CSG SYSTEMS INTERNATIONAL INC

FORM 10-K
(Annual Report)

Filed 03/14/06 for the Period Ending 12/31/05

Address	9555 MAROON CIRCLE ENGLEWOOD, CO 80112
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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)

☐ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 0-27512

CSG SYSTEMS INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	47-0783182 **(I.R.S. Employer Identification No.)**

7887 East Belleview, Suite 1000
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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by 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. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act. Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the last sales price of such stock, as of the close of trading on June 30, 2005 was $ 795,052,138.

Shares of common stock outstanding at March 6, 2006: 48,110,378.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for its 2006 Annual Meeting of Stockholders to be filed on or prior to April 30, 2006, are incorporated by reference into Part III of the Form 10-K.

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Item 1. Business

Overview

CSG Systems International, Inc. (the “Company”, “CSG”, or forms of the pronoun “we”) was formed in October 1994 and acquired all of the outstanding stock of CSG Systems, Inc. (formerly Cable Services Group, Inc.) from First Data Corporation (“FDC”) in November 1994. CSG Systems, Inc. had been a subsidiary or division of FDC from 1982 until this acquisition.

We are a leading provider of outsourced billing, customer care and print and mail solutions and services supporting the North American converged broadband and direct broadcast satellite (“DBS”) markets. Our solutions support some of the world’s largest and most innovative providers of bundled multi-channel video, internet, and IP-based services. Our unique combination of solutions, services and expertise ensure that cable and satellite operators can continue to rapidly launch new service offerings, improve operational efficiencies and deliver a high-quality customer experience in a competitive and ever-changing marketplace.

Our principal executive offices are located at 7887 East Belleview, Suite 1000, Englewood, Colorado 80111, and the telephone number at that address is (303) 796-2850. Our common stock is listed on the Nasdaq National Market under the symbol “CSGS”. We are a S&P Midcap 400 company.

General Development of Business

Comcast Business Relationship. In September 1997, we entered into a 15-year exclusive contract (the “Master Subscriber Agreement”) with Tele-Communications, Inc. (“TCI”) to consolidate all TCI customers onto our customer care and billing system. At the same time, we acquired a non-operational billing system from TCI for $105 million. This transaction allowed our company to substantially increase the number of customers processed on our systems, and at the time, was one of the catalysts to the growth of our domestic broadband business.

In 1999 and 2000, respectively, AT&T completed its mergers with TCI and MediaOne Group, Inc. (“MediaOne”), and consolidated the merged operations into AT&T Broadband (“AT&T”), and we continued to service the merged operations under the terms of the Master Subscriber Agreement. On November 18, 2002, Comcast Corporation (“Comcast”) completed its merger with AT&T, and assumed the Master Subscriber Agreement. Comcast is our largest client, making up approximately 22% of our total revenues from continuing operations in 2005.

During 2002 and 2003, we were involved in various legal proceedings with Comcast, consisting principally of arbitration proceedings related to the Master Subscriber Agreement. In October 2003, we received an unfavorable ruling in the arbitration proceedings. The Comcast arbitration ruling included an award of $119.6 million to be paid by us to Comcast. The award was based on the arbitrator’s determination that we had violated the most favored nations (“MFN”) clause of the Master Subscriber Agreement. We recorded the full impact from the arbitration ruling in the third quarter of 2003 as a charge to revenues. In addition, the arbitration ruling also required that we invoice Comcast for lower fees under the MFN clause of the Master Subscriber Agreement beginning in October 2003. This had the effect of reducing quarterly revenues from Comcast by approximately $13-14 million ($52-56 million annually), when compared to amounts prior to the arbitration ruling. In March 2004, we signed a new contract with Comcast (the “Comcast Contract”). The Comcast Contract superseded the former Master Subscriber Agreement that was set to expire at the end of 2012. Under the new agreement, we expect to continue to support Comcast’s video and high-speed Internet customers at least through December 31, 2008. The pricing inherent in the Comcast Contract was consistent with that of the arbitration ruling in October 2003. See Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) for additional discussion of our business relationship with Comcast.

