 Additional Services. If CSG requests FDT to provide any services that are different from, or in addition to, the FDT Services ("Additional Services"), the Parties will cooperate with each other in good faith in discussing the scope and nature of the request, the Additional Services so requested, the related performance criteria, the impact (if any) on existing Performance Criteria, the time period in which FDT would provide such Additional Services and the basis upon which FDT would be compensated and reimbursed therefor, it being understood that such compensation and reimbursement for Additional Services shall be consistent with the pricing methodology used for the FDT Service Charges, but only include costs associated with the FDT Data Center (as opposed to indirect costs of FDT), and may include the payment of additional fees associated with equipment obtained by FDT for the provision of Additional Services if CSG terminates this Agreement for its convenience pursuant to Section 11.4. If the Parties agree upon the scope and nature of the Additional Services and FDT's compensation therefor, including, the payment of additional fees (if any) set forth in the previous sentence, the Parties shall amend this Services Agreement accordingly and such Additional Services shall become a part of the FDT Services.

2.16 CSG Obligations and Responsibilities.

2.16.1 CSG Obligations. CSG shall have and perform the obligations including, those identified in Schedule 2.16.1.

2.16.2 Data Responsibility. CSG shall have responsibility for the supervision, management and control of its use of the CSG Data, reports and the like, including implementing sufficient procedures to satisfy its internal security and accuracy requirements for information FDT furnishes.

2.17 Relocation.

2.17.1 Movement of FDT Data Center. If FDT relocates the FDT Data Center, FDT shall reimburse CSG for (a) any conversion cost incurred, directly or indirectly, by CSG as a result of such relocation and (b) any increase in the ongoing expenses of CSG as a result of such relocation during the Original Term.

2.17.2 Movement of CSG. If CSG relocates its principal place of business from Omaha, Nebraska, CSG shall reimburse FDT for (a) any conversion costs incurred, directly or indirectly, by FDT as a result of such relocation and (b) any increase in the ongoing expenses of FDT as a result of such relocation during the Original Term.

2.18 Access to FDT Data Center. During the Term, FDT will permit CSG and CSG Clients, on reasonable written notice and subject to FDT's standard security procedures, to have access to the FDT Data Center during normal business hours for the purpose of giving tours of such FDT Data Center to CSG Clients and prospective clients of CSG. Such tours shall be conducted by an employee or representative of FDT and the extent of such tours shall be determined by FDT in its sole discretion, provided that such tours provide such CSG Clients and prospective clients of CSG with a reasonable understanding of the FDT Data Center standard practices and procedures. Employees and representatives of FDT conducting such tours shall do so in a professional manner.

2.19 Cooperation and Good Faith. Each Party shall cooperate with the other to establish priorities for the FDT Services and any Additional Services to be provided to CSG. Each Party will also cooperate with the other by, among other things, making available and not withholding or delaying, as reasonably requested by the other, such management decisions and approvals as may be necessary to fulfill each Party's respective obligations to the other under this Services Agreement in a timely and efficient manner. All negotiations including, negotiations for Additional Services, between the Parties shall be conducted in good faith in accordance with reasonable commercial business practices. FDT will provide reasonable assistance to CSG in

CSG's efforts to develop new business, data conversion and deconversion activities. Each Party shall designate a person to represent the Party and coordinate its activities in connection with this Services Agreement.

2.20 Rights of Contemporaneous Negotiation. Contemporaneously with soliciting (or responding to an offer by) a third party to perform any other data processing or data telecommunications services similar to any of the FDT Services or a replacement for any of the FDT Services, CSG shall offer FDT the opportunity to provide such services on mutually acceptable terms. The Parties each agree that they will act in good faith and without undue delay as they participate in discussions on the terms pursuant to which FDT will provide such services to CSG; provided however, nothing in this Services Agreement shall obligate either Party necessarily to reach an agreement with the other with respect to such services. It is expressly agreed that (notwithstanding this Services Agreement, or any past or future discussions or other communications between them) neither Party will have any liability or obligation whatsoever to the other with respect to the provision of such services unless and until negotiations between them are completed and they have in fact entered into comprehensive, mutually-binding written agreement which covers all matters agreed to and which is signed by each Party's authorized officers. It is agreed that either Party may terminate such discussions on written notice to the other Party, without incurring any liability therefor.

SECTION 3 PAYMENTS FOR FDT SERVICES

3.1 Fees and Charges. The FDT Service Charges are set forth in Schedule 1.27. FDT's obligations and CSG's rights under this Services Agreement are

conditional upon CSG's payment of the fees and charges in accordance with the terms and conditions of this Services Agreement.

3.2 Taxes. CSG shall be responsible for any sales, use, excise, value- added and other taxes and duties payable by FDT or CSG on the FDT Services as a whole or on a particular good or service received by CSG from FDT in connection with the FDT Services where the tax is imposed on CSG's acquisition or use of such FDT Services or such other goods or services from FDT, and not by FDT's cost in acquiring the FDT Services or such other goods or services. FDT shall be solely responsible for payment of the taxes, if any, on FDT's income from the FDT Services, and FDT corporate occupation taxes, if any. The Parties will use commercially reasonable efforts to cooperate with each other to enable each other to determine accurately each Party's tax liability and to minimize such liability to the extent legally permissible. Each Party shall provide and make available to the other any resale certificates, information regarding out-of- state or out-of-country sales or use of equipment, materials or services, and other exemption certificates or information reasonably requested by either Party.

3.3 Invoice and Time of Payment. FDT will invoice CSG on or before the fifth (5th) business day of each month for any amount owed to FDT pursuant to this Services Agreement for the immediately preceding month. Each such invoice will be due and payable within thirty (30) days after receipt of the invoice. Notwithstanding the foregoing, if CSG should dispute the accuracy of all or any portion of an amount indicated on any invoice, CSG shall timely pay the undisputed portion of such invoice and notify FDT's accounts receivable department in writing of the nature of the disputed amount at the time of payment. The Parties shall attempt in good faith to mutually resolve such dispute; provided however, if the dispute is not resolved within forty-five (45) days from FDT's receipt of such written notice, either Party shall have the right to have such dispute resolved pursuant to the terms of Section 6.4.

3.4 Interest. If FDT does not receive, or is unable to obtain, payment of any amount due or payable to FDT under this Services Agreement at the time provided for payment under this Services Agreement, such unpaid amount shall bear interest at a rate equal to one percent (1%) over the prime rate as published in the Wall Street Journal, from the date on which payment was due until the date on which FDT receives such payment.

SECTION 4 RELATIONSHIP BETWEEN THE PARTIES

Nothing contained in this Services Agreement shall be deemed to constitute a partnership or joint venture between the Parties. Neither Party shall hold itself out as having any authority to enter into any contract or create any obligation or liability on behalf of, in the name of, or binding upon the other Party, nor shall anything contained in this Services Agreement be deemed to create or imply a fiduciary relationship between the Parties.

SECTION 5 INTELLECTUAL PROPERTY

5.1 CSG Data. Any data regarding the operations of CSG or any data regarding CSG's Clients provided by CSG to FDT pursuant to this Services Agreement shall remain the property of CSG or CSG Clients (collectively, "CSG Data"). CSG authorizes FDT to access and make use of the CSG Data for FDT's performance of its obligations under this Services Agreement. Upon the termination or expiration of this Services Agreement for any reason, FDT shall promptly return CSG Data in the form such data is maintained by FDT in connection with the performance of the FDT Services or, if CSG so elects in writing, destroy it. FDT shall not use the CSG Data for any purpose except as contemplated by this Services Agreement, nor shall any part of such data be disclosed or sold by FDT to third parties or commercially exploited by FDT other than CSG Data that may be disclosed in connection with the provision of FDT Services. Notwithstanding the foregoing, FDT shall have the right without CSG's approval, to compile and distribute aggregate and statistical analyses and reports using CSG Data, information, and other sources, provided that such analyses and reports do not identify CSG, CSG Clients or CSG's industry, and

provided further that such analyses and reports are not sold to third parties.

5.2 CSG Proprietary Software. CSG hereby grants FDT a non-exclusive, royalty-free license for the Term of this Services Agreement to execute the CSG Proprietary Software in connection with the performance of the FDT Services and to access, modify and review the CSG Proprietary Software for problem resolution and performance recommendations. Except as may be necessary for the accomplishment of the activities authorized in the immediately preceding sentence, FDT shall not modify, reverse engineer, decompile, disassemble, create derivative works or otherwise discover any process or technique inherent in the CSG Proprietary Software or any portion thereof. As between the Parties, the CSG Proprietary Software will remain CSG's property. FDT will have no ownership interests or other rights in the CSG Proprietary Software. CSG represents and warrants to FDT that the CSG Proprietary Software excluding the Original CSG Proprietary Software will not violate or infringe, any issued United States patent as of the effective date of the Original Agreement or any copyright, trade secret or other intellectual property rights as of the effective date of the Original Agreement.

5.3 FDT Proprietary Software. FDT hereby grants CSG a non-exclusive, royalty-free license for the Term of this Services Agreement to use the FDT Proprietary Software (excluding the Team 35 Software, it being understood that CSG shall be licensed to use the Team 35 Soft ware only as authorized pursuant to that certain license agreement attached hereto as Schedule 5.6). The foregoing license shall include access to the source code and documentation in FDT Proprietary Software for the sole and limited purpose of enabling CSG to modify Existing CSG Proprietary Software and to develop New CSG Proprietary Software in response to CSG Client needs. Except as may be necessary for the accomplishment of the activities authorized in the previous sentence, CSG shall not modify, reverse engineer, decompile, disassemble, create derivative works, or otherwise discover any process or technique inherent in the FDT Proprietary Software or any portion thereof. As between the Parties, the FDT Proprietary Software will remain FDT's property. CSG will have no ownership interests or other rights in the FDT Proprietary Software. FDT represents and warrants to CSG that the foregoing grant in the FDT Proprietary Software will not violate or infringe, any issued United States patent as of the effective date of the Original Agreement or any copyright, trade secret or other intellectual property rights as of the effective date of the Original Agreement

5.4 Development Software. FDT has obtained or will obtain for CSG for the Term the right to execute and use the Development Software at CSG's principal place of business for the purpose of developing, modifying, and enhancing the CSG Proprietary Software. CSG shall comply with the terms of the licenses and use restrictions for the Development Software. CSG shall not modify, reverse engineer, reverse assemble or decompile the Development Software, nor shall CSG permit any other person to do so.

5.5 Ownership of Information. All Software, Operating Procedures, manuals, and other documentation and similar data processing materials and derivative works based thereon

("Data Processing Materials") developed or owned by a Party are and, unless specifically transferred to the other, shall remain the property of such Party and shall be Confidential Information. Any Operating Procedures, manuals, or other documentation included within Confidential Information that is required for CSG Clients to utilize the services of CSG may be provided to CSG Clients, provided appropriate confidentiality agreements are executed to protect such Confidential Information.

5.6 Team 35 Software. Contemporaneously with the execution of this Services Agreement, the Parties shall execute the agreement attached hereto as Schedule 5.6 relating to CSG's use of the Team 35 Software.

5.7 Injunctions. In the event any injunction is issued as to any portion of a product, service or any Software which is used to provide the FDT Services, the unavailability of which would materially adversely affect the business or operations of CSG, due to the infringement of a third party's patent, copyright or trade secret, FDT will use commercially reasonable effort to modify or replace the product or service if the infringement arises out of or relates to the Platform, the Systems Software or any portion thereof, and CSG will use commercially reasonable efforts to modify or replace the Applications Software or Team 35 Software or any portion thereof if the infringement concerns the Applications Software or Team 35 Software, in either event in order to avoid the infringement, and if FDT or CSG, as applicable, is unable to do so with commercially reasonable efforts or at commercially reasonable prices, FDT shall no longer be responsible for providing the affected portion of the FDT Services.

SECTION 6 LIABILITY AND INDEMNIFICATION

6.1 FDT's Indemnification. FDT shall hold harmless and indemnify CSG and its directors, officers, employees, agents and Affiliates from and against any and all claims, liabilities, losses or damages (including reasonable attorneys fees, expert witness fees, expenses and costs of settlement) resulting from or arising out of:

6.1.1 any infringement of any issued United States patent as of the effective date of the Original Agreement or any copyright, trade secret or other intellectual property rights as of the effective date of the Original Agreement (collectively, "Infringement Claims") asserted by any third party against CSG in connection with the use by CSG of any FDT Proprietary Software (excluding the Team 35 Software) in accordance with the terms and conditions of this Services Agreement;

6.1.2 the death or bodily injury of any agent, employee, customer, client, business invitee or business visitor of FDT except to the extent, if any, that such death or bodily injury shall have been caused by the gross negligence or reckless or intentional conduct of CSG; provided, however, that for purposes of this Section 6.1.2, the agents, employees, customers, CSG Clients, business invitees and business visitors of CSG shall not, when on the premises of FDT, be deemed FDT's business invitee or business visitor;

6.1.3 any payment obligations of FDT to a third party relating to the Systems Software, FDT Proprietary Software or Platform; and

6.1.4 any misappropriation or misuse by FDT or its employees or agents of Confidential Information of CSG or a CSG Client.

6.2 CSG's Indemnification. CSG shall hold harmless and indemnify FDT and its directors, officers, employees, agents and Affiliates from and against any and all claims, liabilities, losses or damages (including reasonable attorney fees, expert witness fees, expenses and costs of settlement) resulting from or arising out of:

6.2.1 any Infringement Claim asserted by any third party against FDT in connection with any CSG Proprietary Software; provided any such claim arises out of new material or functionality added to such software that is not present in the Original CSG Proprietary Software;

6.2.2 the death or bodily injury of any agent, employee, customer, client, business invitee or business visitor of CSG except to the extent, if any, that such death or bodily injury shall have been caused by the gross negligence or reckless or intentional conduct of FDT; provided, however, that for purposes of this Section 6.2.2, the agents, employees, customers, clients, business invitees and business visitors of FDT shall not, when on the premises of CSG, be deemed CSG's business invitee or business visitor;

6.2.3 any payment obligations of CSG to a third party relating to the CSG Proprietary Software;

6.2.4 any Infringement Claim or other claim asserted by any third party against FDT in connection with CSG Data or records provided by CSG or CSG Clients to FDT in connection with the FDT Services;

6.2.5 any claims by third parties, including pursuant to any actions brought derivatively on behalf of CSG or actions by CSG Clients, suppliers or creditors of CSG, unless such claims arise from the sole gross negligence or willful misconduct of FDT; and

6.2.6 any misappropriation or misuse by CSG or its employees or agents

of Confidential Information of FDT.

6.3 Indemnification Procedures.

6.3.1 If any civil, criminal, administrative or investigative action or proceeding (any of the foregoing, a "Claim") is threatened or commenced against any person or Party that a Party is obligated to defend or indemnify under Section 6.1 or 6.2 (such person and such Party, collectively, an "Indemnified Party"), then written notice thereof shall be given to the Party that is obligated to provide indemnification under such Sections (the "Indemnifying Party") as promptly as practicable; provided, however, that any delay by the Indemnified Party in giving such written notice shall not constitute a breach of this Services Agreement and shall not excuse the Indemnifying Party's obligation under this Section 6 except to the extent, if any, that the Indemnifying Party is prejudiced by such delay. After such notice, the Indemnifying Party shall be entitled, if it so elects in writing with in ten (10) days after receipt of such notice, to take control of the defense and investigation of such claim and to employ and engage attorneys of its choice reasonably acceptable to the Indemnified Party to handle and defend the same, at the Indemnifying Party's sole cost and expense. The Indemnified Party shall cooperate in all reasonable respects with the Indemnifying Party and its attorneys in the investigation, trial and defense of such claim and any appeal arising therefrom; provided however, that the Indemnified Party may, at its own cost and expense, participate through its attorneys or otherwise, in such investigation, trial and defense of such claim and any appeal arising therefrom. No settlement of a claim that involves a remedy other than the payment of money by the Indemnifying Party shall be entered into by the Indemnifying Party without the prior consent of the Indemnified Party, which consent will not be unreasonably withheld or delayed.

6.3.2 After written notice by the Indemnifying Party to the Indemnified Party of its election to assume full control of the defense of any such claim pursuant to Section 6.3.1, the Indemnifying Party shall not be liable to the Indemnified Party for any legal expenses incurred thereafter by such Indemnified Party in connection with the defense of that claim and any appeal arising therefrom. If the Indemnifying Party does not assume full control over the defense of a claim pursuant to Section 6.3.1, then the Indemnifying Party may participate in such defense, at its sole cost and expense, and the Indemnified Party shall have the right to defend the claim in such manner as it may deem appropriate, at the cost and expense of the Indemnifying Party.

6.3.3 The remedy of indemnification described in this Section 6 shall be the sole and exclusive remedy of the Indemnified Party for the Infringement

Claims and other claims described in Section 6.1 and Section 6.2, except as otherwise provided herein for injunctive relief and the recovery of consequential damages relating to the breach of confidentiality obligations or misappropriation of Confidential Information.

6.4 Dispute Resolution. Subject to Section 6.5, any and all Disputes shall be resolved as provided in Schedule 6.4 hereto.

6.5 Litigation.

6.5.1 Notwithstanding anything to the contrary set forth herein, neither Party shall be required to submit any dispute or disagreement regarding the interpretation of any provision of this Services Agreement, the performance by either Party of such Party's obligations under this Services Agreement or a default hereunder to the mechanisms set forth in
Section 6.4, if such submission would be seeking equitable relief from irreparable harm.

6.5.2 THE PARTIES CONSENT TO THE NON-EXCLUSIVE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE STATE OF NEBRASKA AND OF ANY NEBRASKA STATE COURT SITTING IN OMAHA, NEBRASKA FOR ALL LITIGATION WHICH MAY BE BROUGHT WITH RESPECT TO THE TERMS OF, AND THE TRANSACTIONS AND RELATIONSHIPS CONTEMPLATED BY, THIS SERVICES AGREEMENT. THE PARTIES FURTHER CONSENT TO THE JURISDICTION OF ANY STATE COURT LOCATED WITHIN A DISTRICT WHICH ENCOMPASSES ASSETS OF A PARTY AGAINST WHICH A JUDGMENT HAS BEEN RENDERED, EITHER THROUGH ARBITRATION OR THROUGH LITIGATION, FOR THE ENFORCEMENT OF SUCH JUDGMENT AGAINST THE ASSETS OF SUCH PARTY.

SECTION 7 LIMITATION OF LIABILITY

7.1 Limitation on Amount of Damages. It is understood and agreed that a Party's liability to the other Party or any other person for damages, injuries, losses, costs or expenses of any kind, however caused, based on or arising from or in connection with this Services Agreement, any termination hereof, the subject matter hereof, the performance (or non-performance) of any of the FDT Services or other service or obligation hereunder, whether arising in contract or tort (including as a result of negligence or strict liability), and whether or not such Party shall have been informed, or might have anticipated the possibility of any such damage, loss, cost or expense (collectively, "Losses and Expenses"), shall be limited with respect to each consecutive twelve (12) month period during the Term commencing with the Effective Date, to the direct damages actually incurred by such Party or person, or consequential damages incurred by either Party as a result of the misappropriation or misuse of Confidential Information, and shall be recoverable if, and only to the extent such Losses and Expenses exceed two hundred fifty thousand dollars ($250,000); and provided further, that the aggregate amount required to be paid by a Party to the Party or any other person for all such Losses and Expenses shall not exceed during the first year following the Effective Date, thirteen million dollars ($13,000,000), and for every year thereafter, the lesser of fifteen million dollars ($15,000,000) or FDT's revenues under this Services Agreement for the twelve (12) month period immediately preceding the date of the event giving rise to the claim. The foregoing limitations shall not apply to amounts for charges including the fees and charges in Schedule 1.27, otherwise due and payable under this Services Agreement.