Purchase and Sale of the GSS Business. In February 2002, we acquired the billing and customer care assets of Lucent Technologies (“Lucent”). Lucent’s billing and customer care business consisted primarily of: (i) software products and related consulting services acquired by Lucent when it purchased Kenan Systems Corporation in February 1999; (ii) BILLDATS Data Manager mediation software; and (iii) elements of Lucent’s client support, product support, and sales and marketing organizations (collectively, the “Kenan Business”). This acquisition allowed us to expand our customer care and billing product and service offerings into international markets. On December 9, 2005, we sold our Global Software Services (“GSS”) business (“GSS Business”), which consisted principally of the acquired Kenan Business, to Comverse, Inc., a division of

Comverse Technology, Inc. (“Comverse”). As a result of our sale of the GSS Business, we no longer provide customer care and billing products or services outside of North America. The decision to sell the GSS Business is consistent with our decision to intensify our focus on our core competencies in the cable and DBS markets utilizing our Advanced Convergent Platform (“ACP”) product and related services. See Note 2 to our Consolidated Financial Statements and MD&A for additional discussion of the sale of the GSS Business.

Financial Information About Our Company and Segments

In addition to the sale of the GSS Business noted above, we also sold our plaNet Consulting business to a group of private investors led by the plaNet management team on December 30, 2005. As a result, the results of operations for the GSS and plaNet businesses have been reflected as discontinued operations for all periods presented in the accompanying Consolidated Statements of Operations, and the December 31, 2004 Consolidated Balance Sheet has been restated to reflect the December 31, 2004 balance sheet components of the sold GSS and plaNet business as assets and liabilities related to discontinued operations. Our Broadband Services (“Broadband”) Division represents our continuing operations and is our only reportable segment. The remainder of the “Business” section of this Form 10-K is focused on our continuing operations. See Notes 2 and 5 to our Consolidated Financial Statements and MD&A for additional discussion of our reporting of discontinued operations, and the impact these sales had on our reporting of segment and related information.

Industry Overview

Background. We provide customer care and billing services primarily to the North American converged broadband and DBS markets. Customer care and billing systems coordinate many aspects of the customer’s interaction with a service provider, from the initial set-up and activation of customer accounts, to the support of various service activities, through the monitoring of customer invoicing and accounts receivable management, and the presentment of customer invoices. These systems enable service providers to manage the lifecycle of their customer interactions.

Market Conditions of Communications Industry . The communications industry has experienced significant consolidation and increased competition from non-traditional communications providers. The consolidation that has occurred has resulted in a fewer number of service providers, who have massive scale and can deliver a total communications package and experience to customers. Plant upgrades and network rationalizations have, for the most part, been completed, allowing service providers to focus their attention on new revenue and growth opportunities. In addition, new competitors, new technologies and unique partnerships are forcing service providers to be more creative in their approaches for rolling out new products and services and enhancing their customers’ experiences. These factors, in combination with the improving financial condition of service providers, are resulting in a slightly more positive outlook for the demand for scalable, flexible and cost efficient customer care and billing solutions. This outlook is tempered by the fact that consolidation has led to increased pricing pressure for those companies serving Tier 1 service providers.

Business Strategy

Our business strategy is designed to achieve revenue and profit growth. The key elements of the strategy include:

Expand Core Processing Business . We will continue to leverage our investment and expertise in high-volume transaction processing to expand our processing business. Our processing business provides highly predictable, recurring revenues through multi-year contracts with a client base that includes leading communications service providers. We increased the number of customers processed on our systems from 18 million as of December 31, 1995 to 45.2 million as of December 31, 2005. We provide a full suite of customer care and billing products and services that combine the reliability and high volume transaction processing capabilities of a mainframe platform with the flexibility of client/server architecture.

Increase the Penetration of Ancillary Products/Services. We provide a complete suite of customer care and billing products and services that enable and automate various activities for service providers, ranging from the call center, to the field technicians, to the end consumer. As our clients’ businesses consolidate and become much more complex, we have seen an increase in the use of ancillary products and services, which is one of the primary reasons we experienced an increase in our annual revenue per processing unit (“ARPU”) from $7.46 in 2004 to $7.81 in 2005.