7.2 Provision of FDT Services. CSG acknowledges that the FDT Services provided by FDT are to assist CSG in its business activities and are not intended to replace its professional skill and judgment. CSG shall be solely responsible for: (i) its own actions or omissions, and the actions or omissions of its agents, employees and clients with respect to CSG Data used as input for the FDT Services and (ii) any use of any FDT Services and any use made by CSG, its agents, employees and clients of CSG Data, reports or other products produced through any of the FDT Services.

7.3 Mitigation. Each Party shall use commercially reasonable efforts to mitigate damages for which the other Party is responsible.

7.4 Limitation of Assertions. Neither Party may assert any cause of action against the other Party under this Services Agreement that accrued more than one (1) year prior to: (i) the filing of a suit; or (ii) the commencement of arbitration proceedings alleging such cause of action.

7.5 Express Allocation of Risks. The Parties expressly acknowledge that the limitations contained in this Section 7 and Sections 6, 8 and 9 represent the express agreement of the Parties with respect to the allocation of risks between the Parties, including the level of risk to be associated with the provision of the FDT Services as related to the FDT Service Charges, and each Party fully understands and irrevocably accepts such limitations. The Parties acknowledge that but for the limitations contained in this Section 7 and Sections 6, 8 and 9, the Parties would not have entered into this Services **Agreement.**

SECTION 8 STANDARD OF CARE AND EXCLUSION OF WARRANTIES

FDT will use reasonable commercial efforts to meet the Performance Criteria, and FDT will use reasonable care in providing the FDT Services pursuant to this Services Agreement. EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN THIS SERVICES AGREEMENT,

FDT MAKES NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, TO CSG OR TO ANY OTHER PERSON, INCLUDING ANY WARRANTIES REGARDING THE MERCHANTABILITY, SUITABILITY, ORIGINALITY, FITNESS FOR A PARTICULAR PURPOSE OR OTHERWISE (IRRESPECTIVE OF ANY PREVIOUS COURSE OF DEALINGS BETWEEN THE PARTIES OR CUSTOM OR USAGE OF TRADE), OR RESULTS TO BE DERIVED FROM THE USE OF ANY SOFTWARE, FOR SERVICES, HARDWARE OR OTHER SERVICES, PRODUCTS OR MATERIALS PROVIDED UNDER THIS SERVICES AGREEMENT.

SECTION 9 EXCLUSION OF DAMAGES

NOTWITHSTANDING ANY OTHER PROVISION TO THE CONTRARY SET FORTH IN THIS SERVICES AGREEMENT, IN NO EVENT SHALL EITHER PARTY, ANY OF THEIR AFFILIATES OR ANY OF THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS OR SUBCONTRACTORS BE LIABLE UNDER ANY THEORY OF TORT, CONTRACT, STRICT LIABILITY OR OTHER LEGAL OR EQUITABLE THEORY FOR ANY LOST PROFITS, LOSS OF DATA, EXEMPLARY, PUNITIVE, SPECIAL, INCIDENTAL, INDIRECT OR CONSEQUENTIAL DAMAGES, EACH OF WHICH IS HEREBY EXCLUDED BY AGREEMENT OF THE PARTIES REGARDLESS OF WHETHER OR NOT EITHER PARTY OR ANY OTHER SUCH ENTITY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES; PROVIDED THE FOREGOING EXCLUSION SHALL NOT APPLY TO CONSEQUENTIAL DAMAGES INCURRED BY EITHER PARTY AS A RESULT OF THE MISAPPROPRIATION OR MISUSE OF CONFIDENTIAL INFORMATION.

SECTION 10 CONFIDENTIALITY

10.1 Confidential Information. Information exchanged between the Parties or otherwise made available by one Party for the other in connection with this Services Agreement before or after the date hereof shall be considered a trade secret or confidential or proprietary information ("Confidential Information") if it has been designated as such in this Services Agreement or on the information itself when delivered or made available, or if delivered orally, if a written notification of the confidential nature of the information is sent within a reasonable time after the information is transmitted. Among other things, Confidential Information shall include confidential or proprietary information of third parties in the possession of one of the Parties to this Services Agreement and needed to perform obligations hereunder. FDT Pro- prietary Software and CSG Proprietary Software shall in any event be considered Confidential Information of the Parties, respectively. Confidential Information not requiring a marking shall include FDT Proprietary Software, CSG Proprietary Software, all specifications and documentation therefor, financial information of either Party, all CSG Data processed in the FDT Data

Center, or other confidential business plans of either Party.

10.1.1 Except as expressly authorized by prior written consent of the dis- closing Party, the receiving Party shall:
(i) limit access to any Confidential Information received by it to its employees, agents, representatives, and consultants who have a need-to-know in connection with this Services Agreement and the obligations of the Parties hereunder;

(ii) advise its employees, agents and consultants having access to the Confidential Information of the proprietary nature thereof and of the obligations set forth in this Services Agreement;

(iii) safeguard all Confidential Information received by it using a reasonable degree of care, but not less than that degree of care used by the receiving Party in safeguarding its own similar information or material;

(iv) not disclose any Confidential Information received by it to third parties; and

(v) use the Confidential Information of the other Party only for the purposes and in connection with the performance of such Party's obligations under this Services Agreement; and

(vi) upon the disclosing Party's request after expiration or termi- nation of this Services Agreement, return promptly to the disclosing Party all Confidential Information of the disclosing Party in the receiving Party's possession, and certify in writing to the disclosing Party its compliance with this subsection (vi).

10.1.2 Exceptions to Confidentiality. Notwithstanding the foregoing Section 10.1, the Parties' obligations respecting confidentiality under Section 10.1.1 shall not apply to any particular information of a Party that the other Party can demonstrate (i) was, at the time of disclosure to it, in the public domain; (ii) after disclosure to it, is published or otherwise becomes part of the public domain through no fault of the receiving Party; (iii) was in the possession of the receiving Party at the time of disclosure to it without being subject to another confidentiality agreement; (iv) was received after disclosure to it from a third party who had a lawful right to disclose such information to it; (v) was inde- pendently developed by the receiving Party without reference to Confidential Information of the furnishing Party; (vi) was required to be disclosed to any regulatory body having jurisdiction over FDT or CSG or any of their respective clients; or (vii) that disclosure is necessary by reason of legal, accounting or regulatory requirements beyond the reasonable control of the receiving Party. In the case of any disclosure pursuant to clauses (vi) and (vii) above, to the extent practical, the disclosing Party shall give prior written notice to the other Party of the required disclosure and shall use commercially reasonable efforts to obtain a protective order covering such disclosure. If such a protective order is obtained, such information shall continue to be deemed to be Confidential Information.

10.2 No License or Other Rights. Except as specifically granted herein or in the Stock Purchase Agreement, this Services Agreement does not confer any right, license, interest or title in, to or under the Confidential Information to the receiving Party and no license is hereby granted to the receiving Party, by estoppel or otherwise under any patent, trademark, copyright, trade secret or other proprietary right of the disclosing Party. Title to the Confidential Information shall remain solely in the disclosing Party.

10.3 Publicity and Use of Certain Information. Neither Party will, without the other Party's prior written consent, use the name, service marks or trademarks of the other Party or any of its Affiliates; provided, however, that FDT may use CSG as a reference and may indicate to others that CSG purchases the FDT Services under this Services Agreement. Either Party may disclose to other persons and Entities the existence and general nature of the Services Agreement but not the terms and conditions hereof.

10.4 Equitable Remedies. Each Party acknowledges that if it breaches (or attempts to breach) its obligations under this Section 10, the other Party will suffer immediate and irreparable harm, it being acknowledged that legal remedies are inadequate. Accordingly, if a court of competent jurisdiction should find that a Party has breached (or attempted to breach) any such obligations, such Party will not oppose the entry of an appropriate order compelling performance by such Party and restraining it from any further breaches (or attempted breaches).

10.5 Privileged Data. CSG accepts full responsibility for complying with federal, state and local laws, rules and regulations concerning use of privileged or confidential third party information derived from input into or output from the FDT Services provided by FDT under this Services Agreement.

SECTION 11 TERMINATION

11.1 Termination for Cause. Except as provided in Section 11.2, if either Party breaches any of its material obligations under this Services Agreement, which breach is not substantially cured within forty-five (45) days (ten (10) days for payment defaults) after written notice specifying the breach is given by the non-breaching Party to the breaching Party, then the other Party may, by giving notice to the defaulting Party terminate this Services Agreement (or any service provided by or received by the non-defaulting Party hereunder) for cause as of a future date specified in the notice of termination; provided however, such termination notice shall not: (i) if delivered by CSG to FDT, specify a future termination date more than twelve (12) months from the date of the notice; (ii) if delivered by FDT to CSG, specify a future termination date less than nine (9) months from the date of the notice; and (iii) in any case, otherwise extend the Term of this Services Agreement beyond the date for termination specified in any previous termination notice delivered by either Party pursuant to the terms of this Services Agreement. Notwithstanding anything herein to the contrary, in no event shall the operation of this Section 11.1 extend the Term of this Services Agreement.

11.2 Termination for Failure to Meet Performance Criteria. FDT's performance during any month shall be evaluated against the Performance Criteria set forth in Schedule 2.13. If FDT fails to perform a specified Performance Criteria in accordance with Section 2.13 and Schedule 2.13 during any two (2) consecutive months, CSG may notify FDT in writing of its desire to have FDT correct such failure (hereinafter referred to as "Failed Criteria"). During the next thirty (30) days after receipt of such notice or such shorter period if FDT shall request less than thirty (30) days (hereinafter referred to as "First Cure Period"), FDT shall correct such Failed Criteria and immediately notify CSG of its correction. If FDT fails to correct such Failed Criteria within the First Cure Period, CSG shall have a right to terminate this Services Agreement;

provided, that this termination option is exercised within thirty (30) days after the end of the First Cure Period. Such termination shall become effective on a date specified by CSG, which date shall be not later than twelve (12) months after CSG's delivery to FDT of a written notice of its intention to so terminate. If FDT cures the Failed Criteria within the First Cure Period, but thereafter within the next sixty (60) days again fails to satisfy such Failed Criteria, CSG, at its election, may terminate this Services Agreement; provided, that this termination option is exercised within thirty (30) days after CSG receives notice of FDT's repeated failure to perform (as set forth above), and provided that such termination shall become effective on a date specified by CSG, which date shall be not later than twelve (12) months after CSG's delivery to FDT of a written notice of its intention to so terminate this Services Agreement. Notwithstanding anything herein to the contrary, in no event shall the operation of this Section 11.2 extend the Term of this Services Agreement.

11.3 Termination Due to Change of Control or Assignment. CSG shall notify FDT within ten (10) business days of any public announcement relating to:
(a) the sale in one transaction or a series of related transactions of a majority of the voting equity securities of CSG other than pursuant to an underwritten public offering; or (b) any other matter specified in Section
12.3. FDT may, within thirty (30) days of receipt of any such notice, notify CSG of its intent to terminate this Services Agreement, effective no earlier than twelve (12) months from the date of CSG's notice to FDT. FDT shall provide CSG or its designee with Termination Assistance as requested by CSG commencing upon CSG's receipt of FDT's notice pursuant to the limitations and procedures set forth in Section 11.5.

11.4 Termination for Convenience. CSG may terminate this Services **Agreement in its** entirety effective anytime between the thirty-six (36) and sixty (60) month anniversary of the Effective Date, provided that: (a) CSG provides FDT with six (6) months advance written notice of the effective date of any such termination; (b) CSG pays to FDT fifty percent (50%) of the Termination for Convenience Fee within thirty (30) days of FDT's receipt of the written notice specifying the termination of this Services Agreement pursuant to this

Section 11.4; and (c) CSG pays to FDT upon the effective date of termination, in addition to all fees due FDT pursuant to this Services Agreement, the remaining fifty percent (50%) of the Termination for Convenience Fee. CSG may not terminate this Services Agreement for its convenience at any other time. Not withstanding anything herein to the contrary, in no event shall the operation of this Section 11.4 extend the Term of this Services Agreement.

11.5 Termination Assistance. Commencing upon the giving of notice of any termination of this Services Agreement by either Party pursuant to Section 11, and ending upon the earlier of: (a) the effective date of any such termination identified in any such notice, or (b) the expiration of the Term, FDT will provide to CSG reasonable termination assistance requested by CSG to facilitate the orderly transfer of the systems management operations from FDT to CSG or its designee (the "Termination Assistance"). All CSG Data or data of CSG Clients shall be supplied on electronic media in a format selected by FDT. In addition, FDT shall: (i) provide to CSG appropriate file structure information; (ii) identify the parameters selected for the Systems Software; (iii) identify applicable procedures and processes relating to job streams; and (iv) use reasonable commercial efforts to obtain for CSG licenses to the Software of Third Party Providers that is used by FDT exclusively to provide FDT Services hereunder, it being under stood that FDT may be unable to obtain such licenses. To the extent that any Termination Assistance is provided hereunder, CSG shall pay FDT for such Termination Assistance on a time and materials basis at FDT's then current rates in effect under this Services Agreement, unless CSG shall terminate the Services Agreement under Section 11.1 or Section 11.2, which in each such case, CSG shall not be liable for the payment of Termination Assistance, but CSG shall continue to pay all other fees and charges due under this Services Agreement. If this Services Agreement is terminated by FDT pursuant to Section 11.1, then CSG shall prepay FDT, on the first day of each month in which Termination Assistance will be provided and as a condition to FDT's obligation to provide Termination Assistance to CSG or its designee, an amount equal to FDT's reasonable estimate of the total amount payable to FDT for such Termination Assistance for such month. In addition, CSG shall pay, or reimburse FDT for, all lease, license or other contract termination, transfer, assignment, access, upgrade, maintenance or related fees and expenses associated with the provision of the Termination Assistance to CSG or its designee. Prior to providing any of such Termination Assistance to a CSG designee, FDT shall be entitled to receive from such designee, in form and substance, reasonably satisfactory to FDT, written assurances that (A) such designee shall maintain at all times the confidentiality of any FDT Confidential Information, Software or materials disclosed or provided to, or learned by, such designee in connection therewith, and (B) such designee shall use such Confidential Information, Software or materials exclusively for purposes for which CSG is authorized to use such items pursuant to this Services Agreement. Except as set forth in

Section 11.8, FDT shall have no obligation to provide any Software to CSG as part of the Termination Assistance other than the return of the Application Software as required by this Services Agreement.

11.6 Expiration Assistance. FDT shall provide CSG or its designee with Termination Assistance as requested by CSG commencing no earlier than twelve
(12) months prior to the expiration of this Services Agreement pursuant to the limitations and procedures set forth in Section 11.5.

11.7 Access upon Expiration or Termination. Upon the effective date of any expiration or termination of this Services Agreement, FDT shall have no further obligation to provide CSG with access to or use of the Platform, FDT telecommunications networks or any Systems Software.

11.8 Expiration or Termination License. Upon expiration or termination of this Services Agreement, FDT will grant CSG a perpetual, non-transferable, non- exclusive, royalty-free license to use, only on a computer system owned or operated by CSG, or any third party providing service bureau data processing for CSG and acceptable to FDT, and only for the data processing requirements of CSG or on behalf of CSG Clients relating to the Business (it being understood that Arthur Andersen LLP, EDS and IBM shall be acceptable to FDT), the application software programs (including any existing source code or user documentation relating thereto) comprising the Existing FDT Proprietary Software set forth on Schedule 5.3 (excluding the Team 35 Software), and any New FDT Proprietary Software (excluding the Team 35 Software) (the "Termination Licensed Materials"). FDT's obligations under this Section 11.8 are subject to CSG and FDT executing and delivering a license agreement, in form and substance reasonably satisfactory to FDT, containing such terms and conditions as are appropriate to (a) limit CSG's use of such Termination Licensed Materials as set forth above, (b) protect the value and confidentiality of the Termination Licensed Materials, (c) exclude all express and implied warranties with respect to the Termination Licensed Materials and provide the Termination Licensed Materials on an "AS-IS" basis, (d) exclude all continuing obligations of FDT to update, maintain, and support the Termination Licensed Materials, and (e) exclude all liability of FDT with respect to the Termination Licensed Materials.

11.9 Rights Upon Expiration or Termination. Upon expiration or termination of this Services Agreement for any reason, CSG shall pay FDT for all amounts payable to FDT pursuant to the terms of this Services Agreement including all reimbursable expenses incurred by FDT through the effective date of such expiration or termination. The provisions of Sections 3, 4, 5, 6, 7, 8, 9, 10, 11.5, 11.8, 11.9, 12.1, 12.5, 12.8, 12.12, 12.13, 12.14 and 12.15 shall survive the expiration or termination of this Services Agreement for any reason.

SECTION 12 MISCELLANEOUS

12.1 Notice. All notices, requests, demands and other communications required or permitted under this Services Agreement shall be deemed to have been duly given and made if in writing upon being served either by personal delivery or by telecopier to the Party for whom it is intended or two (2) business days after being deposited, postage prepaid, certified or registered mail, return receipt requested (or such form of mail as may be substituted therefor by postal authorities), in the United States mail, bearing the address shown in this
Section 12.1 for, or such other address as may be designated in writing hereafter by such Party:

```
If to CSG:          CSG Systems, Inc.
                    2525 N. 117th Avenue
                    Omaha, Nebraska 68164
                    Attention:  President
                    Telecopy: 402-431-7218

With a copy to :    CSG Systems, Inc.
                    2525 N. 117th Avenue
                    Omaha, Nebraska 68164
                    Attention:  General Counsel
                    Telecopy: 402-431-7278

If to FDT:          First Data Technologies, Inc.
                    6200 South Quebec Street, Ste. 335
                    Englewood, Colorado 80111
                    Attn:  Charles T. Fote, President
                    Telecopy: 303-488-8292

With a copy to :    First Data Corporation
                    2121 North 117th Avenue
                    Omaha, Nebraska 68164
                    Attention:  David P. Bailis, General Counsel
                    Telecopy:  402-498-4123
```

12.2 Entire Agreement. This Services Agreement and the Schedules hereto embody the entire agreement and understanding of the Parties hereto with respect to the subject matter hereof, and supersede all prior and contemporaneous agreements and understandings relative to said subject matter.

12.3 Assignment: Transfer; Binding Agreement. Either Party may assign this Services Agreement to any Affiliate of such Party upon notice to the other Party. Either Party may: (i) transfer this Services Agreement in connection with any merger or consolidation of such Party with another corporation, provided that such Party furnishes the other Party with notice of such transfer within ten (10) business days of the public announcement of the same; or (ii) in connection with the sale of substantially all of the Party's assets (including the rights of a Party under this Services Agreement), provided that (a) the assignee thereof shall assume all of such Party's obligations hereunder, and (b) the Party furnishes the other Party with notice of the public announcement of such assignment and assumption within ten (10) business days of the same. Sub- ject to the foregoing, all provisions contained in this Services Agreement shall extend to and be binding upon the Parties hereto and their respective permitted successors and permitted assigns.

12.4 Force Majeure. No Party shall be liable for any default or delay in the performance of its obligations (other than payment obligations) under this Services Agreement if and to the extent such default or delay is caused, directly or indirectly, by (i) fire, flood, elements of nature or other acts of God; (ii) any outbreak or escalation of hostilities, war, riots or civil disorders in any country; (iii) any act, failure to act or omission of the other Party or any governmental authority; (iv) any labor disputes (whether or not the employees' demands are reasonable or within the Party's power to satisfy); or
(v) nonperformance by a third party (including third party vendors) or any other similar cause beyond the reasonable control of such Party, including failures or fluctuations in electrical or telecommunications equipment or lines or other equipment. In any such event, the non-performing Party will be excused from any further performance or observance of the obligation so affected only for as long as such circumstances prevail and such Party continues to use commercially reasonable efforts to recommence performance or observance as soon as practicable.

12.5 Risk of Loss. Except as otherwise provided in this Section 12.5, each party shall be responsible for risk of loss of, and damage to, any equipment, software or other materials in its possession or under its control, subject to

Section 12.4. Notwithstanding anything in this Services Agreement to the contrary, each Party to this Services Agreement (the "Damaged Party") hereby waives any and all rights of recovery, claims, actions or causes of action, against the other Party (the "Other Party"), its Affiliates, and any of its or their directors, officers, employees, agents and subcontractors for any loss or damage that may occur to the Damaged Party's facilities, any improvements thereto, or any building or project of which the Damaged Party's facilities are a part, or any improvements thereon, or any personal property of any Entity therein, by reason of fire, the elements or any other cause that could be insured against under the terms of standard fire and extended coverage insurance policies, regardless of cause or origin, including negligence of the Other Party, its Affiliates, or such Other Party's or its Affiliates' directors, officers, employees, agents or subcontractors, and both the Parties covenant that no insurer of one Party will hold any right of subrogation against the other. For purposes of this Section 12.5, the FDT Data Center shall be deemed to be under the control of FDT at all times.

12.6 No Third-Party Beneficiaries. Except as set forth in Section 6 with respect to the indemnification of certain directors, officers, employees, agents and Affiliates of the Parties, nothing contained in this Services Agreement is intended to confer upon any Entity (other than the Parties hereto) any rights, benefits or remedies of any kind or character whatsoever, and no Entity shall be deemed a third-party beneficiary under or by reason of this Services Agreement.

12.7 Severability. If any provision of this Services Agreement or the application of any such provision to any Entity, or circumstance, shall be declared judicially or by the Arbitration Panel (as defined in Schedule 6.4) to be invalid, unenforceable or void, such decision shall not have the effect of invalidating or voiding the remainder of this Services Agreement, it being the intent and agreement of the Parties that this Services Agreement shall be deemed amended by modifying such provision to the extent necessary to render it valid, legal and enforceable while preserving its intent or, if such modification is not possible, by substituting therefor another provision that is valid, legal and enforceable so as to materially effectuate the Parties' intent.

12.8 Certain Construction Rules. The description of any FDT Services contained in the Schedules is qualified in its entirety by reference to the information set forth in the provisions of this Services Agreement. To the extent that the provisions of this Services Agreement and of the Schedules are in any respect inconsistent, the provisions of this Services Agreement shall govern and control. In addition, as used in this Services Agreement, unless otherwise provided to the contrary, any reference to a "Section" or "Schedule" shall be deemed to refer to a Section of this Services Agreement or Schedule attached to this Services Agreement.

12.9 Compliance With Laws. CSG and its employees and agents and FDT and its employees and agents shall comply, except where noncompliance would not have a material adverse effect on the Parties hereto, with all applicable laws, ordinances, regulations and codes relating to this Services Agreement, other than those relating solely to performance of the FDT Services, which shall be the responsibility of FDT.

12.10 Counterparts. This Services Agreement may be executed simultaneously in multiple counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

12.11 Headings. The article and section headings and the table of contents contained in this Services Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of the Services Agreement. The recitals set forth on the first page of this Services Agreement are incorporated into the body of the Services Agreement. Unless the context clearly indicates, words used in the singular include the plural, words in the plural include the singular and the word "including" means "including but not limited to."

12.12 No Interpretation Against Drafter. Both Parties have participated substantially in the negotiation and drafting of this Services Agreement and each Party hereby disclaims any defense or assertion in any litigation or arbitration that any ambiguity herein should be construed against the draftsman.

12.13 Waiver; Consent.

12.13.1 Waiver. Except as expressly provided herein, this Services Agreement may not be changed, amended, terminated, augmented, rescinded or discharged (other than in accordance with its terms), in whole or in part, except by a writing executed by the Parties hereto. No waiver of any of the provisions or conditions of this Services Agreement or any of the rights of a Party hereto shall be effective or binding unless such waiver shall be in writing and signed by the Party claimed to have given or consented thereto. Except to the extent that a Party hereto may have otherwise agreed in writing, no waiver by that Party of any term, condition or other provision of this Services Agreement, or any breath thereof by any other Party shall be deemed to be a waiver of any other term, condition or pro vision or any breach thereof, or any subsequent breach of the same term, condition or provision by the other Party, nor shall any forbearance by the first Party or Parties to seek a remedy for any noncompliance or breach by the other Party be deemed to be a waiver by the first party of its, his, her or their rights and remedies with respect to such noncompliance or breach.

12.13.2 Consent. If either Party requires the consent or approval of the other Party for the taking of, or omitting to take, any action under this Services Agreement, such consent or approval shall not be unreasonably withheld or delayed.

12.14 Governing Law. This Services Agreement shall in all respects be construed in accordance with and governed by the laws of the State of New York, without regard to its conflict of law provisions.

12.15 Limitation of Representations and Warranties; Indemnification. Notwithstanding anything to the contrary contained herein: (i) no representation or warranty is made in this Services Agreement as to any matter which is the subject of a representation or warranty in the Stock Purchase Agreement; and (ii) no provision of this Services Agreement shall otherwise expand or limit either Party's indemnity obligations set forth in the Stock Purchase Agreement.

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IN WITNESS WHEREOF, each of the Parties hereto has caused this Services Agreement to be executed as of the date first above written.

CSG SYSTEMS, INC., formerly known as CABLE SERVICES GROUP, INC. ("CSG")

Signed By: /s/ John P. Pogge

John P. Pogge
Executive Vice President

FIRST DATA TECHNOLOGIES, INC. ("FDT")

Signed By: /s/ Charles T. Fote

Charles T. Fote
Print Name: Charles T. Fote

Title: Executive Vice President

CONFIDENTIAL - DO NOT DISCLOSE

SCHEDULE 1.17

DEVELOPMENT SOFTWARE

ABEND-AID CICS	GDDM/PGF
ABEND-AID NVS	GDDM/MVS
ASSEMBLER H	INTERTEST
BATCH PIPES	ISPF
BOOKHANGER READ	JES2
BUNDL	
CA-JCLCHECK	NETSPY
CA-LIBRARIAN	NETVIEW
CA-OPTIMIZER	OS/VS COBOL
CA-OPTIMIZER II	PHOENIX
CA-ROSCOE	PSF
CA-TOP SECRET	QMF/MVS
CA-VMAN	RADAR
CA-1	RMF
CA-7	SAMS:DISK (DMS)
CICS/ESA	SAS
CICS/MVS	SDSF
CMA/SPOOL	STROBE/CICS
	SYNCSORT
COMPAREX/MVS	SYSD-32
CUSTOM STATEMENT FORMATTER	TMON/CICS
DATA-XPERT	TMON/DB2
DB2	TMON/MVS
DYL-280 II	VERSION MERGER
EDA/SQL	
ENDEVOR	
EPILOG	VPS
FAST LOAD	VPS/CICS
FDR	VS COBOL II
FDR/COMPACTOR	XPEDITER/ROSCOE
FILE/AID/MVS	XPEDITER/TSO

SCHEDULE 1.27

FDT SERVICES AND FDT CURRENT SERVICE CHARGES

I. FDT SERVICES:

ACCOUNT MANAGEMENT:

The FDT account management team is the primary point of contact between CSG and FDT providing coordination, direction and assistance for problem management related to all FDT Data Center activities regarding problems and changes that impact CSG's system performance. Account management participates in ongoing discussion and project management efforts to ensure that all FDT activities are in accordance with CSG's business objectives.

AUTOMATION ANALYST:

Automation analysts review manual computer operation procedures for possible automation using operator automation tools, primarily Computer Associate's Automate software. Automated procedures are developed to improve operator manual errors, batch cycle and transmission completion times to meet all agreed Performance Criteria. This group is the primary point of contact for problem determination and resolution regarding automated procedures.

CAPACITY PLANNING:

FDT's capacity planning department monitors current system resource capacity used based on projections provided by CSG for forecasting system resource utilization. The forecasts are presented to CSG as recommendations in capacity plans for CPU, DASD, TAPE indicating trends and possible estimates of how system resources and their use may change.

TECHNICAL SERVICES:

Technical Services supports the System Software, CICS and OEM software (excluding the Team 35 Software) required by CSG to run its applications.

DASD:

The DASD group for FDT continually monitors DASD file placement and availability and provides first level support for all DASD related problems. This group also reviews system storage growth estimates for overall growth and special projects provided by FDT customer business units and the FDT Capacity group.

DATABASE MANAGEMENT:

Database management at FDT includes installation, maintenance and problem resolution of all mainframe database related products in use by CSG. Database management creates new DBMS (Database Management System) subsystems as requested including associated interfaces to allow customer access.

CSG DB2 DATABASE MANAGEMENT:

Database management at FDT is responsible for defining and maintaining all components and related user interfaces in support of IBM's DB2 DBMS. This area grants system level and storage group access to DB2 and monitors DB2 performance to help ensure proper tuning of subsystem components.

DATA NETWORK SERVICES:

Data Network Services encompasses all components related to the physical equipment used for telecommunications, including, telephone company circuit orders, dial backup testing, performance of circuit outage, dial backup and telephone company escalation for telecommunica tions related problems and installation and design of new telecommunications equipment and network configurations. Data Network Services provides 24x7 second level support for all net work problems and works continually with the Network software group to obtain the optimal level of circuit loading and network capacity for the FDT Data Center.

DISASTER RECOVERY:

Disaster Recovery develops and maintains plans for FDT Data Center recovery. The plans which identify all procedures and resources necessary for recovery are tested with the coordination and cooperation of CSG.

HARDWARE AND FACILITIES:

The FDT hardware area coordinates installation, upgrades and maintenance for all physical hardware and related critical environmental support facilities (power, water coolers, air handlers, etc.) used by FDT. This area plans and coordinates all vendor required upgrades and preventative maintenance to help ensure that equipment functions in accordance with current Performance Criteria.

HELP DESK:

The Help Desk (commonly known as the "CSC" -- Customer Support Center) at FDT provides the first point of contact for FDT internal, CSG and CSG customer calls for all system and network related problems. The CSC performs first level problem determination notifying additional technical support as needed.

Effective April 1, 1997, CSG shall assume responsibility for all of its customer calls. The CSC will provide 24x7 coverage for calls relating to the FDT Data Center and receive those related calls from CSG's internal support center. This service shall be provided as an Additional Service, provided that the parties reach agreement regarding the provision of the same.

Prior to April 1, 1997, FDT, at no additional cost to CSG, shall make available to CSG 80 hours of conversion assistance (including training), as well as associated documentation. Thereafter, such assistance shall be provided at an hourly rate, as an Additional Service, provided that the parties reach agreement regarding the provision of the same.

Subject to the following, CSG may offer employment to FDT CSG dedicated control center analysts. CSG shall credit each dedicated control center analyst who becomes employed by CSG ("Transferred Employee") with all of his or her service with FDT and its Affiliates for the purpose of eligibility, vesting, seniority and the computation of any benefits, under all of CSG's employee benefit plans, policies or programs maintained, sponsored by or contributed by CSG on behalf of its employees, including, pension and retirement plans, deferred compensation plans, severance plans or policies.

Transferred Employees shall be immediately eligible upon employment by CSG to participate in any and all medical plans maintained, sponsored by or contributed to by CSG ("Medical Plans"). All pre-existing conditions, restrictions or limitations contained in any Medical Plan shall be waived with respect to Transferred Employees; provided, that if the Medical Plans do not permit the waiver of any pre-existing condition, limitation or restriction, CSG shall reimburse each Transferred Employee who elects to continue to be covered under FDT's medical benefit plans under its "COBRA option" for the cost of the premiums for such coverage until such time as the employee can participate in FDT's medical plans without any pre-existing condition, limitation or restriction. CSG shall be responsible for paying the severance pay and benefits of any Transferred Employee required to be paid under FDT's severance policy as a result of his or her termination as an FDT employee pursuant to this Services Agreement.

CSG shall pay each Transferred Employee an annual base salary no less than his or her salary on the date of termination by FDT and shall not reduce the annual base salary for any Transferred Employee during the first year of his or her employment with CSG. If CSG terminates any Transferred Employee within his or her first year of employment, CSG shall pay such employee severance pay at a rate no less than the severance pay that individual would have been entitled to based on FDT's severance policy. CSG shall credit all Transferred Employees with FDT accrued and unused vacation, and shall provide all Transferred Employees with the remaining balance, if any, of their FDT 1997 unused personal days. (FDT employees accrue six (6) personal days on the last day of January.)

The termination of FDT providing to CSG the CSC services as of April 1, 1997 shall not result in the reduction of any FDT Service Charges.

DATA SECURITY:

FDT Data Security team maintains access rules for files, system resource and user id's. In addition, Data Security performs the above functions for other related OEM software requiring inter nal product security administration.

STANDARDS:

FDT Data Center standards are supported by the FDT Quality Services area and include revisions to established standards and the preparation of proposals relating to those standards for periodic review by the FDT Standards Committee, which committee includes CSG personnel. The approved standards are then published by Quality Services for online viewing.

CHANGE MANAGEMENT:

Change Management is supported by the Quality Services area and includes a review of all changes for the FDT Data Center. This review is performed to identify conflicts with other changes, missing required information needed for changes, and scheduling/approvals for those changes. Reports listing changes by day and week are published by the Change Management group and are reviewed during regular meetings internally and with CSG to ensure that system changes meet both FDT's and CSG's business needs.

INFOMAN STANDARD SUPPORT PROCESSES:

FDT Quality Services supports administrative Infoman functions relating to the FDT standard problem and change screens and reports.

MAINFRAME CONSOLE OPERATIONS:

Operations is responsible for monitoring all Systems Software and the Platform to help ensure continued service to CSG. Operations tracks CSG batch cycle and online processes and reports any Performance Criteria or key indicator impact to appropriate FDT and CSG management personnel. Operations also assists in coordinating the implementation of all approved system changes.

MEDIA SERVICES:

FDT Media Services processes, distributes and mails all output generated by CSG's applications to CSG, CSG customers and associated vendors. Media forms currently produced are microfiche, magnetic tapes and personal computer diskettes.

FDT shall provide CSG with a proposal relating to the use of CD-ROM rather than microfiche in the provision of FDT Services. Such proposal shall include, without limitation, pricing, conversion costs, timing of conversion and Performance Criteria, and the changes (if any) to the FDT Service Charges identified herein. CSG shall give FDT's proposal due consideration and shall notify FDT no later than 60 days after the receipt of such proposal, of whether such proposal meets with CSG's approval. If such proposal meets with CSG's approval, and if CSG and FDT agree on the terms and conditions relating to the use of CD-ROM rather than microfiche in the provision of FDT Services, the parties shall use commercially reasonable efforts to execute an amendment to this Services Agreement memorializing such agreement.

NETWORK SOFTWARE:

The Network Software (VTAM) group installs, maintains and monitors all network software components necessary to support host mainframe data communications as well as specialized hardware components. This group provides support to CSG and its customers for data file transfer, including RJE, NDM, PC download, and IP data transfer methods.

PERFORMANCE:

FDT Performance monitors and identifies trends, changes and bottlenecks in system workload. The performance area recommends and implements system tuning changes based on identified variances in system performance and workload.

PROBLEM MANAGEMENT:

Problem management provides resolution and follow-up assistance relating to FDT related problems. Daily and monthly reporting is provided by problem management for tracking by the Parties.

TAPE OPERATIONS:

Tape operations mounts and re-files tapes for all external tape drives and re- files tapes ejected from tape silos. Tape operations also performs physical maintenance related to tape media, including new tape initialization, tape cleaning, replacement of broken or damaged tapes. Tape operations also resolves tape drive and silo problems.

II. FDT SERVICE CHARGES:

1. Monthly Service Fees. The fees for FDT Services shall be determined on a usage basis as set forth below.

2. Pass-Through Expenses. If the Parties agree that a particular expense is to be paid directly by CSG, FDT will promptly provide CSG with a copy of the third party invoice for such expense. Otherwise, FDT shall act as a payment agent for CSG, and FDT shall pay any third party charges comprising such expense, subject to Section 3 of this Schedule 1.27.

3. Reimbursable Expenses. In addition to any other payments specified in this Services Agreement and to the extent not provided for in this Schedule 1.27, CSG will pay, or reimburse FDT for, all reasonable out-of-pocket costs and expenses incurred by FDT in connection with: (a) travel specifically requested by CSG; (b) any CSG-requested document production; (c) specially CSG-requested courier deliveries; (d) CSG-required preprinted and stock forms; (e) general supplies; (f) third party charges for programming, training, seminars and similar consulting; (g) overtime, additional personnel, products and services required as a result of (i) any federal, state or local regulatory or administrative authority, (ii) third party audit, or (iii) CSG's internal or external auditors; or (h) any pass-through expenses paid on CSG's behalf pursuant to Section II.2 of this Schedule 1.27, including costs arising out of all CSG Vendor Software license and maintenance fees, as well as Software requested by CSG and not originally included in this Services Agreement.

4. Billing. FDT shall bill CSG monthly with a single invoice for all of CSG's monthly fees and charges. The invoice shall reflect in reasonable detail the total fees and charges of CSG by FDT Service component, and shall be supported by appropriate documentation. FDT shall designate a contact person to answer questions from CSG regarding the monthly invoice.

"Confidential Treatment Requested and the Redacted Material has been separately filed with the Commission."

FDT Services	Unit	1997	1998	1999	2000	2001	Comments
Assigned CPU MIPS	MIP/month	$(**)	$(**)	$(**)	$(**)	$(**)	Notes 1, 2
CPU Incremental MIPS	MIP/month	$(**)	$(**)	$(**)	$(**)	$(**)	Notes 1, 2
DASD	gbyte/month	$(**)	$(**)	$(**)	$(**)	$(**)	Notes 1, 4, 10
Tape	mount	$(**)	$(**)	$(**)	$(**)	$(**)	Notes 1
Tape Upgrade	monthly	$(**)	$(**)	$(**)	$(**)	$(**)	Notes 1, 4
Help Desk	inbound call	$(**)	$(**)	$(**)	$(**)	$(**)	Notes 1, 4
Network	port connections unit/month						Notes 1, 3, 9
0 - 9.6K		$(**)	$(**)	$(**)	$(**)	$(**)	
14.4K - 56K		$(**)	$(**)	$(**)	$(**)	$(**)	
64K - 256K		$(**)	$(**)	$(**)	$(**)	$(**)	
T1		$(**)	$(**)	$(**)	$(**)	$(**)	
Token Ring		$(**)	$(**)	$(**)	$(**)	$(**)	
Modems (3 types)	unit/month						Notes 1, 5
Analog		$(**)	$(**)	$(**)	$(**)	$(**)	
Dialup		$(**)	$(**)	$(**)	$(**)	$(**)	
DSU		$(**)	$(**)	$(**)	$(**)	$(**)	
Controllers		$(**)	$(**)	$(**)	$(**)	$(**)	
Fiche Masters	item	$(**)	$(**)	$(**)	$(**)	$(**)	Notes 1, 11
Fiche Duplicators	item	$(**)	$(**)	$(**)	$(**)	$(**)	Notes 1, 11

"Confidential Treatment Requested and the Redacted Material has been separately filed with the Commission."