Evolve Our Products and Services to Meet the Changing Needs of Our Clients. In 1995, we offered customer care and billing solutions to providers of analog cable video. Since then, our solution has evolved and expanded to satellite, digital, high-speed data and digital voice. Our clients continue to look to add more services to their product bundle, including advanced IP and wireless services. Our continued investment in our solution set is designed to enable our clients to grow their product offerings, and thereby, grow our revenues.

Enhance Growth Through Focused Acquisitions . We follow a disciplined approach in acquiring assets and businesses which provide the technology and technical personnel to expedite our product development efforts, provide complementary products and services, increase market share, or provide access to new markets and clients.

Continue Technology Leadership . We believe that our technology in customer care and billing solutions gives communications service providers a competitive advantage. Our continuing investment in research and development ("R&D") is designed to position us to meet the growing and evolving needs of existing and potential clients. Since 2001, we have invested approximately $160 million into R&D.

Narrative Description of Business

General Description. Our continuing operations consist of our processing operations and related software products. We generate a substantial percentage of our revenues by providing outsourced customer care and billing services to the United States ("U.S.") and Canadian cable television and satellite industries. Our full suite of processing, software, and professional services allows clients to automate their customer care and billing functions. These functions include set-up and activation of customer accounts, sales support, order processing, invoice calculation, production and mailing of invoices, management reporting, electronic presentment and payment of invoices, and deployment and management of the client's field technicians.

Clients . We work with the leading cable and satellite providers located in the U.S. and Canada. A partial list of those service providers is included below:

Adelphia Communications Corporation ("Adelphia")	EchoStar Communications Corporation ("EchoStar")
Charter Communications ("Charter")	Mediacom Communications
Comcast Corporation ("Comcast")	Time Warner Inc. ("Time Warner")
Cox Communications	

As noted above, the North American communications industry has experienced significant consolidation over the last few years, resulting in a large percentage of the market being served by a limited number of service providers with greater size and scale. Today, the top seven service providers in the video industry serve over 80% of the consumers. Consistent with this market concentration, a large percentage of our revenues from continuing operations are generated from a limited number of clients, with over 70% of our revenues from continuing operations being generated from our five largest clients, which are Comcast, EchoStar, Time Warner, Charter, and Adelphia. Revenues from these clients represented the following percentages of our total revenues from continuing operations for 2005 and 2004:

	Year Ended December 31,	
	2005	2004
Comcast	22%	24%
EchoStar	21%	21%
Time Warner	10%	10%
Charter	10%	9%
Adelphia	9%	9%

CCS Architectural Upgrade and Migration . During 2004, we completed our significant architectural upgrade to our primary product, CCS, and related services and software products. This enhancement to CCS, called ACP, has enhanced our ability to support convergent broadband services including cross-service bundling, convergent order entry and advanced service provisioning capabilities for video, high-speed data and Voice over Internet Protocol ("VoIP"). This advanced convergent solution for broadband service providers will facilitate our clients' offering of combinations of video, voice and data services. The ACP project was initiated in 2002 and is the Broadband Division's next generation product offering. To date, approximately two-thirds of the cable customer accounts processed on our systems have successfully migrated to our ACP solution.

Products and Services. Our primary product offerings include our core service bureau processing product, ACP, and related services and software products. A background in high-volume transaction processing, complemented with world-class applications software, allows us to offer one of the most comprehensive, pre-integrated products and services solutions to the communications market, serving video, data and voice providers and handling many aspects of the customer lifecycle. We believe this pre-integrated approach has allowed communications service providers to get to market quickly as well as reduce the total cost of ownership for their solution.

We license our software products (e.g., ACSR, Workforce Express, etc.) and provide our professional services principally to our existing base of processing clients to enhance the core functionality of our service bureau processing application, increase the efficiency and productivity of the clients' operations, and allow clients to effectively roll out new products and services to new and existing markets, such as high-speed data/ISP, IP markets, and residential telephony.

Historically, a substantial percentage of our total revenues from continuing operations have been generated from ACP processing services and related software products. These products and services are expected to provide a substantial percentage of our total revenues in the foreseeable future as well.