FDT Services	Unit	1997	1998	1999	2000	2001	Comments
One Way Tapes	item	$(**)	$(**)	$(**)	$(**)	$(**)	Notes 1, 4
Unshared Software	N/A	(***)	(***)	(***)	(***)	(***)	Note 8
Disaster Recovery	N/A	(***)+(***)	(***)+(***)	(***)+(***)	(***)+(***)	(***)+(***)	Note 6
Data Lines	N/A	(***)	(***)	(***)	(***)	(***)	Notes 1, 4
Postage	N/A	(***)+(**)%	(***)+(**)%	(***)+(**)%	(***)+(**)%	(***)+(**)%	Note 7
Special Projects	N/A	(***)	(***)	(***)	(***)	(***)	

SEE NOTES BELOW WHICH ARE AN INTEGRAL PART OF THIS SCHEDULE.

1. ASSUMPTIONS. All pricing assumes the volumes, numbers, dollar amounts and levels (as applicable) of each of the FDT Services and Performance Criteria as of the Effective Date, with the following exceptions, each of which shall be deemed to be as follows:

Assigned CPU MIPS as of January 1, 1997: (**) Network as of January 1, 1997: $(**) annually; $(**) monthly Modems and Controllers as of January 1, 1997: $(**) annually; $(**) monthly

2. CPU MIPS.

A. Increases.

(1) During each calendar year during the Term, CSG may increase the number of Assigned CPU MIPS by no more than (****) percent ((**)%), based on the number of Assigned CPU MIPS as of January 1 of such calendar year. CSG shall notify FDT of any such increases at least one hundred twenty (120) days prior to the date upon which CSG desires such increases to be effective, it being understood that such increases shall be effective on the first day of the month following the expiration of

such notice period. Prices relating to such increases are set forth in the CPU Incremental MIPS section of this table.

Example:

a. As of January 1, 1998, the number of Assigned CPU MIPS equals (**). On August 15, 1998, CSG notifies FDT to increase its assignment of Assigned CPU MIPS to (**). FDT shall implement such increase on January 1, 1999.

(2) During any calendar year during the Term, requests by CSG to increase its assignment of Assigned CPU MIPS in excess of (******) percent ((**)%), based on the number of Assigned CPU MIPS as of January 1 of such calendar year, shall be addressed as an Additional Service. CSG shall notify FDT of any such increases at least one hundred twenty (120) days prior to the date upon which CSG desires such increases to be effective, it being understood that such increases shall be effective on the first day of the month following the expiration of such notice period, provided the Parties can reach agreement pursuant to the procedures set forth in Section 2.15.

Example:

a. As of January 1, 1998, the number of Assigned CPU Base MIPS equals (**). On August 15, 1998, CSG notifies FDT that it desires to increase its assignment of Assigned CPU Base MIPS by (**) MIPS. The Parties shall proceed under Section 2.15 to determine whether FDT would assign CSG an additional (**) MIPS.

B. Decreases.

(1) Except as specified in Notes 2(B)(2), 2(B)(3) and 2(B)(4) of this

Schedule 1.27, during each calendar year during the Term, CSG may decrease its assignment of Assigned CPU MIPS by no more than (****) percent ((**)%), based on the number of Assigned CPU MIPS as of January 1 of such calendar year. CSG shall notify FDT of any such decreases at least one hundred twenty (120) days prior to the date upon which CSG desires such decreases to be effective, it being understood that such decreases shall be effective on the first day of the month following the expiration of such notice period.

Example:

a. As of January 1, 2000, the number of Assigned CPU MIPS equals (**). On January 15, 2000, CSG notifies FDT to decrease its assignment of Assigned CPU MIPS to (**). FDT shall implement such decrease on June 1, 2000.
b. As of January 1, 1999, the number of Assigned CPU MIPS equals (**). on August 12, 1999, CSG notifies FDT to decrease its assignment of Assigned CPU MIPS to (**). The operation of Note 2(B)(1) of this Schedule 1.27 is inappli- cable; the Parties should proceed to address this decrease pursuant to Notes 2(B)(3) or 2(B)(4) of this Schedule 1.27.

(2) Notwithstanding Note 2(B)(1) of this Schedule 1.27, and except as set forth in Notes 2(B)(3) and 2(B)(4) of this Schedule 1.27, during any calendar year during the Term, CSG may decrease the number of Assigned CPU MIPS by no more than (**) percent ((**)%), based on the number of Assigned CPU MIPS as of January 1 of such calendar year, provided that CSG shall pay to FDT, in addition to the fees associated with the actual Assigned CPU MIPS, the following additional payment:

(((**) x 12 x number of Assigned CPU MIPS as of January 1 of the calendar year) - (12 x number of Assigned CPU MIPS at the start of the next calendar year)) x ((Assigned CPU MIPS Charge) x

((**)))

FDT shall invoice CSG on or before the tenth (10th) day of January of the following calendar year for any amount owed for the foregoing additional payment. Each such invoice shall be due and payable within fourteen (14) days following receipt.

CSG shall notify FDT of any such decreases at least one hundred twenty (120) days prior to the date upon which CSG desires such decreases to be effective, it being understood that such decreases shall be effective on the first day of the month following the expiration of such notice period.

Example:

a. As of January 1, 2000, the number of Assigned CPU MIPS equals (**). On January 15, 2000, CSG notifies FDT to decrease its assignment of Assigned CPU MIPS to (**). FDT shall implement such request on June 1, 2000. CSG shall pay to FDT, in addition to the fees associated with the actual Assigned CPU MIPS, the following additional payment:

(((**) x 12 x (**)) - (12 x (**))) x $(**) x (**)

((**) - (**)) x (**)

(**) x (**) = $(**)

b. As of January 1, 1998, the number of Assigned CPU MIPS equals (**). On August 12, 1998, CSG notifies FDT that it desires to decrease its assignment of Assigned CPU MIPS to (**). FDT shall implement such request on January 1, 1999. CSG shall pay to FDT, in addition to the fees associated with the actual Assigned CPU MIPS, the following additional payment:

(((**) x 12 x (**)) - (12 x (**))) x $(**) x (**)

((**) - (**)) x (**)

(**) x (**) = $(**)

(3) Notwithstanding Notes 2(B)(1) and 2(B)(2) of this Schedule 1.27, and except as set forth in Note 2(B)(4) of this Schedule 1.27, upon twelve (12) months prior written notice, CSG may decrease its assignment of CPU Base MIPS by more than (***) percent ((**)%), based on the number of Assigned CPU MIPS as of January 1 in the year in which CSG delivers such notice to FDT, provided that the Parties determine the fee that CSG shall pay to FDT to implement such decrease, it being understood that in no event shall such fee be less than $(**). If the Parties cannot reach agreement on a fee within thirty (30) days of CSG's notice, the Parties shall proceed under the procedures set forth in Section 6.4. Once the Parties agree on a fee, for purposes of computing

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further increases and decreases in the assignment of Assigned CPU MIPS, CSG shall be deemed to have been assigned such reduced number of MIPS as of January 1 of the year in which such reduction is to be effective.

CSG shall pay FDT such payment prior to the effective date of FDT's implementation of such decreased assignment of MIPS.

(4) Notwithstanding Notes 2(B)(1), 2(B)(2) and 2(B)(3) of this

Schedule 1.27, during any calendar year during the Term, CSG may decrease the number of CPU Base MIPS assigned to it by more than (***) percent ((**)%), based on the Assigned CPU MIPS as of January 1 of such calendar year, provided that CSG shall pay to FDT, in addition to the fees associated with the actual Assigned CPU MIPS, the following additional payment:

(**) x 12 x number of Assigned CPU MIPS as of January 1 of the calendar year x Assigned CPU MIPS Charge

FDT shall invoice CSG on or before the tenth (10th) day of January of the following calendar year for any amount owed for the foregoing additional payment. Each such invoice shall be due and payable within fourteen (14) days following receipt.

CSG shall notify FDT of any such decreases at least one hundred twenty (120) days prior to the date upon which CSG desires such decreases to be effective, it being understood that such decreases shall be effective on the first day of the month following the expiration of such notice period.

Example:

a. As of January 1, 1997, the number of Assigned CPU MIPS equals (**). On December 12, 1997, CSG notifies FDT to decrease its assignment of Assigned CPU MIPS to (**), effective July 1, 1998. CSG shall pay to FDT, in addition to the fees associated with the actual Assigned CPU MIPS, the following additional payment:

(**) x 12 x (**) x $(**) = $(**)

(5) If CSG notifies FDT to decrease the number of Assigned CPU MIPS, and CSG subsequently fails to be in a position whereby FDT could implement such decrease (either in whole or in part) without disrupting CSG's business, in addition to any of the charges set forth in this Schedule 1.27, CSG shall pay to FDT, as applicable:
(a) if FDT has MIPS capacity available, the costs (as set forth herein) associated with CSG's assignment of Assigned CPU MIPS in excess of the Assigned CPU MIPS level that CSG instructed FDT to decrease CSG's assignment to, and (b) FDT's costs of maintaining or implementing CSG's assignment of Assigned CPU MIPS in excess of the level of Assigned CPU MIPS that CSG instructed FDT to decrease CSG's assignment to.

(6) If CSG requests dedicated engines in any LPAR, any MIP fluctuation must be in whole engine increments for the Platform. Such limitation may result in higher or lower Assigned CPU MIPS incremental adjustments, all of which shall be calculated in accordance with the foregoing.

"Confidential Treatment Requested and the Redacted Material has been separately filed with the Commission."

3. NETWORK

A. Increases.

(1) During each calendar year during the Term, CSG may increase its use of the Network FDT Services by no more than (***) percent ((**)%), based on the Network fees incurred by CSG during December of the prior calendar year, it being understood that for calendar year 1997, CSG shall be deemed to have incurred fees of $(**) in December, 1996. CSG shall notify FDT of any such increases in any component of the Network FDT Services at least sixty (60) days prior to the date upon which CSG desires such increases to be effective, it being understood that such increases shall be effective on the first day of the month following the expiration of such notice period. The fees attributable for such increases in any component of the Network FDT Services shall be those identified in this Schedule 1.27, provided that CSG shall only be charged for (*******) percent ((**)%) of the fees attributable to the Network FDT Services that exceed $(**) in any given month.

Example:

a. In December, 1997, CSG incurred $(**) of Network FDT Services. On April 12, 1998, CSG notifies FDT to add one (1) T1 and two (2) 64K-256K port connections. On July 1, 1998, FDT shall implement such additional port connections. During July, 1998, CSG would incur the following fees for Network FDT Services:

$(**) + (((**)) x (($(**) + 2($(**))))

(2) During any calendar year during the Term, requests by CSG to increase its use of the Network FDT Services by more than (****) percent ((**)%) shall be addressed as an Additional Service. CSG shall notify FDT of any such increases in any component of the Network FDT Services at least sixty (60) days prior to the date upon which CSG desires such increases to be effective, it being understood that such increases shall be effective on the first day of the month following such notice period, provided the Parties can reach agreement pursuant to the procedures set forth in Section 2.15.

Example:

a. In December, 1997, CSG incurred $(**) of Network FDT Services. On April 12, 1998, CSG notifies FDT that it desires to add $(**) of additional Network FDT Services. The Parties shall proceed under Section 2.15 to determine whether FDT would provide CSG such additional Network FDT Services.

B. Decreases.

(1) Except as specified in Notes 3(B)(2), 3(B)(3) and 3(B)(4) of this

Schedule 1.27, during each calendar year during the Term, CSG may decrease its use of the Network FDT Services in a given month during a calendar year by no more than (*****) percent ((**)%), based on the value of the Network FDT Services incurred by CSG during December of the prior calendar year, it being understood that during December, 1996, CSG shall be deemed to have incurred $(**) of Network FDT Services. CSG shall notify FDT of any such decreases in any component of the Network FDT Services at least sixty (60) days prior to the date upon which CSG desires such decreases to be effective, it being understood that such decreases shall be effective on the first day of the month following the expiration of such notice period.

Example:

a. In December, 1999, CSG incurred $(**) of Network FDT Services. On February 4, 2000, CSG notifies FDT to de- crease its use of Network FDT Services to $(**). FDT shall implement such decrease on May 1, 2000.

b. In December, 1998, CSG incurred $(**) of Network FDT Services. On August 12, 1999, CSG notifies FDT to decrease its use of Network FDT Services to $(**). This operation of this Note 3(B)(1) of this Schedule 1.27 is inapplicable; the Parties shall proceed to address this decrease pursuant to Notes 3(B)(3) and 3(B)(4) of this Schedule 1.27.

(2) Notwithstanding Note 3(B)(1) of this Schedule 1.27, and except as set forth in Notes 3(B(3) and 3(B)(4) of this Schedule 1.27, during any calendar year during the Term, CSG may decrease its use of Network FDT Services in a given month during a calendar year by no more than (***) percent ((**)%), based on the Network FDT Services incurred by CSG during December of the previous calendar year, provided that CSG shall pay to FDT, in addition to the fees associated with CSG's actual use of Network FDT Services, the following additional payment:

(((**) x 12 x the fees incurred by CSG for Network FDT Services in December of the prior calendar year) - (12 x the fees incurred by CSG for Network FDT Services in December of the then current calendar year)) x (**)

FDT shall invoice CSG on or before the tenth (10th) day of January of the following calendar year for any amount owed for the foregoing additional payment. Each such invoice shall be due and payable within fourteen (14) days following receipt.

CSG shall notify FDT of any such decreases in any component of the Network FDT Services at least sixty (60) days prior to the date upon which CSG desires such decreases to be effective, it being understood that such decreases shall be effective on the first day of the month following the expiration of such notice period.

Example:

a. In December, 1998, CSG incurred Network FDT Services fees of $(**). On August 12, 1999, CSG notifies FDT that it desires to decrease its use of Network FDT Services to $(**). FDT shall implement such request effective November 1, 1999. CSG shall pay to FDT, in addition to the fees associated with CSG's actual use of Network FDT Services, the following additional payment:

(((**) x 12 x $(**)) - (12 x $(**))) x (**)

($(**) - $(**)) x (**) = $(**)

(3) Notwithstanding Notes 3(B)(1) and 3(B)(2) of this Schedule 1.27, and except as set forth in Note 3(B)(4) of this Schedule 1.27, upon twelve months prior written notice, CSG may decrease its use of the Network FDT Services in a given month during a calendar year by more than (***) percent ((**)%), based on the Network FDT Services incurred by CSG during December of

the previous calendar year, provided that the Parties determine the fee that CSG shall pay to FDT to implement such decrease, it being understood that in no event shall such fee be less than $(**). If the Parties cannot reach agreement on a fee within thirty (30) days of CSG's notice, the Parties shall proceed under the procedures set forth in Section 6.4. Once the Parties agree on a fee, for purposes of computing further increases and decreases of Network FDT Services, CSG shall be deemed to have incurred the fees incurred by CSG in the first month following the effective date of any such decrease in December of the prior calendar year.

CSG shall pay FDT such payment prior to the effective date of FDT's implementation of such decreased use of Network FDT Services.

(4) Notwithstanding Notes 2(B)(1), 2(B)(2) and 2(B)(3) of this

Schedule 1.27, during any calendar year during the Term, CSG may decrease its use of the Network FDT Services in a given month during a calendar year by more than (***) percent ((**)%), based on the Network FDT Services incurred by CSG during December of the previous calendar year, provided that CSG shall pay to FDT, in addition to the fees associated with CSG's actual use of Network FDT Services, the following additional payment:

(**) x 12 x the fees incurred by CSG for Network FDT Services in December of the prior calendar year

CSG shall notify FDT of any such decreases in any component of the Network FDT Services at least sixty (60) days prior to the date upon which CSG desires such decreases to be effective, it being understood that such decreases shall be effective on the first day of the month following the expiration of such notice period.

Example:

a. In December, 1997, CSG incurred Network FDT Services fees of $(**). On December 12, 1997, CSG notifies FDT to decrease its use of Network FDT Services to $(**) on April 1, 1998. CSG shall pay to FDT, in addition to the fees associated with the CSG's actual use of Network FDT Services, the following additional payment:

(**) x 12 x $(**) = $(**)

"Confidential Treatment Requested and the Redacted Material has been separately filed with the Commission."

(5) If CSG notifies FDT to decrease its use of Network FDT Services, and CSG subsequently fails to be in a position whereby FDT could implement such decrease (either in whole or in part) without disrupting CSG's business, in addition to any of the charges set forth in this Schedule 1.27, CSG shall pay to FDT, as applicable:
(a) if FDT has Network FDT Services capacity available, the costs (as set forth herein) associated with CSG's use of Network FDT Services in excess of the Network FDT Services that CSG instructed FDT to decrease to, and (b) FDT's costs of maintaining or implementing CSG's Network FDT Services in excess of the level of Network FDT Services that CSG instructed FDT to decrease to.

4. FDT SERVICES OTHER THAN CPU BASE MIPS, TAPE MOUNTS, NETWORK, MODEMS AND

CONTROLLERS, FICHE AND UNSHARED SOFTWARE (THE "OTHER FDT SERVICES").

Increases and decreases in each of the Other FDT Services shall be calculated in the same manner that CPU Base MIPS were calculated herein,

provided that the notice period for increases and decreases shall only be sixty (60) days rather than one hundred twenty (120) days.

5. MODEMS AND CONTROLLERS. Increases and decreases in modems and controllers shall be calculated in the same manner that Network FDT Services were calculated herein.

6. Management fee covers in-house staff, currently $(**) per month, which shall increase (**) percent ((**)%) during each calendar year during the Term.

7. (***) percent ((**)%) fee covers in-house staff.

8. CSG shall pay FDT for all Unshared Software licensed by FDT for use by CSG, including associated maintenance fees, regardless of whether CSG ceases use of any of such Unshared Software. Upon the written request of CSG, FDT shall use commercially reasonable efforts to termi nate any license and associated maintenance for specified Unshared Software, it being understood that FDT may not be successful in such efforts.

9. In years 1999, 2000 and 2001, Network FDT Services fees shall reflect a $(**) monthly / $(**) annual credit.

10. If CSG requests FDT to provide CSG with additional DASD without providing FDT with the sixty (60) day notice required herein, to the extent that FDT can accommodate such a request, it will use reasonable commercial efforts to do so, it being understood that FDT may not be able to accommodate CSG's request.

extent that FDT can accommodate such a request, it will use reasonable commerical efforts to do so, it being understood that FDT may not be able to accommodate CSG's request.

11. FICHE.

A. Increases.

(1) During each calendar year during the Term, CSG may increase its volume of Fiche FDT Services by no more than (****) percent ((**)%), based on the volume of Fiche FDT Services of CSG as of January 1 of such calendar year. CSG shall notify FDT of any such increases at least sixty (60) days prior to the date upon which CSG desires such increases to be effective, it being understood that such increases shall be effective on the first day of the month following the expiration of such notice period.

(2) During any calendar year during the Term, requests by CSG to increase its volume of Fiche FDT Services in excess of (****) percent ((**)%), based on the volume of Fiche FDT Services of CSG as of January 1 of such calendar year, shall be addressed as an Additional Service. CSG shall notify FDT of any such increases at least sixty (60) days prior to the date upon which CSG desires such increases to be effective, it being understood that such increases shall be effective on the first day of the month following the expiration of such notice period, provided the Parties can reach agreement pursuant to the procedures set forth in Section 2.15.

B. Decreases.

(1) Except as specified in Note 11(B)(2) of this Schedule 1.27, during each calendar year during the Term, CSG may decrease the volume of Fiche FDT Services by no more than (*******) percent ((**)%), based on the volume of Fiche FDT Services of CSG as of January 1 of such calendar year. CSG shall notify FDT of any such decreases at least sixty (60) days prior to the date upon which CSG desires such decreases to be effective, it being understood that such decreases shall be effective on the first day of the month following the expiration of such notice period.

(2) Notwithstanding Note 11(B)(1) of this Schedule 1.27, during any calendar year during the Term, CSG may decrease the

volume of Fiche FDT Services by more than (*******) percent ((**)%), based on the volume of Fiche FDT Services of CSG as of January 1 of such calendar year, provided that CSG shall pay to FDT, in addition to the fees associated with the actual Fiche FDT Services, the following additional payment:

(((**) x volume of Fiche FDT Services as of January 1 of the calendar year) - (actual volume of Fiche FDT Services during such calendar year)) x (Applicable Fiche FDT Services Charges x (**))

FDT shall invoice CSG on or before the tenth (10th) day of January of the following calendar year for any amount owed for the foregoing additional payment. Each such invoice shall be due and payable within fourteen (14) days following receipt.

CSG shall notify FDT of any such decreases at least sixty (60) days prior to the date upon which CSG desires such decreases to be effective, it being understood that such decreases shall be effective on the first day of the month following the expiration of such notice period.

(3) If CSG notifies FDT to decrease the volume of Fiche FDT Services, and CSG subsequently fails to be in a position whereby FDT could implement such decrease (either in whole or in part) without disrupting CSG's business, in addition to any of the charges set forth in this Schedule 1.27, CSG shall pay to FDT, as applicable:
(a) if FDT has Fiche FDT Services capacity avai lable, the costs (as set forth herein) associated with CSG's use of Fiche FDT Services in excess of the Fiche FDT Services level that CSG instructed FDT to decrease CSG's volume to, and (b) FDT's costs of maintaining or implementing CSG's volume of Fiche FDT Services in excess of the level of Fiche FDT Services that CSG instructed FDT to decrease CSG's volume to.

SCHEDULE 1.43

PLATFORM

HARDWARE CONFIGURATION (AS OF JANUARY 1, 1997)

Processor
IBM 9021 -982
340 MIPS (including System Software)
528 MB Central Storage
720 MB Expanded Storage
13 Copper Channels
117 ESCON Channels

Tape 1/97 * Address	Tapes * Address	F.E.P. Units
5 STK Silo's (56 Addresses)	5 STK Silo's (56 Addresses)	1 IBM 3745/170
32 Timberline**	56 4490	1 IBM 3745-61A
24 4490	4 STK 4480	
4 STK 4480	8 STK 4490 w/autoloaders	
8 STK 4490 w/autoloaders	8 STK 4670	
8 STK 4670		

DASD * Controllers Units	DASD * Strings
1 IBM 3990/6 256 mb/cache	2 IBM 3390/3
1 IBM 3990/3 128 mb/cache	4 IBM 3390/3
1 IBM 3990/3 64 mb/cache	1 IBM 3390/9
2 IBM 3990/6 512mb/cache	2 HDS 7693
2 HDS/7690 256 mb/cache	1 IBM 3380/K
1 IBM 3880	1 IBM 3380/D
1 STK 8880	1 STK 8380/E
	2 EMC 5500-9M22
	1.5 EMC gb/cache
	1 HDS 7700 3 gb/cache
	Total = 1,959gb

* Shared with other Business Units ** Dedicated to CSG

SCHEDULE 2.3

CSG VENDOR SOFTWARE

VERTEX -- is a software package that calculates sales tax at the State, City, Municipality, etc. level. CSG has the right to use the Vertex software under a license granted to Time Warner Satellite Services (a/k/a Time Warner Publishing Co.). CSG may access and use the Vertex software for Time Warner's business purposes only.

GROUP 1 Software, including CODE1, Mail-Stream Plus, Desktop MailStream Plus, ArcList, Online/Time Sharing -- used to perform various addressing and sorting functions for mailing statements to subscribers of CSG Clients.

CLARITIS Software, including PRIZM, PRIZM+4, and Census Block Group Level Demographics -- Market Segmentation systems that classify residential neighborhoods and communities in the U.S. into distinct types or "clusters" according to factors derived from the U.S. Census; used with VIP Software.

SCHEDULE 2.9

OPERATIONS PROCEDURES

See attached listing.

ACCOUNT MANAGEMENT

FDT	CSG
Act as primary client contact between CSG and FDT. Provide quality control on Performance Criteria and key indicators. Participate in ongoing negotiation of Performance Criteria and key indicators. Provide status and statistical reporting to help ensure Services Agreement compliance Conduct regular quality of service review meetings. Take part in senior-level discussions to help ensure technology concerns are closely linked to business decisions. Identify open issues and future plans through ongoing discussions with client management personnel. Coordinate project management efforts with technical personnel and client management to determine that the proper balance between client priorities and FDT resources are adequately utilized. Ensure coordination and consistency of FDT Data Center policies and performance. Participate and represent client in change control planning and meetings.	Coordinate FDT Data Center activity through account manager. Ensure FDT is aware of all data processing /telecommunications implemented by CSG affecting production batch, onlines and network. Adhere to established change control methodologies for application changes. (INFOMAN/Development calendar) Provide representation for change control and planning meetings. Communicate changes to business that may require alteration of Performance Criteria and key indicators.

OPERATIONS AUTOMATION

Investigate the possible elimination of all manual computer operations intervention. Coordinate implementation of new operator automation procedures between all affected departments. Maintain operation automation software in a dynamic environment. Work issues pertaining to Performance Criteria using operator automation tools where applicable. Develop automatic controls around the transmission environment that would escalate lateness or problem situations. Propose the appropriate course of action for research, development, implementation and problem resolution of operator automation issues. Review and resolve any problems with automated procedures.	Create change record in INFOMAN to request specific automation changes or enhancements.

CAPACITY PLANNING

FDT	BUSINESS UNIT
CAPACITY Provide quarterly capacity plan Gather resource usage for existing applications from SMF, RMF,EPILOG, NETVIEW. Identify how resources may grow. Apply resource usage and estimate CPU, DASD, Tape, Network or other resources from business unit assumptions. Estimate total resources required (CPU, DASD, Tape and Network). Estimate effects on customer cost for estimates. Monitor and provide reports for trends in workloads. Recommend trending for workloads that do not have a specific estimate. Summarize capacity plan by customer and seek approval from customer's management. Present consolidated customer plans to FDT management.	Application capacity planner must provide information one month before end of each quarter to include information in capacity plan. Gather and document areas affected by changed resource usage for existing jobs, jobsteps, programs, network, online systems and applications. Document dates of unit testing, beta test, parallels and production. Document all assumptions which include how resource utilization will grow for identified areas. Provide monthly business units growth. Approve FDT Data Center capacity plan.

CICS ON LINE SOFTWARE

FDT	CSG
CICS installation, customization, tuning, application of PTFs, table maintenance. Support CICS disaster recovery. Build new CICS regions as requested. Design and implement CICS direction/workload analysis. Monitor all production CICS regions and note exceptions. Provide debugging and problem resolution assistance for application programming staff when requested. Tech Services will research all regions abends. Tech Services will assist with all test, QA and acceptance test storage violations upon request. Tech Services will research all production storage violations. Tech Services will assist with transaction abends upon request. Tech Services will research all exceptions to Performance Criteria. Participate in department education practices and provide workshops on materials and information obtained. (In-house, IBM external and vendor supplied). Evaluate new products. Apply maintenance to all vendor products as per software support list(exceptions/additions to all support are listed). Run traces for troubleshooting application problems. Data set contents (dumps) cleanup/copy. Create and maintain documentation within the CICS team. Create documentation to educate the technical services staff. Create documentation within INFO management for problem understanding and future tracking. Maintain accurate software inventory listing. Maintain software at vendor's supported releases.	Applications (or Q/A) is responsible for its loadlibs: cleanup old versions, sizing, compression, backups. Each application group is responsible for completing the correct paperwork for normal table maintenance along with the correct parameters for the usage of the table entry (i.e., CICS region/notification of entries that will have abnormally high usage). Each application group is responsible for identifying correctly the requirements for new CICS regions when requesting the same, including region size, table entries, customization, etc. CSG should contact Applications as the first point of contact for transaction ASRA (s) and Abends. CSG should contact Applications immediately for storage violations along with FDT Tech Services and both groups will investigate the dumps. Interest Protsym maintenance, if any. Use supplied monitoring tools to report on and analyze applications All TEAM 35 Software. Recovery/synchronization of all on-line application data sets at DR Advantis: assignment of valid LU names that follow auto-install standards. Adhere to established change control methodologies for applications changes (INFO/MAN and Develop Calendar).

FDT	CSG
DASD Capacity Planning 1. Review the forecast provided by CSG and determine hardware requirements. a. Analyze current DASD availability. b. If necessary, outline increased DASD to be purchased. c. Develop a proposal and distribute to CSG and conduct a formal review. 2 Execute the approved proposal. a. Order and install DASD. b. Initialize and configure DASD.	DASD Capacity Planning: 1. Project quarterly DASD requirement forecasts with changes and refinements noted. a. Develop requirements for new and existing projects and special projects. 2. Distribute forecast to FDT and conduct formal review. 3. Review the proposal provided by FDT and obtain the appropriate approvals.
File Monitoring/Maintenance: 1. Provide reporting to assist CSG with file maintenance and monitoring. Review and discuss with CSG changes necessary to enhance performance or alleviate problems and implement decided plan for change. 2. Allocate production VSAM ,BDAM files as requested by CSG, determine sizing and placement from attributes in request. 3. Implement and maintain software that manages DASD at the dataset and pool level. Review with CSG changes necessary for problem resolution, enhancements or growth and implement decided plan for change. 4. Monitor all critical production batch and online files for extents daily and make changes to alleviate any space problems .	File Monitoring/Maintenance: 1. Monitor GDG bases and sequential files for allocation, sizing, and attributes to enhance performance and prevent problems. Initiate review with FDT to discuss recommended changes and determine implementation plan. 2. Provide change control or form to FDT with necessary specifications for production VSAM and BDAM files. 3. Allocate and size production gdg bases and sequential files. 4. Implement and maintain daily cleanup jobs on work and GDG volumes.
Monitor DASD Usage: 1. Review DASD pools for performance and sizing, discuss suggested changes with CSG and implement decided plan for change. 2. Research and recommend software packages to assist in monitoring and reporting	Monitor DASD Usage: 1. Review suggestions with FDT to determine final resolution to necessary changes. 2. Review and Monitor BDAM files.
Production Support: 1. Provide first level oncall support for DASD and storage software issues. 2. Perform weekly library compression and defrag routines, determining the applicable candidates. 3. Provide support on restore/recall problems	Production Support: 1. Provide first level support for applications issues. 2. Review suggestions with FDT to determine final resolution to necessary changes. 3. CMA spool, BUNDL(RMS) administration.

DATABASE MANAGEMENT

FDT	CSG
Install database software and all related products. Resolve database system software problems. Maintain database system software and related products. Develop and maintain system backup and recovery procedures. Assist as needed with application recovery. Perform database system environment recovery. Database system level performance and tuning. Database capacity planning. Prepare and maintain operations procedures. Create new DBMS subsystems as required. Develop and implement System Software migration policies and procedures. Develop and maintain system level naming standards. Evaluate and test database related software. Design and implement database security. Provide consultation services for any applications issues as needed. Provide support for all database platforms and their interfaces. Provide support for standard compile, execute and utility procedures. Maintain accurate software inventory listing. Maintain software at vendor's supported releases.	Responsible for application software implementation. Provide input for system problem resolution. Develop and maintain application data backup and recovery procedures. Perform application recovery. Application level performance and tuning. Provide projections of application growth. Prepare and maintain production control documentation and procedures. Develop and maintain application software migration policies and procedures. Develop and maintain application naming standards. Assist in software evaluations and testing. Assist in design and implementation of security. Provide support for application specific compile, execute and utility procedures in conjunction with Quality Services. Adhere to established change control methodologies for applications changes (INFO/MAN and Develop Calendar).

CSG DB2 DATABASE MANAGEMENT

FDT	CSG
Migrate DB2 subsystem and objects to new release. Support standard attach facility and other subsystem interfaces. Define storage groups to subsystems. Grant authority to access storage groups and buffer pools. Grant system level security for appropriate databases. Define physical design review requirements. Monitor and adjust buffer pools and EDM pool and other subsystem components. Monitor and maintain DB2's log and bootstrap datasets. Perform performance and audit tracing when necessary. Monitor DB2 System DASD and take appropriate action to help ensure data and performance optimization. Maintain QMF userids. Maintain all OEM database objects.	Project DBA grants appropriate authority to applications programmers. Assumes all logical data modeling efforts. Provide notice of any implementation that may impact DASD subsystem. Monitor DB2 application DASD and take appropriate action to ensure data integrity and performance optimization. Adhere to established change control methodologies for applications changes (INFO/MAN and Develop Calendar).

DATA NETWORK SERVICES

FDT DENVER	CSG
Place orders with telephone companies for data circuits as required. Maintain network availability for all client data connections. Provide monthly dial back up line testing for all circuits having these features. Perform monthly data line billing review and audits. Approval of all data line invoices. Order, test and install all data communications hardware associated with client orders. Administration and monitoring of all network management systems for clients. This includes Racal NMS400 system used in the network control center. Provide 24X7 NCC second level support for all clients. Maintain complete inventory tracking and record keeping for all network hardware and systems. Perform all required disaster recovery testing for each client as directed. Enter appropriate change control records. Review/approve change control records. Develop and distribute all problem report and network performance information used to produce client Performance Criteria statistics. Joint responsibility with network software group for circuit loading and network capacity planning. Represent Telecommunications in all scheduled and required client performance/status meetings. Vendor management of data network service providers which terminate at Millennium. Telephone company service escalation's at all levels. Provide client quotes for pricing of new data lines and/or other network services. Create back up diskettes for CSG sub-client 3174/3274 controllers when requested. Second level support for protocol converter troubles and configurations as required.	Submit telecommunications service requests for all new installations, changes, deletions or information regarding data network services and price quotes. Place orders with telephone companies for data circuits as required. Provide internal local security and access to installed data communications equipment in specified secured areas. Install dial back up analog lines at remote customer locations when required. Purchase hardware such as modems and csu/dsu's when not provided by FDT. Physically replace failed modems and communications equipment at remote sites which are CSG owned Provide third level support for all clients. Assist FDT personnel as needed in the local troubleshooting CSG provided communications equipment. i.e. modems, sharing devices. Arrange for any internal wiring or connectivity as required from telecommunications demarc to DTE equipment at client sites. Enter appropriate change control records. Third level support for protocol converter troubles and configurations as required. Support new client installations and/or upgrades to existing configurations. Manage Racal (VSAT) and Advantis account relationships and review monthly Performance Criteria.

EXAMPLE OF DATA NETWORK SERVICES ADDITIONAL SERVICES

Service provided by NCC staff or Telecomm Analyst II which requires dispatch to customer locations. This includes working open problem tickets and\or supporting new installations.

DISASTER RECOVERY

FDT	CSG
Develop and maintain DR plans for initial response and recovery of the Data Center including, Disaster Recovery Management Team, Hotsite Recovery Team, Telecom Team, Client Services Team, Quality Services Team, Administration Team Maintain Hotsite contract and administer costs to business unit Ensure all business units have appropriate hardware to receive their application or if such hardware is not required, have such business units acknowledge such non-requirements. Coordinate and plan hotsite DR tests for CSG. Document the hotsite test plans, post mortem and track problem/resolution Assist business units where possible with their planning efforts Assist if requested, in business units' business recovery planning efforts Ensure offsite storage audits are performed quarterly Assist business units in their implementation of the data set tracking tool "Sunrise" Recover CSG's production environment including the database data but not the production application data for hotsite testing Develop and maintain technical recovery plans: Technical support (MVS), Data Base Support (CICS, DB2), Software Telecommunications, Hardware Telecommunications, Operations support, Quality Services To recover the system, the following areas shall have the following responsibilities: MVS: recover the operating system with the appropriate software DASD: provide full volume backups of System, and CSG Applications Software volumes for CSG. Also maintain the VSAM allocation process. At time of disaster or testing, restore the system volumes, CSG Application Software volumes and execute the VSAM allocation process x CICS: recover the CICS software x DB2: recover the DB2 subsystem and QMF system software x Software/Hardware Telecom: recover the subscribed to telecom network	Supply hotsite testing requirements in the form of goals and objectives Document and maintain the application recovery plan for the product Participate in the hotsite recovery testing by supporting the applications and their clients To backup and send offsite, CSG Application Data Recover application data for testing and in the event of a disaster (which includes the forward recovery of CICS and DB2) If there is any additional data that CSG wants FDT to be responsible for backing up and recovering for disaster recovery, CSG shall submit these requirements in writing to FDT, and FDT must agree in writing to the additional requirements. Develop, maintain and test its business recovery plans

HARDWARE AND FACILITIES

Coordinate the installation and/or upgrade of the requested FDT Data Center hardware with the vendor and all business units serviced by the FDT Data Center. Coordinate the installation and/or upgrade of the FDT Data Center hardware microcode, to current and supported levels. Evaluate vendor hardware related to the operations of the FDT Data Center and the business unit needs. Maintain a current floor plan of the FDT Data Center. Maintain configuration documentation related to the hardware installed in the FDT Data Center. Manage and maintain the power plant which support the FDT Data Center and will provide a configuration to support the continuous 24x7x365 operation of the FDT Data Center businesses.	Determine hardware requirements and submit a formal request to FDT quarterly. All requests for hardware and/or facility changes require 60 days prior written notice to FDT.

HELP DESK*UNTIL 4/1/97*

FDT	CSG
- - Main point of contact for CSG internal and external customer calls regarding online software, system software and network related issues for CSC, SMS, TVRO, VIP and ACSR products. - - Responsible for resolving first level data communications, hardware and software related issues. - - Responsible for performing hardware dispatch and follow-up. - - Responsible for coordinating FDT Data Center resources to resolve second level and higher online software, system software and network related issues. - - Responsible for notifying CSG resources and assisting as required/requested to resolve second level application software, Addressability, ACSR and new customer installation related issues. - - Responsible for providing critical situation notifications to CSG management. Notifications to be performed on a 7x24 basis. - - Responsible for providing 30 minutes status notifications throughout the life of all critical situations (life of problem means the time the CSC is aware of a critical problem until the impact to client has ceased). This notification is performed on a 7x24 basis. - - Responsible for providing sensitive account problem notifications to CSG management. - - Responsible for providing monthly ACD statistical reports showing daily calls offered, calls answered and average speed of answer.	- Main point of contact for all CSG external customer calls and questions regarding application data entry problems between the hours of 7:00 am - 9:00 pm, Mondays through Fridays and 7:00 am - 2:00 pm, Saturdays. - Responsible for coordinating and resolving new installation issues. - Responsible for providing to FDT up date client hardware configuration and client location/contact information. - Responsible for providing to FDT an up to date listing of sensitive accounts. - Responsible for coordinating and resolving second level and higher application software, addressability, and new customer installation related issues.

MEDIA SERVICES

FDT	CSG
Responsible for the creation of microfiche and distributing the same to the customer. Responsible for mailing out all customer CAD440 selects. (Tape, diskettes and cartridges) Responsible for all media conversion (Tape to diskette) Responsible for processing/distributing special tape requests. Responsible for labeling and entering into Roscoe all conversion tapes received from the customer. Responsible for providing monthly Customer Media statistical reports showing volumes processed, distributed and accuracy.	Responsible for providing update/current distribution list for all microfiche and special tape mailings 14 days prior to implementation Main point of contact for all CSG external customer calls and questions regarding inquiries/problems with distributed microfiche, conversion, and tapes. Responsible for coordinating and implementing all customer conversions.

MVS SYSTEMS SOFTWARE

FDT	CSG
Install, maintain, customize and support all mainframe operating systems and associated program products. Perform diagnostic and consulting services to the business units. Provide product documentation for the FDT Data Center on operational aspects of installed products. Investigate and recommend new system software. Maintain accurate software inventory listing. Maintain software at vendor's supported releases.	Request product trials. Assist in testing of new releases and upgrades of all software. Support administration of third party software as agreed. Adhere to established change control methodologies for applications changes (INFO/MAN and Develop Calendar).