FDC Data Processing Facility. We outsource to FDC the data processing and related computer services required for the operation of our processing services. Our ACP proprietary software is run in FDC's facility to obtain the necessary mainframe computer capacity and other computer support services without making the substantial capital and infrastructure investments that would be necessary for us to provide these services internally. Our clients are connected to the FDC facility through a combination of private and commercially-provided networks. Our service agreement with FDC expires June 30, 2010, and is cancelable only for cause, as defined in the agreement. We believe we could obtain mainframe data processing services from alternative sources, if necessary. We have a business continuity plan as part of our agreement with FDC should the FDC data processing center suffer an extended business interruption or outage. This plan is tested on an annual basis.

Client and Product Support. Our clients typically rely on us for ongoing support and training needs related to our products. We have a multi-level support environment for our clients. The company has strategic business units ("SBUs") to support the business, operational, and functional requirements of each client. These dedicated account management teams help clients resolve strategic and business issues and are supported by the Product Support Center, which operates 24 hours a day, seven days a week. Clients call an 800 number, and through an automated voice response unit, have their calls directed to the specific product support personnel where their questions are answered. We have a full-time training staff and conduct ongoing training sessions both in the field and at our training facilities.

Sales and Marketing. We organize our sales efforts within our SBUs, with senior level account managers who are responsible for new revenues and renewal of existing contracts within a client account. The SBUs are supported by sales support personnel who are experienced in the various products and services that we provide.

Competition. The market for customer care and billing products and services in the converging communications industry in North America is highly competitive. We compete with both independent outsourced providers and in-house developers of customer management systems. We believe that our most significant competitors are Amdocs, Convergys Corporation, and in-house systems. Some of our actual and potential competitors have substantially greater financial, marketing and technological resources than us.

We believe service providers in our industry use the following criteria when selecting a vendor to provide customer care and billing products and services: (i) functionality, scalability, flexibility and architecture of the billing system; (ii) the breadth and depth of pre-integrated product solutions: (iii) product quality, client service and support; (iv) quality of R&D efforts; and (v) price. We believe that our products and services allow us to compete effectively in these areas.

Proprietary Rights and Licenses

We rely on a combination of trade secret and copyright laws, nondisclosure agreements, and other contractual and technical measures to protect our proprietary rights in our products. While we hold a limited number of patents on some of our newer products, we do not rely upon patents as a primary means of protecting our rights in our intellectual property. There can be no assurance that these provisions will be adequate to protect our proprietary rights. Although we believe that our 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 us or our clients.

We continually assess whether there is any risk to our intellectual property rights. Should these risks be improperly assessed, or if for any reason should our right to develop, produce and distribute our products be successfully challenged or be significantly curtailed, it could have a material impact on our financial condition and results of operations.

Research and Development

Our product development efforts are focused on developing new products and improving our existing products. We believe that the timely development of new applications and enhancements to existing applications is essential to maintaining our competitive position in the marketplace. Our most recent development efforts have been focused primarily on enhancements to ACP and related software products, targeted to increase the functionalities and features of the products, including those necessary to service VoIP and advanced Internet Protocol (“IP”) offerings.

Our total R&D expenses were $33.9 million and $31.9 million for the years ended December 31, 2005 and 2004, or approximately 9% of total revenues from continuing operations in each year. Over the last five years, we have invested approximately 8% of our total revenues from continuing operations into R&D. We expect to spend a larger percentage of our total revenues on R&D in the future. We expect this investment will be focused on ACP and related products and services.

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

Employees

As of December 31, 2005, we had a total of 1,540 employees, a decrease of 1,009 from December 31, 2004. The decrease between years relates primarily to the divestiture of the GSS Business. Total employees related to continuing operations as of December 31, 2004 were 1,541. Our success is dependent upon our ability to attract and retain qualified employees. None of our employees are subject to a collective bargaining agreement. We believe that our relations with our employees are good.

Available Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy materials, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act are available free of charge on our website at www.csgsystems.com. Additionally, these reports are available at the SEC’s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549 or on the SEC’s website at www.sec.gov. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

Code of Business Conduct and Ethics

A copy of our Code of Business Conduct and Ethics (the “Code of Conduct”) is maintained on our website. Any future amendment to the Code of Conduct, or any future waiver of a provision of our Code of Conduct, will be timely posted to our website upon their occurrence. Historically, we have had minimal changes to our Code of Conduct, and have had no waivers of a provision of our Code of Conduct.

Item 1A. Risk Factors

We or our 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 MD&A contained in our various SEC filings or orally in conferences or teleconferences. We wish 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 risk factors that could cause actual results to differ materially from those in such forward-looking statements. This list of risk factors is likely not exhaustive. We operate in a rapidly changing and evolving business involving the converging communications industry (e.g., cable television, DBS, wireline and wireless telephony, Internet and high speed data, etc.), 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 our 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.

We Derive a Significant Portion of Our Revenues From a Limited Number of Clients, and the Loss of the Business of a Significant Client Would Materially Adversely Affect Our Financial Condition and Results of Operations. The North American communications industry has experienced significant consolidation over the last few years, resulting in a large percentage of the market being served by a limited number of service providers with greater size and scale. Today, the top seven providers in the video industry serve over 80% of the consumers. Consistent with this market concentration, a large percentage of our revenues from continuing operations are generated from a limited number of clients, with over 70% of our revenues from continuing operations being generated from our five largest clients, which are (in order of size) Comcast, EchoStar, Time Warner, Charter, and Adelphia. See MD&A for a brief summary of our business relationship with each of these clients.

There are inherent risks whenever a large percentage of total revenues are concentrated with a limited number of clients. One such risk is that, should a significant client: (i) terminate or fail to renew its contract with us, in whole or in part for any reason; (ii) significantly reduce the number of customer accounts processed on our systems; or (iii) experience significant financial or operating difficulties, it could have a material adverse effect on our financial condition and results of operations (including possible impairment, or significant acceleration of the amortization of intangible assets).

Our industry is highly competitive, and the possibility that a major client may move all or a portion of its customers to a competitor has increased. While our clients may incur some costs in switching to our competitors, they may do so for a variety of reasons, including if we do not maintain favorable relationships, do not provide satisfactory services and products, or for reasons associated with price.

A Reduction in Demand for Our Key Customer Care and Billing Products and Services Could Have a Material Adverse Effect on Our Financial Condition and Results of Operations. Historically, a substantial percentage of our total revenues from continuing operations have been generated from our core service bureau processing product, ACP (formerly CCS/BP), and related services. These products and services are expected to provide a large percentage of our total revenues from continuing operations in the foreseeable future. Any significant reduction in demand for ACP and related services could have a material adverse effect on our financial condition and results of operations, including possible impairments to intangible assets.

We May Not Be Able to Respond to the Rapid Technological Changes in Our Industry. The market for customer care and billing 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. As a result, we believe that our future success in sustaining and growing our revenues depends upon the continued market acceptance of our products, especially ACP, and our ability to continuously adapt, modify, maintain, and operate our products to address the increasingly complex and evolving needs of our clients, without sacrificing the reliability or quality of the products. In addition, the market is demanding that our products have greater architectural flexibility and are more easily integrated with other computer systems, and that we are able to meet the demands for technological advancements to our products and services at a greater pace. Attempts to meet these demands subjects our R&D efforts to greater risks.

As a result, substantial R&D will be required to maintain the competitiveness of our products and services in the market. Technical problems may arise in developing, maintaining and operating our products and services as the complexities are increased. Development projects can be lengthy and costly, and are subject to changing requirements, programming difficulties, a shortage of qualified personnel, and unforeseen factors which can result in delays. In addition, we may be responsible for the implementation of new products and/or the migration of clients to new products, and depending upon the specific product, we may also be responsible for operations of the product.

There is an inherent risk in the successful development, implementation, migration, and operations of our products and services as the technological complexities, and the pace at which we must deliver these products and services to market, continue to increase. There can be no assurance:

- of continued market acceptance of our products and services;
- that we will be successful in the development of product enhancements or new products that respond to technological advances or changing client needs at the pace the market demands; or
- that we will be successful in supporting the implementation, migration and/or operations of product enhancements or new products.