NETWORK SOFTWARE

FDT	CSG
Maintain high network availability/stability. Perform Network customization, monitoring and tuning. Install, customize and maintain network and network related software products. Problem determination and resolution of network and network related software product issues. Install, customize and maintain transmission software products. Problem determination and resolution of transmission software product issues. Assist client with client and sub-client transmission software/hardware installation and support issues. Assist in installation and support of network hardware components (including 3172, SPC and Netlink solutions). Maintain accurate software inventory listing. Perform Network disaster recovery planning and support. Design and implement network direction/workload analysis. Provide consulting services for software product acquisition and evaluation. Provide consulting services for network planning and design. Participate in the monitoring, tuning, capacity planning and problem determination/resolution issues with external connected networks and VAN providers. Provide debugging and problem resolution assistance for client representatives when requested. Assist with network connectivity and access issues. Run traces to assist in troubleshooting network and application issues. Research exceptions to Performance Criteria. Create and maintain network documentation to assist the technical services and support staffs in troubleshooting and providing client service. Participate in interdepartmental education and provide seminars on monitoring and first level debugging procedures. Provide available network performance and availability reports as requested. Participate in INFO management procedures to assist in problem tracking and documentation. Participate in INFO management procedures to assist in change control tracking and documentation.	Determine Network software requirements and submit formal requests to FDT staff. Test and evaluate software and network installations to insure requirements are satisfied. Participate with FDT staff in monitoring network resources. Use supplied monitoring tools to report on and analyze network resources. Provide feedback to assist in customization and tuning efforts. Interface with and provide first level troubleshooting for sub clients. Assist sub clients with transmission software selection, installation and support. Primary interface with Advantis on network definitions, problem determination and resolution. Primary support for client connections to SP2. Adhere to established INFO management procedures for problem notification and tracking of network, transmission and related issues. Adhere to established INFO management change control procedures in addition to the development calendar for network, transmission and related change implementations.

STANDARDS

FDT	CSG
Standards Co-maintain data processing standards by: Submitting additions, changes and deletes through established FDT procedures. Preparing and distributing an agenda for the monthly Standards Committee meeting, consisting of all proposals received by Quality Services by the monthly cutoff date. Chair the Standards Committee meeting. Quality Services will publish, either in hardcopy format or online format, using the BookManager product, updates approved by the Standards Committee.	Standards Co-maintain data processing standards by: Submitting additions, changes and deletes through established FDT procedures. Attend monthly Standards meetings support any proposals submitted to the committee

CHANGE MANAGEMENT

FDT	CSG
Provide Standard INFOMAN Support. Provide Standard Reports to support scheduled meetings. All changes are opened on FDT's INFOMAN System.	Submit all request for services through INFOMAN for all FDT Data Center Activities, including: System Software Hardware Network Request Operations Requests Security Storage Management

INFOMAN STANDARD SUPPORT PROCESSES

FDT	CSG
Administrative Functions Set up userid by specific privilege classes within business unit controls. Store employee data for interested party access. Problem Tracking Collection of production identified job abend data. Log problems regarding end users that appear to be caused by FDT support groups: Systems area Security Operations INFOMAN DASD management Capacity management performance management Change Tracking Allow logging of request for service from each business unit to support areas of FDT: Systems area CICS Security Operations INFOMAN DASD management Capacity management Performance management	

MAINFRAME CONSOLE OPERATIONS

FDT	CSG
Monitor system tasks Monitor system performance Monitor and adjust cycle progress based upon key indicator jobs defined by CSG Notify FDT management and primary business unit contact of problems impacting Performance Criteria and key indicator jobs Monitor system hardware Monitor computer room environmentals Track and act upon approved changes assigned to operations including IPL's Process approved special requests Perform system level control functions as required Process batch cycle as defined in CA-7 and notify cycle support of discrepancies/problems identified in the process Provide 24x7 console coverage Monitor CAD1 transmissions during off hours Perform off hour job restarts based on CSG provided documentation or verbal instructions from cycle support groups Perform CA7 scheduling for non-application related jobs	Maintain list of unique business unit system tasks to be monitored Maintain list of key indicator jobs and latest completion time without impacting Performance Criteria Maintain list of contacts and phone numbers Maintain Performance Criteria and key indicator expectations via account manager Maintain escalation and notification procedures Maintain job restart documentation and procedures Provide operations with cycle run instructions Perform all CA7 scheduling functions for application related jobs

PERFORMANCE

FDT	CSG
PERFORMANCE Provide standard reports that identify changes in workloads. Monitor reports to ensure Performance Criteria and key indicators are met, and recognize workload variances. Identify application/systems tuning opportunities. Provide manpower for systems tuning when Performance Criteria and key indicators are not being met.	Complete application design and maintenance. Identify application tuning opportunities. Implement application tuning changes. Identify business elements for Performance Criteria and key indicators Provide manpower for application tuning when Performance Criteria and key indicators are not being met. Adhere to established change control methodologies for applications changes (INFO/MAN and Develop Calendar).

PROBLEM MANAGEMENT

FDT	CSG
All problems are opened on FDT's Infoman system by FDT or CSG personnel.	All problems are opened on FDT's Infoman system by FDT or CSG personnel.
FDT will respond to, update and resolve any records assigned to FDT Data Center departments.	CSG will respond to, update and resolve any records assigned to CSG departments.
Performance Criteria exceptions: FDT will compile exception information for Performance Criteria records. FDT and CSG will negotiate accountability if necessary.	CSG will ensure that any Performance Criteria records assigned to them will contain accurate resolution and duration information.
FDT will provide scheduled and adhoc reporting from data on the FDT Infoman database.	CSG will have access to the FDT Infoman database for data retrieval, reporting, etc.
FDT Problem Management Department will provide the account manager with problem detail information from the Infoman database. The account manager will provide CSG with any requested summaries, memos, post-mortems, etc.	CSG will provide problem summary information whenever the recipient is a CSG client.

PRODUCTION SCHEDULING

FDT	CSG
Maintain and follow problem flow via INFOMAN and escalate per problem escalation procedures. Schedule and implement production change, including new business acquisitions. Support operations in maintaining and verifying production processing. Support operations/tape library in maintaining TMS batch processing. Document departmental procedures Maintain CA-7 automated scheduler jobs and parameters for system level and operations processing. Provide abend restart functions where requested. Document and escalate processing problems according to escalation procedures.	Add, delete and update jobs in CA-7 scheduler. Add, delete and update all scheduling parameters with the exception of the security macro. Create change record in INFOMAN to request adds/deletes to security macro Provide restart services for Cable processing.

DATA SECURITY

FDT	CSG
Upgrade or install fixes to the TOP SECRET software. (*) Maintain TOP SECRET databases. Install/maintain external security interfaces between TOP SECRET and other software. Maintain internal security for other software, such as: CA7 (*) NETVIEW (*) DB2 (*) INFOMAN (*) ROSCOE QMF (*) VMANCSG NETSPY NDM TSO. Reset passwords, suspend or resume userids for FDT personnel. Maintain TOP SECRET userids: create, modify, delete. Reset passwords and/or resume userids for CSG clients and personnel on TOP SECRET Maintain CSG client and personnel on TOP SECRET. Maintain DSN/RESOURCE access rules under TOP SECRET Delete datasets/aliases when user id are deleted. SDSF system access Interface with CSG data security administrator. Respond to audits with respect to FDT responsibilities.	Maintain internal security of other products: RMS/ESF (BUNDLE). TOP SECRET for RMS/ESF (clients only): create, modify, delete. Respond to audits with respect CSG responsibilities. Reset passwords and/or resume userids for CSG clients and personnel on TOP SECRET. Administer all Team 35 Software security

TAPE OPERATIONS

FDT	CSG
Monitor all external tape drives for mount activity. Setup, maintain and support tape vault patterns offsite disaster recovery activities. Pull all offsite backup tapes from offsite storage Refile all returning backup tapes from offsite storage. Refile tapes manually loaded (round reel and cartridge). Refile all tapes ejected from the tape silo's throughout the day. Enter scratch tapes, cleaning cartridges and requested input tapes into the tape silo's Initialize new tapes both round reel and cartridge (inhouse and oneway tapes). Clean and/or replace broken or damaged tapes with I/O errors for inhouse and microfiche. Retrieve and deliver all microfiche and Media Support tape requests for CSG. Publish monthly reports for tape utilization both automated and manual. Monitor, clean and resolve tape drive and silo problems. Provide 24 x 7 tape coverage for CSG. Analyze daily tape operations for possible improvements. Perform updates to TMS (ie. extend and/or expire tapes). Resolve problem tickets involving tape library and tape operations.	Maintain master document of what application files are sent offsite. Provide written documentation when requesting offsite disaster recovery tape vaulting. Maintain a master list of retention periods for all tapes created using RDS (Retention DataSet). Provide written documentation when requesting changes to RDS file. Use tape file stacking whenever possible. Minimize tape drive allocation during job processing. Migrate small datasets to disk whenever possible.

SCHEDULE 2.10

CSG BATCH JOB TARGETS

See attached listing. All times listed are Mountain Time.

With the installation of the proposed Timberline hardware, CSG critical path processing should be completed an average of two (2) hours earlier than the completion time as of the Effective Date, provided that (a) at least thirty two (32) Timberline transports and eight (8) ESCON channels are available for CSG processing so as to avoid allocation delays, (b) the job mix and job scheduling parameters as of the Effective Date are not significantly altered (e.g., no changes in CPU resources, etc.), and (c) transaction workload levels do not increase more than ten percent (10%) above activity levels as of the Effective Date. Critical path completion time means the end time of CAD0350, which as of the Effective Date, completes at approximately 05:00.

		DEFINITION	TARGET
1.	Online System Updated: CCS	CAD0139	Completed by 04:30.
2.	Online System Updated: TVRO	TVD0139	Completed by 04:30.
3.	Online System Updated: SMS	VID0139	Completed by 04:30.
4.	File Availability: CCS	This covers the availability of production files for CCS.	CCS files available 23 hours a day, from 04:30 to 03:30, 98.2% of the total month ly hours. File availability is measured at the completion of CAD0139 and will encompass downtime of CICS and the operating system.
5.	Daily Reports	Sequence (CADSEQ11), house and work order (CADHWRK1) and converter (CADCPMD1) reports available for prin ting at customer's location.	In the print que by 04:30.
6.	Workorders	CAEWPT2	Completed by 02.00.
7.	WPT Transactions	CAEWPT1B & CAEWPTIC	Completed by 1 1/4 hours after scheduled beginning time. Scheduled beginning time is 05:30, 09:00, 12:00, 14:00, and 17:00

	DEFINITION	TARGET
8. Weekly Reports	CAW7000	CAW7000 completed by 17:30 on Sunday.
9. Monthly Financial Reports	A. CAM7031 B. Financial Tapes	A. Completed by 18:00 on the 23rd of the month. B. Tapes mailed within 48 hours after tape creation, 99.9% of the time.
10. Monthly Statistics Reports	Completes the following statistics reports: CPMM0004, CPRM0006, CPMM308 and CAM7062.	CAM7062 completed by 19:00 on the 24th of the month.
11. Online Statements -- Information Available	CAD320	Completed by 05:30.
12. Statements Available to the CSG Production Facility	CAD0330	Completed by 09:00.
13. Daily Vantage Cycle	CAEx99	Started by 06:00.
14. weekly Vantage Cycle	CAW6443	Completed by 06:00 on Monday, unless the 21st is a Friday.
15. Mid-month Vantage Cycle	CAM7596	Started by 06:00 on Monday, following the first Friday of the Month.
16. Monthly Vantage Cycle	CAM7496 CAM7596	Started by 24:00 on the 24th of the month.
17. Vantage Static Tables	CAM7450	Completed by 06:00 on the 23rd of the

month.

SCHEDULE 2.13

PERFORMANCE CRITERIA

See attached list. All times listed are Mountain Time.

"Confidential Treatment Requested and the Redacated Material has been separately filed with the Commission."

FDT has no control or responsibility of how Application Software and Team 35 Software uses the environment. Application Software, Team 35 Software, hardware at client sites, client provided networks, use of DB2, CICS transactions and batch scheduling is the responsibility of CSG.

CATEGORY	DEFINITION	PERFORMANCE CRITERIA	REPORTED BY	MEASUREMENT
1. OPERATING SYSTEM AVAILABILITY	This covers the host computer hardware and systems software.	The operating system will be available 24 hours a day, (**)% of the time, excluding scheduled downtime. ---------------------------- - MAINTENANCE WINDOW EVERY WEEKEND (02:30-04:00). - 2 FDT INITIATED IPL'S PER MONTH (HARDWARE/SOFTWARE). - QUARTERLY EXTENDED OUTAGE (03:00-07:00) 30 DAY NOTIFICATION. - IPL'S REQUIRED FOR CSG APPLICATION WILL BE ADDITIONAL.	Data Center (Operations)	Report daily and detail exceptions monthly.
2. CICS AVAILABILITY	This covers availability to all production online regions.	The online regions will be available 24 hours per day, (**)% of the time, excluding scheduled downtime. ------------------------------- - CICS REGIONS ARE CYCLED NIGHTLY WITH BATCH JOB CAD0127. - A MINIMUM OF 15 MINUTES WILL BE ASSESSED UPON ANY UNSCHEDULED REGION CYCLE. *CSG MUST IDENTIFY UNSCHEDULED CICS RECYCLE TIMELINE.	Data Center (Operations)	Report daily and detail exceptions monthly.

"Confidential Treatment Requested and the Redacated Material has been separately filed with the Commission."

CATEGORY	DEFINITION	PERFORMANCE CRITERIA	REPORTED BY	MEASUREMENT
3. HOST RESPONSE TIME	Processing time for task by the CPU. Measure the host response time for production CICS regions. Excluding DB2.	Average (**) seconds during each 15 minute interval (an "Interval") from 06:00 to 18:00 Monday through Saturday, iT being understood that FDT shall be permitted (**) Intervals per calendar month to exceed this Performance Criteria, calculated as follows: -(**) or more Intervals exceeding an average of(**) seconds shall be deemed to be 1 violation of this Performance Criteria, provided that each such Interval violation exceeding an average of (**) seconds relates to the same issue. - if an issue arises that causes an Interval to exceed an average of (**) seconds, and FDT creates a remedy for such issue, CSG and FDT shall confer promptly regar-ding the implementation of such remedy. If CSG does not permit FDT to implement the remedy, any subsequent Interval that exceeds an average of (**) seconds as a result of FDT not being permitted to implement such remedy shall not be deemed to be a violation of this Performance Criteria. - If one or more Intervals fails to meet this Perfor mance Criteria due to the way in which CSG conducts its business, such failures shall not be deemed to be a violatiON of this Performance Criteria.	Data Center (Capacity Planning)	Report and detail exceptions monthly.

"Confidential Treatment Requested and the Redacted Material has been separately filed with the Commission."

CATEGORY	DEFINITION	PERFORMANCE CRITERIA	REPORTED BY	MEASUREMENT
4. USER RESPONSE TIME FOR DIRECT CONNECT CLIENTS	Measure the user response time (host + network) for clients directly attached to the FDT host.	(**) seconds for 95th percentile.	Data Center (Capacity Planning)	Report and detail exceptions monthly.
5. NETWORK UPTIME BY CONTROLLER FOR DIRECT CONNECT CLIENTS	Measure the network availability which includes front end processors, modems and data circuits for all controllers directly connected to the FDT host.	(**)% availability, excluding scheduled downtime.	Data Center (Network)	Report and detail exceptions monthly.
6. CALL ABANDONMENT RATE *Until 4/01/97*	The percentage number of calls that are abandoned before they are answered by the Customer Support Center.	The average call abandonment rate not to exceed (**)%. Based on (**) calls offered per month.	Data Center (CSC)	Report and detail exceptions monthly.

CATEGORY	DEFINITION	PERFORMANCE CRITERIA	REPORTED BY	MEASUREMENT
7. MEDIA SERVICES TAPE/DISKETTE TURNAROUND A. SELECTS AND SPECIALS B. CONVERSIONS	Measure the turnaround percentage of magnetic media items that are received by Media Services.	(**)% of tapes and diskettes will be shipped to client within 48 hours of receipt by Media Services. (**)% of conversions will be entered into the system within 48 hours of receipt by Media Services. Exception situations will be handled using commercially reasonable efforts.	Data Center (Media Services)	Report and detail exceptions monthly.
8. MEDIA SERVICES MICROFICHE TURNAROUND A. DAILY B. WEEKLY C. MONTHLY	Measure the percentage of microfiche items shipped to clients	a. Daily (**)% of daily microfiche mailed within 48 hours of tape receipt by Media Services. b. Weekly (**)% of weekly microfiche mailed within 72 hours of tape receipt by Media Services. c. Monthly (**)% of monthly microfiche mailed within 14 days of tape receipt by Media Services.	Data Center (Media Services)	Report and detail exceptions monthly.

SCHEDULE 2.16.1

ADDITIONAL CSG OBLIGATIONS

1. Applications Software; Team 35 Software. CSG will have responsibility for the integrity and performance of the Applications Software and the Team 35 Software and will cause the same to be maintained in accordance with the provisions of the Services Agreement, including any special provisions in the Operations Procedures.

2. Trained Personnel. CSG will provide appropriate training for all new CSG employees on Software then in use by or on behalf of CSG. CSG will notify FDT promptly of any changes in authorized users of the Software to be operated by FDT.

3. Compatible Operating Environment. If CSG obtains any services from a third party relating to the FDT Services, any Software provided by such third party that will be operated by FDT must conform to, and be compatible with, the then current operating environ ment in the FDT Data Center and must meet any applicable operating standards relating to the FDT Services. In addition, CSG shall ensure that any third party-provided services or Software will not interfere with FDT's ability to provide the FDT Services hereunder or increase FDT's costs associated therewith.

4. Resource Requirements. It will be CSG's responsibility to track its pro duction and resource requirements and to request any Additional Services required beyond the existing FDT Services, allowing a reasonable time under the circumstances for FDT to provide such Additional Services in accordance with the Operations Procedures.

SCHEDULE 5.6

TEAM 35 SOFTWARE LICENSE AGREEMENT

See attached.

A G R E E M E N T

THIS AGREEMENT (the "License Agreement") is entered into as of December 31, 1996, by and between First Data Technologies, Inc., a Delaware corporation ("FDT"), and CSG Systems, Inc. (formerly known as Cable Services Group, Inc.), a Delaware corporation ("CSG").

WHEREAS, FDT and CSG are parties to a certain Amended and Restated Services Agreement dated as of December 31, 1996 (the "Services Agreement"), pursuant to which FDT provides, inter alia, data processing services to CSG; and

WHEREAS, pursuant to the Services Agreement, the Parties (as hereafter defined) agreed to enter into this License Agreement relating to the use by CSG of the Team 35 Software (as hereafter defined).

NOW THEREFORE, in consideration of the premises and mutual covenants, representations, conditions and agreements hereafter expressed, the Parties (as hereafter defined) hereto agree as follows:

1. Definitions. As used in this License Agreement, the following terms shall have the meanings set forth herein, and shall be equally applicable to the singular and plural forms. Any agreement referred to herein shall mean such agreement as amended, supplemented and modified from time to time to the extent permitted by the applicable provisions thereof.

"Affiliate" means an Entity which, directly or indirectly, owns or controls, is owned or is controlled by or is under common ownership or control with another Entity. As used herein, "control" means the power to direct the management affairs of an Entity, and "ownership" means the beneficial ownership of the voting equity securities or other equivalent voting interests of the Entity.