Our Business is Dependent on the U.S. Cable Television and Satellite Industries. We generate substantially all of our revenues from continuing operations by providing products and services to the U.S. and Canadian cable television and satellite industries. A decrease in the number of customers served by our clients, loss of business due to non-renewal of client contracts, industry and client consolidations, an adverse change in the economic condition of these industries, movement of customers from our systems to another vendor’s system as a result of regionalization strategies by our clients, and/or changing consumer demand for services could have a material adverse effect on our results of operations. There can be no assurance that new entrants into the video market will become our clients. Also, there can be no assurance that video providers will be successful in expanding into other segments of the converging communications industry. Even if major forays into new markets are successful, we may be unable to meet the special billing and customer care needs of that market.

The Consolidation of the Communications Industry May Have a Material Adverse Effect on Our Results of Operations. The communications industry is undergoing significant ownership changes at an accelerated pace. One facet of these changes is that communications service providers are consolidating, decreasing the potential number of buyers for our products and services. Such client consolidations carry with them the inherent risk that the consolidators may choose to move their purchased customers to a competitor’s system. Should this consolidation result in a concentration of customer accounts being owned by companies with whom we do not have a relationship, or with whom competitors are entrenched, it could negatively affect our ability to maintain or expand our market share, thereby having a material adverse effect to our results of operations. In addition, providers may choose to use their size and scale to exercise more severe pressure on pricing negotiations.

In addition, it is widely anticipated that communication service providers will continue their aggressive pursuit of providing convergent services. Traditional wireline and wireless telephone providers have announced plans to penetrate the residential video market, a market dominated by our clients. Should these traditional telephone providers be successful in their video strategy, it could threaten our market share and processing revenues in this area, as generally speaking, these companies do not currently use our products and services.

We Face Significant Competition in Our Industry. The market for our products and services is highly competitive. We directly compete with both independent providers of products and services and in-house systems developed by existing and potential clients. In addition, some independent providers are entering into strategic alliances with other independent providers, resulting in either new competitors, or competitors with greater resources. Many of our current and potential competitors have significantly greater financial, marketing, technical, and other competitive resources than our company, many with significant and well-established domestic and international operations. There can be no assurance that we will be able to compete successfully with our existing competitors or with new competitors.

Client Bankruptcies Could Adversely Affect Our Business, and Any Accounting Reserves We Have Established May Not Be Sufficient. Certain of our clients have filed for bankruptcy protection. Companies involved in bankruptcy proceedings pose greater financial risks to us, consisting principally of possible claims of preferential payments for certain amounts paid to us prior to the bankruptcy filing date, as well as increased collectibility risk for accounts receivable, particularly those accounts receivable that relate to periods prior to the bankruptcy filing date. We consider such risks in assessing our revenue recognition and the collectibility of accounts receivable related to our clients that have filed for bankruptcy protection, and for those clients that are seriously threatened with a possible bankruptcy filing. We establish accounting reserves for our estimated exposure on these items. However, there can be no assurance that our accounting reserves related to these items will be adequate. Should any of the factors considered in determining the adequacy of the overall reserves change adversely, an adjustment to the accounting reserves may be necessary. Because of the potential significance of these items, such an adjustment could be material.

We May Incur Additional Material Restructuring Charges in the Future. Since the third quarter of 2002, we have recorded restructuring charges related to involuntary employee terminations, various facility abandonments, and various other restructuring activities. The accounting for facility abandonments requires significant judgments in determining the restructuring charges, primarily related to the assumptions regarding the timing and the amount of any potential sublease arrangements for the abandoned facilities, and the discount rates used to determine the present value of the liabilities. We continually evaluate our assumptions, and adjust the related facility abandonment reserves based on the revised assumptions at that time. Moreover, we continually evaluate ways to reduce our operating expenses through new restructuring opportunities, including more effective utilization of our assets, workforce and operating facilities. As a result, there is a reasonable likelihood that we may incur additional material restructuring charges in the future.