"License Agreement" shall have the meaning set forth in the first paragraph hereof.

"Business" shall have the meaning set forth in that certain Stock Purchase Agree ment dated as of October 26, 1994 between CSG Holdings, Inc. and First Data Resources, Inc.

"Confidential Information" shall have the meaning set forth in

Section 5(a).

"CSG" shall have the meaning set forth in the first paragraph of this License Agreement.

"Dispute" shall mean any and all disputes, controversies and claims between the

Parties arising from or in connection with this License Agreement or the relationship of the Parties under this License Agreement whether based on contract, tort, common law, equity, statute, regulation, order or otherwise.

"Effective Date" shall mean January 1, 1997.

"Entity" shall mean any individual, corporation, limited liability company, partnership, joint venture, or other form of organization or governmental agency or authority.

"FDT" shall have the meaning set forth in the first paragraph of this License Agreement.

"FDR" shall mean First Data Resources, Inc.

"Party" shall mean a party to this License Agreement and its permitted successors and assigns.

"Services Agreement" shall have the meaning set forth in the first recital to this License Agreement.

"Team 35 Software" shall mean the software commonly known as "Team 35," together with any documentation (if any) relating thereto as described on

Exhibit A attached hereto and incorporated herein, together with all updates, modifications or enhancements thereto created or developed by FDR in its ordinary course of business during the term of the Services Agreement, it being understood that FDR may not create or develop any updates, modifications or enhancements, and therefore, FDT may be unable to provide the same to CSG.

2. License Grant.

(a) FDT hereby grants to CSG a perpetual, nontransferable, nonexclusive, royalty-free license to:

(i) access the Team 35 Software pursuant to the on-line facility used by CSG pursuant to the Services Agreement and modify the same for use solely in connection with the Business; and

(ii) sublicense the Team 35 Software to any Entity providing service bureau data processing services on behalf of CSG solely for the data processing requirements of CSG relating to that portion of the Business of CSG located outside of the United States, provided that (A) such Entity performs such services using computer systems located outside of the United States, (B) such computer systems are owned or operated by such Entity, (C) such Entity is reasonably acceptable to FDT, it being understood that Arthur Andersen LLP, EDS and IBM shall be acceptable to FDT, and (D) such Entity and CSG execute a written sublicense agreement reasonably satisfactory to FDT relating to such Entity's limited use and nondisclosure of the Team 35 Software.

(b) Upon the expiration or termination of the Services Agreement for any reason, the Parties shall execute an amendment to this License Agreement pursuant to which the license granted in Section 2(a)(i) shall be amended to read in its entirety as follows: "copy, modify and use the Team 35 Software solely in connection with the Busi ness, provided that such copying, modification and use occurs only on computer systems that are owned or operated by CSG, or on computer systems that are owned or operated by an Entity providing data processing services to CSG, so long as (A) such Entity per forms such services using computer systems located in the United States, (B) such Entity is reasonably acceptable to FDT, it being understood that Arthur Andersen LLP, EDS and IBM shall be acceptable to FDT, and (C) such Entity and CSG execute a written sublicense agreement reasonably satisfactory to FDT relating to such Entity's limited use and nondisclosure of the Team 35 Software".

(c) All right, title and interest in and to the Team 35 Software, other than those rights expressly granted herein, shall remain in FDT. In no event may CSG use the Team 35 Software (or any modifications thereto) other than in connection with the Business.

3. Delivery of Team 35 Software. The Parties shall cooperate to specify the form, format, timing and cost of any delivery of the Team 35 Software to CSG or to any Entity identi fied in Section 2(a)(ii), if the same is required pursuant to this License Agreement, it being understood that FDT shall provide any updates, modifications or enhancements provided by FDR to FDT within ninety (90) days of FDR's implementation of the same into production. FDT's delivery obligations set forth in this Section 3 shall terminate upon the expiration or termination of the Services Agreement.

4. Ownership (and Distribution) of Modifications Developed by CSG.
As between CSG and FDT, the parties acknowledge and agree that FDT shall own all right, title and interest in and to the Team 35 Software. Subject to FDT's ownership rights in the Team 35 Software, as between FDT and CSG, CSG shall own all right, title and interest in and to all modifications it creates to the Team 35 Software. CSG covenants and agrees that it shall use such modifications solely in connection with the Team 35 Software and only in connection with the Business. CSG covenants and agrees that CSG shall maintain the confidentiality of such modifications in the same manner as it treats the Team 35 Software.

5. Confidentiality.

(a) Information exchanged between FDT and CSG or otherwise made available by one Party to the other in connection with this License Agreement before or after the date hereof shall be considered a trade secret or confidential or proprietary information ("Confidential Information") if it has been designated as such in this License Agreement or on the information itself when delivered or made available, or if delivered orally, if a written notification of the confidential nature of the information is sent within a reasonable time after the information is transmitted. Among other things, Confidential Information shall include confidential or proprietary information of third parties in the possession of one of the Parties to this License Agreement and needed to perform obligations hereunder. Team 35 Software shall in any event be considered Confidential Information of FDT. Confidential Information not requiring a marking shall include Team 35 Software and all specifications and documentation therefor.

(b) Except as expressly authorized by prior written consent of the disclosing Party, the receiving Party shall:

(i) limit access to any Confidential Information received by it to its employees, agents, representatives, and consultants who have a need-to-know in connection with this License Agreement and the obligations of the Parties hereunder;

(ii) advise its employees, agents and consultants having access to the Confidential Information of the proprietary nature thereof and of the obligations set forth in this License Agreement;

(iii) safeguard all Confidential Information received by it using a reasonable degree of care, but not less than that degree of care used by the receiving Party in safeguarding its own similar information or material;

(iv) not disclose any Confidential Information received by it to third parties; and

(v) use the Confidential Information of the other Party only for the purposes and in connection with the license granted herein; and

(vi) upon the disclosing Party's request after expiration or termination of this License Agreement, return promptly to the disclosing Party all Confidential Information of the disclosing Party in the receiving Party's possession, and certify in writing to the disclosing Party its compliance with this subsection (vi).

(c) Exceptions to Confidentiality. Notwithstanding the foregoing Section 5(a), the Parties' obligations respecting confidentiality under Section 5 (b) shall not apply to any particular information of a Party that the other Party can demonstrate (i) was, at the time of disclosure to it, in the public domain; (ii) after disclosure to it, is published or otherwise becomes part of the public domain through no fault of the receiving Party; (iii) was in the possession of the receiving Party at the time of disclosure to it without being subject to another confidentiality agreement; (iv) was received after disclosure to it from a third party who had a lawful right to disclose such information to it; (v) was independently developed by the receiving Party without reference to Confidential Information of the furnishing Party; (vi) was required to be disclosed to any regulatory body having jurisdiction over FDT or CSG or any of their respective clients; or (vii) that disclosure is necessary by reason of legal, accounting or regulatory requirements beyond the reasonable control of the receiving Party. In the case of any disclosure pursuant to clauses (vi) and (vii) above, to the extent practical, the disclosing Party shall give prior notice to the other Party of the required disclosure and shall use commercially reasonable efforts to obtain a protective order covering such disclosure. If such a protective order is obtained, such information shall continue to be deemed to be Confidential Information.

(d) Except as specifically granted herein, this License Agreement does not confer any right, license, interest or title in, to or under the Confidential Information to the receiving Party and no license is hereby granted to the receiving Party, by estoppel or otherwise under any patent, trademark, copyright, trade secret or other proprietary right of the disclosing Party. Title to the Confidential Information shall remain solely in the disclosing Party.

(e) Each Party acknowledges that if it breaches (or attempts to breach) its obligations under this Section 5, the other Party will suffer immediate and irreparable harm, it being acknowledged that legal remedies are inadequate. Accordingly, if a court of competent jurisdiction should find that a Party has breached (or attempted to breach) any such obligations, such Party will not oppose the entry of an appropriate order compelling performance by such Party and restraining it from any further breaches (or attempted breaches).

(f) CSG accepts full responsibility for complying with federal, state and local laws, rules and regulations concerning use of privileged or confidential third party infor mation derived from input into or output from the Team 35 Software.

6. Disclaimer of Warranties. THE TEAM 35 SOFTWARE AND THE SERVICES PROVIDED TO CSG HEREUNDER ARE PROVIDED ON AN "AS-IS" BASIS WITHOUT ANY REPRESENTATION OR WARRANTY OF ANY KIND WHATSOEVER. CSG ACKNOWLEDGES AND AGREES THAT NEITHER FDT NOR ANY OF ITS AFFILIATES HAVE MADE ANY EXPRESS WARRANTIES RELATING TO THE TEAM 35 SOFTWARE OR THE SERVICES PROVIDED TO CSG HEREUNDER. FDT MAKES NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, TO CSG OR ANY OTHER ENTITY, INCLUDING ANY WARRANTIES REGARDING THE MERCHAN TABILITY, SUITABILITY, NONINFRINGEMENT, ORIGINALITY, FITNESS FOR A PARTICULAR PURPOSE OR OTHERWISE (IRRESPECTIVE OF ANY PREVIOUS COURSE OF DEALINGS BETWEEN THE PARTIES OR CUSTOM OR USAGE OF TRADE), OR RESULTS TO BE DERIVED FROM THE USE OF THE TEAM 35 SOFTWARE OR THE SERVICES PROVIDED HEREUNDER.

7. Update, Maintenance and Support of Team 35 Software. FDT shall have

no responsibility to update, maintain or support the Team 35 Software. The foregoing shall not be deemed to negate the obligations of FDT set forth in
Section 4.

8. Disclaimer of Liability. NOTWITHSTANDING ANY OTHER PROVI- SION TO THE CONTRARY SET FORTH IN THIS LICENSE AGREEMENT, IN NO EVENT SHALL FDT, ANY OF ITS AFFILIATES, OR ANY OF THEIR RESPECTIVE DIRECTORS, OFFICERS, EMPLOYEES, AGENTS OR SUBCONTRACTORS BE LIABLE UNDER ANY THEORY OF TORT, CONTRACT, STRICT LIABILITY OR OTHER LEGAL THEORY FOR ANY LOST PROFITS, LOSS OF DATA, EXEMPLARY, PUNITIVE, SPECIAL INCIDEN TAL, DIRECT, INDIRECT OR CONSEQUENTIAL DAMAGES, EACH OF WHICH IS HEREBY EXCLUDED BY AGREEMENT OF THE PARTIES REGARDLESS OF WHETHER OR NOT EITHER PARTY OR ANY OTHER SUCH ENTITY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES; PROVIDED THE FOREGOING EXCLUSION SHALL NOT APPLY TO CONSEQUENTIAL DAMAGES INCURRED BY CSG AS A RESULT OF THE MISAPPROPRIATION OR MISUSE OF CONFIDENTIAL INFORMATION OF CSG. THE FOREGOING REPRESENTS AN EXPRESS ALLOCATION OF RISK BETWEEN THE PARTIES.

9. Dispute Resolution.

(a) Subject to Section 9(b), any and all Disputes shall be resolved in accordance with Exhibit 9(a) attached hereto and incorporated herein.

(b) Notwithstanding anything to the contrary set forth herein, neither Party shall be required to submit any dispute or disagreement regarding the interpretation of any provision of this License Agreement, the performance by either Party of such Party's obli gations under this License Agreement or a default hereunder to the mechanisms set forth in

Section 9(a), if such submission would be seeking equitable relief from irreparable harm.

(c) THE PARTIES CONSENT TO THE NON-EXCLUSIVE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE STATE OF NEBRASKA AND OF ANY NEBRASKA STATE COURT SITTING IN OMAHA, NEBRASKA FOR ALL ACTIONS WHICH MAY BE BROUGHT WITH RESPECT TO THE TERMS OF, AND THE TRANSACTIONS AND RELATIONSHIPS CONTEMPLATED BY, THIS LICENSE AGREEMENT. THE PARTIES FURTHER CONSENT TO THE JURISDICTION OF ANY STATE COURT LOCATED WITHIN A DISTRICT WHICH ENCOMPASSES THE ASSETS OF A PARTY AGAINST WHICH A JUDGMENT HAS BEEN RENDERED, EITHER THROUGH ARBITRATION OR THROUGH LITIGATION, FOR THE ENFORCEMENT OF SUCH JUDGMENT AGAINST THE ASSETS OF SUCH PARTY.

10. Term and Termination.

(a) This License Agreement shall be effective as of the Effective Date. Notwithstanding anything to the contrary set forth herein, this License Agreement (and the licenses granted herein) shall continue unless terminated pursuant to Section 10(b).

(b) This License Agreement (and the licenses granted herein) shall terminate if CSG breaches any of its material obligations under this License Agreement which breach is not substantially cured within forty-five (45) days (ten (10) days for payment defaults) after written notice specifying the breach is given by FDT to CSG.

(c) Upon termination of this License Agreement for any reason: (i) the licenses granted to CSG shall immediately terminate and CSG shall cease use of the Team 35 Software; (ii) CSG shall immediately terminate all sublicenses (if any) of the Team 35 Software; (iii) CSG shall promptly comply with the provisions of Section 5(b)(vi) upon the receipt of the materials identified in Section 10(c)(iv) and shall also provide FDT with the certifications received from each sublicensee (if any) of the Team 35 Software; (iv) CSG shall promptly require any sublicensees of the Team 35 Software to return all Confidential Information of FDT (and all modifications (if any) relating to the Team 35 Software) and certify in writing to CSG of such sublicensee's compliance with this subsection; and (v) all fees (if any) due FDT hereunder shall be immediately due and payable.

11. Miscellaneous.

(a) Notice. All notices, requests, demands and other communications required or permitted under this License Agreement shall be deemed to have been duly given and made if in writing upon being served either by personal delivery or by telecopier to the Party for whom it is intended or two business days after being deposited, postage prepaid, certified or registered mail, return receipt requested (or such form of mail as may be substituted therefor by postal authorities), in the United States mail, bearing the address shown in this Section 12(a) for, or such other address as may be designated in writing hereafter by such Party:

If to CSG:	CSG Systems, Inc. 2525 N. 117th Avenue Omaha, Nebraska 68164 Attention: President Telecopy: (402) 431-7218
With a copy to:	CSG Systems, Inc. 2525 N. 117th Avenue Omaha, Nebraska 68164 Attention: General Counsel Telecopy: (402) 431-7218

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If to FDT:          First Data Technologies, Inc.
                    6200 S. Quebec Street, Ste. 335
                    Englewood, Colorado  80111
                    Attn:  President
                    Telecopy:  (303) 488-8292

With a copy to:     First Data Corporation
                    2121 North 117th Avenue
                    Omaha, Nebraska  68164
                    Attention:  General Counsel
                    Telecopy:  (402) 498-4123
```

(b) Entire Agreement. This License Agreement and the Exhibits embody the entire agreement and understanding of the Parties hereto with respect to the subject matter hereof, and supersede all prior and contemporaneous agreements and understandings relative to said subject matter.

(c) Assignment: Binding Agreement. Either Party may assign this License Agreement to any Affiliate of such Party upon notice to the other Party. Either Party may: (i) transfer this License Agreement in connection with any merger or consolidation of such Party with another corporation, provided that such Party furnishes the other Party with notice of such transfer within ten (10) business days of the public announcement of the same; or (ii) in connection with the sale of substantially all of the Party's assets (inclu ding the rights of a Party under this License Agreement), provided that (a) the assignee thereof shall assume all of such Party's obligations hereunder, and (b) the Party furnishes the other Party with notice of the public announcement of such assignment and assump tion within ten (10) business days of the same. Subject to the foregoing, all provisions contained in this License Agreement shall extend to and be binding upon the Parties here to and their respective permitted successors and permitted assigns.

(d) Force Majeure. No Party shall be liable for any default or delay in the performance of its obligations (other than payment obligations, if any) under this License Agreement if and to the extent such default or delay is caused, directly or indirectly, by (i) fire, flood, elements of nature or other acts of God; (ii) any outbreak or escalation of hostilities, war, riots or civil disorders in any country; (iii) any act or omission of the other Party or any governmental authority; (iv) any labor disputes (whether or not the em ployees' demands are reasonable or within the Party's power to satisfy); or (v) nonperfor mance by a third party (including third party vendors) or any other similar cause beyond the reasonable control of such Party, including failures or fluctuations in electrical or tele communications equipment or lines or other equipment. In any such event, the non-per forming Party will be excused from any further performance or observance of the obliga tion so affected only for as long as such circumstances prevail and such Party continues to use commercially reasonable efforts to recommence performance or observance as soon as practicable.

(e) Risk of Loss. Except as otherwise provided in this Section 11(e), each Party shall be responsible for risk of loss of, and damage to, any equipment, software or other materials in its possession or under its control, subject to Section 11(d). Notwith standing anything in this License Agreement to the contrary, each Party to this License Agreement (the "Damaged Party") hereby waives any and all rights of recovery, claims, actions or causes of action, against the other Party (the "Other Party"), its Affiliates, and any of its or their directors, officers, employees, agents and subcontractors for any loss or damage that may occur to the Damaged Party's facilities, any improvements thereto, or any building or project of which the Damaged Party's facilities are a part, or any improvements thereon, or any personal property of any individual or Entity therein, by reason of fire, the elements or any other cause that could be insured against under the terms of standard fire and extended coverage insurance policies, regardless of cause or origin, including negligence of the Other Party, its Affiliates, or such Other Party's or its Affiliates' directors, officers, employees, agents or subcontractors, and both FDT and CSG covenant that no insurer of one Party will hold any right of subrogation against the other.

(f) No Third-Party Beneficiaries. Nothing contained in this License Agreement is intended to confer upon any individual or Entity (other than the Parties hereto) any rights, benefits or remedies of any kind or character whatsoever, and no individual or Entity shall be deemed a third-party beneficiary under or by reason of this License Agreement.

(g) Severability. If any provision of this License Agreement or the application of any such provision to any individual or Entity, or circumstance, shall be declared judicially or by the Arbitration Panel (as defined in Exhibit 9(a)) to be invalid, unenforceable or void, such decision shall not have the effect of invalidating or voiding the remainder of this License Agreement, it being the intent and agreement of the Parties that this License Agreement shall be deemed amended by modifying such provision to the extent necessary to render it valid, legal and enforceable while preserving its intent or, if such modification is not possible, by substituting therefor another provision that is valid, legal and enforceable so as to materially effectuate the Parties' intent.

(h) Certain Construction Rules. The section headings contained in this License Agreement are for convenience of reference only and shall in no way define, limit, extend or describe the scope or intent of any provisions of this License Agreement. In addition, as used in this License Agreement, unless otherwise provided to the contrary, any reference to a "Section" or "Exhibit" shall be deemed to refer to a Section of this License Agreement or Exhibit attached to this License Agreement. The recitals set forth on the first page of this License Agreement are incorporated into the body of the License Agreement. Unless the context clearly indicates, words used in the singular include the plural, words in the plural include the singular and the word "including" means "including but not limited to".

(i) Counterparts. This License Agreement may be executed simultaneously in multiple counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

(j) No Interpretation Against Drafter. Both Parties have participated substan tially in the negotiation and drafting of this License Agreement and each Party hereby dis claims any defense or assertion in any litigation or arbitration that any ambiguity herein should be construed against the draftsman.

(k) Waiver Consent. (i) Except as expressly provided herein, this License Agreement may not be changed, amended, terminated, augmented, rescinded or discharged (other than in accordance with its terms), in whole or in part, except by a writing executed by the Parties hereto. No waiver of any of the provisions or conditions of this License Agreement or any of the rights of a Party hereto shall be effective or binding unless such waiver shall be in writing and signed by the Party claimed to have given or consented thereto. Except to the extent that a Party hereto may have otherwise agreed in writing, no waiver by that Party of any term, condition or other provision of this License Agreement, or any breach thereof by any other Party shall be deemed to be a waiver of any other term, condition or provision or any breach thereof, or any subsequent breach of the same term, condition or provision by the other Party, nor shall any forbearance by the first Party or Parties to seek a remedy for any noncompliance or breach by the other Party be deemed to be a waiver by the first Party of its, his, her or their rights and remedies with respect to such noncompliance or breach.

(ii) If either Party requires the consent or approval of the other Party for the taking of, or omitting to take, any action under this License Agreement, such consent or approval shall not be unreasonably withheld or delayed.

(l) Governing Law. This License Agreement shall in all respects be construed in accordance with and governed by the laws of the State of New York, without regard to its conflict of law provisions.

(m) Survival. The provisions of Sections 4, 5, 6, 8, 9, 10 and 11
shall survive the termination of this License Agreement for any reason.

IN WITNESS WHEREOF, each of the Parties hereto has caused this License Agreement to be executed as of the date first above written.

CSG SYSTEMS, INC. (formerly known as CABLE SER VICES GROUP, INC.) ("CSG")

Signed By: /s/ John P. Pogge

John P. Pogge
Executive Vice President

FIRST DATA TECHNOLOGIES, INC. ("FDT")

Signed By: /s/ Charles T. Fote

Charles T. Fote
Print Name: Charles T. Fote

Title: Executive Vice President

SCHEDULE 5.6--PAGE 12

EXHIBIT 10.41
THIRD AMENDMENT
TO
SUBSCRIBER BILLING SERVICE AGREEMENT
BETWEEN
CSG SYSTEMS, INC.
AND
TCI CABLE MANAGEMENT CORPORATION

This Third Amendment ("Amendment") is executed this 1st day of March, 1996, and is made by and between CSG Systems, Inc., formerly known as Cable Services Group, Inc., successor in interest to First Data Resources, Inc. ("CSG") and TCI Cable Management Corporation ("Buyer"). CSG and Buyer entered into a certain Subscriber Billing Service Agreement dated April 29, 1992, as amended by an Amendment to Subscriber Billing Service Agreement dated April 8, 1994, and a Second Amendment regarding ESP for Primestar dated March 6, 1996 (collectively, "the Agreement"), and now desire to further amend the Agreement in accordance with the terms and conditions set forth in this Amendment. If the terms and conditions set forth in this Amendment shall be in conflict with the Agreement, the terms and conditions of this Agreement shall control. Upon execution of this Amendment by the parties, any subsequent reference to the Agreement between the parties shall mean the Agreement as amended by this Amendment. Except as amended by this Amendment, the terms and conditions set forth in the Agreement shall continue in full force and effect according to their terms.

IN CONSIDERATION of the promises set forth herein, CSG and Buyer agree as follows:

1. In addition to the Cable System Locations currently receiving the CSG Services, the Agreement is hereby amended to add the following Cable System Location:

System Location	Estimated Conversion Date	Estimated number of subscribers
Oil City, PA	April 1, 1996	8,000

2. Section 8.1 of the Agreement is hereby amended to add the following to the end of the Section:

However, with respect to the Cable System Location of Oil City, PA and any other system locations added to the Agreement and converted subsequent to March 31, 1996, the Original Term shall end on December 31, 1998.

IN WITNESS WHEREOF, the parties have executed this Second Amendment as of the day first stated above.

TCI CABLE MANAGEMENT CORPORATION	CSG SYSTEMS, INC.
By: /s/ Jim Workman	By: /s/ George F. Haddix
Title: Director, Billing Services	Title: President

EXHIBIT 10.42
FOURTH AMENDMENT
TO
SUBSCRIBER BILLING SERVICE AGREEMENT
BETWEEN
CSG SYSTEMS, INC.
AND
TCI CABLE MANAGEMENT CORPORATION

This Fourth Amendment ("Amendment") is executed this 29th day of March, 1996, and is made by and between CSG Systems, Inc., formerly known as Cable Services Group, Inc., successor in interest to First Data Resources, Inc. ("CSG") and TCI Cable Management Corporation ("Buyer"). CSG and Buyer entered into a certain Subscriber Billing Service Agreement dated April 29, 1992, as amended by an Amendment to Subscriber Billing Service Agreement dated April 8, 1994, a Second Amendment regarding ESP for Primestar dated March 6, 1996, and a Third Amendment dated March 1, 1996 (collectively, "the Agreement"), and now desire to further amend the Agreement in accordance with the terms and conditions set forth in this Amendment. If the terms and conditions set forth in this Amendment shall be in conflict with the Agreement, the terms and conditions of this Amendment shall control. Upon execution of this Amendment by the parties, any subsequent reference to the Agreement between the parties shall mean the Agreement as amended by this Amendment. Except as amended by this Amendment, the terms and conditions set forth in the agreement shall continue in full force and effect according to their terms.

IN CONSIDERATION of the promises set forth herein, CSG and Buyer agree as follows:

1. In addition to the Cable System Locations currently receiving the CSG Services, the Agreement is hereby amended to add the following Cable System Location:

System Location	Estimated Conversion Date	Estimated number of subscribers
South San Francisco	July 1, 1996	19,000
Burlingame, CA	July 1, 1996	8,500

IN WITNESS WHEREOF, the parties have executed this Second Amendment as of the day first stated above.

TCI CABLE MANAGEMENT CORPORATION	CSG SYSTEMS, INC.
By: /s/ Jim Workman	By: /s/ George F. Haddix
Title: Director, Billing Services	Title: President

EXHIBIT 10.43
FIFTH AMENDMENT
TO
SUBSCRIBER BILLING SERVICE AGREEMENT
BETWEEN
CSG SYSTEMS, INC.
AND
TCI CABLE MANAGEMENT CORPORATION

This Fifth Amendment ("Amendment") is executed this 30th day of September, 1996, and is made by and between CSG Systems, Inc., formerly known as Cable Services Group, Inc., successor in interest to First Data Resources, Inc. ("CSG") and TCI Cable Management Corporation ("Buyer"). CSG and Buyer entered into a certain Subscriber Billing Service Agreement dated April 29, 1992, as amended by an Amendment to Subscriber Billing Service Agreement dated April 8, 1994, a Second Amendment regarding ESP for Primestar dated March 6, 1996, a Third Amendment dated March 1, 1996, and a Fourth Amendment dated March 29, 1996 (collectively, "the Agreement"), and now desire to further amend the Agreement in accordance with the terms and conditions set forth in this Amendment. If the terms and conditions set forth in this Amendment shall be in conflict with the Agreement, the terms and conditions of this Amendment shall control. Upon execution of this Amendment by the parties, any subsequent reference to the Agreement between the parties shall mean the Agreement as amended by this Amendment. Except as amended by this Amendment, the terms and conditions set forth in the agreement shall continue in full force and effect according to their terms.

IN CONSIDERATION of the promises set forth herein, CSG and Buyer agree as follows:

1. In addition to the Cable System Locations currently receiving the CSG Services, the Agreement is hereby amended to add the following Cable System Location:

System Location	Estimated Conversion Date	Estimated number of subscribers
Foster City, CA	November 1996	9,000

IN WITNESS WHEREOF, the parties have executed this Fifth Amendment as of the day first stated above.

TCI CABLE MANAGEMENT CORPORATION	CSG SYSTEMS, INC.
By: /s/ Sundra Simmons	By: /s/ George F. Haddix
Title: Division Billing Coordinator	Title: President

EXHIBIT 11.01
CSG SYSTEMS INTERNATIONAL, INC.
STATEMENT OF NET LOSS PER COMMON AND EQUIVALENT SHARE

For the year ended December 31, 1996:

Weighted average common shares outstanding	24,988,244
Shares used in computation	24,988,244
Loss before extraordinary item	$(2,476,000)
Extraordinary loss from early extinguishment of debt	(1,260,000)
Net loss	$(3,736,000)
Net loss per common and equivalent share:	
Loss before extraordinary item	$ (0.10)
Extraordinary loss from early extinguishment of debt	(0.05)
Net loss per common and equivalent share	$ (0.15)

For the year ended December 31, 1995 and the period from inception (October 17, 1994) through December 31, 1994:

	1995	1994
Weighted average common shares outstanding	4,243,000	4,243,000
Common equivalent shares from stock options granted during the twelve-month period prior to the Company's initial public offering	251,750	251,750
Common equivalent shares attributable to:		
Redeemable Convertible Series A Preferred Stock	17,999,998	17,999,998
Shares used in computation	22,494,748	22,494,748
Loss before discontinued operations	$(15,427,000)	$(40,464,000)
Loss from discontinued operations	(3,753,000)	(239,000)
Net loss	$(19,180,000)	$(40,703,000)
Net loss per common and equivalent share:		
Loss before discontinued operations	$ (0.69)	$ (1.80)
Loss from discontinued operations	(0.17)	(0.01)
Net loss per common and equivalent share	$ (0.86)	$ (1.81)

EXHIBIT 21.01

CSG SYSTEMS INTERNATIONAL, INC.
SUBSIDIARIES OF THE REGISTRANT
AS OF DECEMBER 31, 1996

SUBSIDIARY	STATE OR COUNTRY OF INCORPORATION
CSG Systems, Inc.	Delaware
Bytel Limited	United Kingdom

EXHIBIT 23.01

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Annual Report on Form 10-K, into the Company's previously filed Registration Statement File No.'s 333-10315 and 333-04286.

ARTHUR ANDERSEN LLP

Omaha, Nebraska

March 28, 1997

EXHIBIT 24.01

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I do hereby constitute and appoint Neal C. Hansen, George F. Haddix, John P. Pogge, and David I. Brenner, and each of them individually, as my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place, and stead in my capacity as a director of CSG Systems International, Inc. to sign the Annual Report on Form 10-K of CSG Systems International, Inc. for the fiscal year ended December 31, 1996, and to file such Annual Report, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto such attorneys-in-fact and agents, and each of them individually and their substitutes, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises in connection with such Annual Report as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that such attorneys-in-fact and agents or any of them, or their or his substitutes or substitute, lawfully may do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have executed this Power of Attorney this 21st day of March, 1997.

/s/ Royce J. Holland

Royce J. Holland

/s/ Bernard W. Reznicek

Bernard W. Reznicek

/s/ Rockwell A. Schnabel

Rockwell A. Schnabel

/s/ Frank V. Sica

Frank V. Sica

ARTICLE 5

This schedule contains summary financial information extracted from Form 10-K and is qualified in its entirety by reference to such financial statements.

MULTIPLIER: 1,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	DEC 31 1996
PERIOD START	JAN 01 1996
PERIOD END	DEC 31 1996
CASH	6,134
SECURITIES	0
RECEIVABLES	40,522
ALLOWANCES	819
INVENTORY	0
CURRENT ASSETS	48,456
PP&E	23,757
DEPRECIATION	10,664
TOTAL ASSETS	114,910
CURRENT LIABILITIES	44,026
BONDS	22,500
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	255
OTHER SE	41,709
TOTAL LIABILITY AND EQUITY	114,910
SALES	0
TOTAL REVENUES	132,297
CGS	0
TOTAL COSTS	74,245
OTHER EXPENSES	20,206
LOSS PROVISION	0
INTEREST EXPENSE	4,168
INCOME PRETAX	(2,476)
INCOME TAX	0
INCOME CONTINUING	(2,476)
DISCONTINUED	0
EXTRAORDINARY	(1,260)
CHANGES	0
NET INCOME	(3,736)
EPS PRIMARY	(0.15) [1]
EPS DILUTED	0

[1] EPS is basic EPS as common stock equivalents are anti dilutive.

EXHIBIT 99.01

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

CERTAIN CAUTIONARY STATEMENTS AND RISK FACTORS

CSG Systems International, Inc. and its subsidiaries (collectively, the Company) or their representatives from time to time may make or may have made certain forward-looking statements, whether orally or in writing, including without limitation, any such statements made or to be made in the Management's Discussion and Analysis of Financial Condition and Results of Operations contained in its various SEC filings or orally in conferences or teleconferences. The Company wishes to ensure that such statements are accompanied by meaningful cautionary statements, so as to ensure to the fullest extent possible the protections of the safe harbor established in the Private Securities Litigation Reform Act of 1995.

Accordingly, the forward-looking statements are qualified in their entirety by reference to and are accompanied by the following meaningful cautionary statements identifying certain important factors that could cause actual results to differ materially from those in such forward-looking statements.

This list of factors is likely not exhaustive. The Company operates in a rapidly changing and evolving business involving the converging communications markets, and new risk factors will likely emerge. Management cannot predict all of the important risk factors, nor can it assess the impact, if any, of such risk factors on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those in any forward-looking statements.

Accordingly, there can be no assurance that forward-looking statements will be accurate indicators of future actual results, and it is likely that actual results will differ from results projected in forward-looking statements and that such differences may be material.

The Company has recorded net losses since inception (October 17, 1994) through December 31, 1996. These net losses have resulted from several factors, including amortization of intangible assets (acquired software, client contracts and related intangibles, and noncompete agreements and goodwill), interest expense, stock-based employee compensation expense, and loss from discontinued operations. Certain of these factors will continue to affect the Company's results of operations in the future. While the Company recently reported net income for the third and fourth quarters of 1996, there can be no assurance that the Company will sustain profitability in the future.

CCS and related services are expected to provide the substantial majority of the Company's revenues in the foreseeable future. The market for customer management systems is characterized by rapid changes in technology and is highly competitive with respect to the need for timely product innovations and new product introductions. The Company believes that its future success depends upon continued market acceptance of its current products, including CCS and related services, and its ability to enhance its current products and develop new products that address the increasingly complex and evolving needs of its clients. In particular, the Company believes that it must respond quickly to clients' needs for additional functionality and distributed architecture for data processing. Development projects can be lengthy and are subject to changing requirements, programming difficulties, and unforeseen factors which can result in delays. There can be no assurance of continued market acceptance of the Company's current products or that the Company will be successful in the timely development of product enhancements or new products that respond to technological advances or changing client needs.

CSG Phoenix/TM/ is the Company's next generation customer care and billing system for the converging communications markets. The Company is using technologies and development tools that are new to the Company in CSG Phoenix. In addition, CSG Phoenix will contain functionality that is new to the Company and will be offered in a variety of configurations in addition to the Company's existing service bureau operations. Release Version 0.7 of CSG Phoenix was delivered to two customers in December 1996 for testing and to facilitate their implementation planning activities. Release Version 1.1, which contains additional functionality for convergence including telephony, but does not contain certain functionality related to statement processing, is scheduled to be delivered by the end of March 1997 for testing and integration at customer sites. Release Version 1.2, which will include additional functionality originally scheduled for Release Version 1.0, is scheduled to be delivered to customer sites in the second quarter of 1997. The Company presently expects a beta site to be installed in the third quarter of 1997. There can be no assurance that the CSG Phoenix product will be delivered or installed at a beta site on time, or that CSG Phoenix will operate in an acceptable manner. The actual timing of delivery and implementation is subject to delay due to the variety of factors inherent in the development and initial implementation of a new, complex software system, which in the case of CSG Phoenix, employs technologies and development tools which are new to the Company. Implementation is also subject to factors relating to the integration of the new system with the client's existing systems. Sales and support of CSG Phoenix will require the Company to develop new capabilities. The failure of the Company to deliver and support the CSG Phoenix product successfully and on time could have a material adverse effect on the financial condition and results of operations of the Company.

Revenues from Time Warner Cable and its affiliated companies ("Time Warner") and revenues from Tele-Communications, Inc. ("TCI") each represent a substantial percentage of the Company's total revenues. The Company's existing contract with TCI for its cable television operations, which was scheduled to expire December 31, 1996, has been extended automatically by its terms for one year. TCI has announced it is developing an in-house billing system for use in its cable television operations, and the Company expects TCI's in-house system to replace the Company's system in the future. The Company cannot estimate when TCI's in-house billing solution will be available or the timing of significant conversions from the Company's system to TCI's in-house billing solution. Loss of all or a significant part of the business of either Time Warner or TCI would have a material adverse effect on the financial condition and results of operations of the Company.

The Company's quarterly revenues and operating results may fluctuate depending on various factors, including the timing of executed contracts and the delivery of contracted services or products, the timing of conversions to the Company's systems by new and existing clients, the cancellation of the Company's services and products by existing or new clients and related conversions to other systems, the hiring of additional staff, new product development and other expenses, and changes in sales commission policies. No assurance can be given that operating results will not vary due to these factors. Fluctuations in quarterly operating results may result in volatility in the market price of the Company's Common Stock.

The Company's business is concentrated in the cable television industry, making the Company susceptible to a downturn in that industry. A decrease in the number of customers served by the Company's clients would result in lower revenues for the Company. In addition, cable television providers are consolidating, decreasing the potential number of buyers for the Company's products and services. Furthermore, there can be no assurance that cable television providers will be successful in expanding into other segments of the converging communications markets. There can be no assurance that new entrants into the cable television market will become clients of the Company. Any adverse development in the cable television industry could have a material adverse effect on the financial condition and results of operations of the Company.

The Company's growth strategy is based in large part on the continuing convergence and growth of the cable television, Direct Broadcast Satellite (DBS), telecommunications, and on-line services markets. If these markets fail to converge, grow more slowly than anticipated, or if providers in the converging markets do not accept the Company's products and services, there could be a material adverse effect on the financial condition and results of operations of the Company.

The market for the Company's products and services is highly competitive. The Company directly competes with both independent providers of products and services and in-house systems developed by existing and potential clients. Many of the Company's current and potential competitors have significantly greater financial, marketing, technical, and other competitive resources than the Company, and many are already operating internationally. There can be no assurance that the Company will be able to compete successfully with its existing competitors or with new competitors.

The Company is expanding into new products, services, and markets, which is placing demands on its managerial and operational resources. The inability to manage growth could have a material adverse effect on the financial condition and results of operations of the Company.

Substantially all of the Company's revenues are derived from the sale of services or products under contracts with its clients. The Company does not have the option to extend unilaterally the contracts upon expiration of their terms. The Company's contracts typically do not require clients to make any minimum purchases, and contracts are cancelable by clients under certain conditions. The failure of clients to renew or to fully use any contracts, or the cancellation of contracts, could have a material adverse effect on the Company's financial condition and results of operations.

The Company's future success depends in large part on the continued service of its key management, sales, product development, and operational personnel. The Company is particularly dependent on its executive officers. Only two of those executive officers are parties to employment agreements with the Company, and those agreements are terminable by them upon 30 days' notice. The Company believes that its future success also depends on its ability to attract and retain highly skilled technical, managerial, and marketing personnel, including, in particular, additional personnel in the areas of research and development and technical support. Competition for qualified personnel is intense. The Company may not be successful in attracting and retaining the personnel it requires, which could have a material adverse effect on the financial condition and results of operations of the Company.

The Company relies on a combination of trade secret and copyright laws, nondisclosure agreements, and other contractual and technical measures to protect its proprietary rights in its products. There can be no assurance that these provisions will be adequate to protect its proprietary rights. Although the Company believes that its 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 the Company or the Company's clients.

The Company's business strategy includes a significant commitment to the marketing of its products and services internationally, and the Company has begun to acquire and establish operations outside of the U.S. The Company is subject to certain inherent risks associated with operating internationally. Risks include product development to meet local requirements, difficulties in staffing and management, reliance on independent distributors or strategic alliance partners, fluctuations in foreign currency exchange rates, compliance with foreign regulatory requirements, variability of foreign economic conditions, changing restrictions imposed by U.S. export laws, and competition from U.S.-based companies which have established international operations. There can be no assurance that the Company will be able to manage successfully the risks related to selling its products and services in international markets. The inability to manage these risks successfully would have a material adverse

effect on the financial condition and results of operations of the Company.

End of Filing