Failure to Attract and Retain Our Key Management and Other Highly Skilled Personnel Could Have a Material Adverse Effect on Our Business. Our future success depends in large part on the continued service of our key management, sales, product development, and operational personnel. We believe that our future success also depends on our ability to attract and retain highly skilled technical, managerial, operational, and marketing personnel, including, in particular, personnel in the areas of R&D and technical support. Competition for qualified personnel at times can be intense, particularly in the areas of R&D, conversions, software implementations, and technical support, especially now that market conditions are improving and the demand for such talent is increasing. In addition, our restructuring activities adversely impact our workforce as a result of involuntary terminations of employees and may adversely impact our ability to retain key personnel and recruit new employees when there is a need. For these reasons, we may not be successful in attracting and retaining the personnel we require, which could have a material adverse effect on our ability to meet our commitments and new product delivery objectives.

We May Not Be Successful in the Integration of Our Acquisitions. As part of our growth strategy, we seek to acquire assets, technology, and businesses which would provide the technology and technical personnel to expedite our product development efforts, provide complementary products or services, or provide access to new markets and clients.

Acquisitions involve a number of risks and difficulties, including: (i) expansion into new markets and business ventures; (ii) the requirement to understand local business practices; (iii) the diversion of management’s attention to the assimilation of acquired operations and personnel; and (iv) potential adverse effects on a company’s operating results for various reasons, including, but not limited to, the following items: (a) the inability to achieve revenue targets; (b) the inability to manage and/or reduce operating costs; (c) the inability to achieve certain operating synergies; (d) costs incurred to integrate, support, and expand the acquired businesses; (e) charges related to purchased in-process R&D projects; (f) costs incurred to exit current or acquired contracts or activities; (g) costs incurred to manage the size of the combined existing and acquired workforce, due to certain redundancies or inefficiencies; (h) costs incurred to service any acquisition debt; and (i) the amortization or impairment of intangible assets.

Due to the multiple risks and difficulties associated with any acquisition, there can be no assurance that we will be successful in achieving our expected strategic and operating goals for any such acquisition.

Failure to Protect Our Proprietary Intellectual Property Rights Could Have a Material Adverse Effect on Our Financial Condition and Results of Operations. We rely on a combination of trade secret and copyright laws, nondisclosure agreements, and other contractual and technical measures to protect our proprietary rights in our products. We also hold a limited number of patents on some of our newer products, but do not rely upon patents as a primary means of protecting our rights in our intellectual property. There can be no assurance that these provisions will be adequate to protect our proprietary rights. Although we believe that our 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 us or our clients.

We continually assess whether there is any risk to our intellectual property rights. Should these risks be improperly assessed or if for any reason should our right to develop, produce and distribute our products be successfully challenged or be significantly curtailed, it could have a material adverse effect on our financial condition and results of operations.

The Delivery of Our Products and Services is Dependent on a Variety of Mainframe and Distributed System Computing Environments and Communications Networks, Which May Not Be Available or May Be Subject to Security Attacks. The delivery of our products and services is dependent on a variety of mainframe and distributed system computing environments, which we will collectively refer to herein as “systems.” We provide such computing environments through both out-sourced arrangements, such as our data processing arrangement with First Data Corporation, as well as internally operating numerous distributed servers in geographically dispersed environments. The end users are connected to our systems through a variety of public and private communications networks, which we will collectively refer to herein as “networks,” and are highly dependent upon the continued availability and uncompromised security of our networks and systems to conduct their business operations. Our networks and systems are subject to the risk of failure as a result of human and machine error, acts of nature and intentional, unauthorized attacks from computer “hackers.” Security attacks on distributed systems throughout the industry are more prevalent than on mainframe systems due to the open nature of those computer systems. In addition, we continue to expand our use of the Internet with our product offerings thereby permitting, for example, our clients’ customers to use the Internet to review account balances, order services or execute similar account management functions. Opening up our networks and systems to permit access via the Internet increases their vulnerability to unauthorized access and corruption, as well as increasing the dependency of the systems’ reliability on the availability and performance of the Internet’s infrastructure. As a means to mitigate certain risks in this area of our business, we have implemented a business continuity plan, and test certain aspects of this plan on a periodic basis. In addition, we have implemented a security program utilizing ISO 17799 as a guideline, and periodically undergo a security review of our systems by independent parties, and have implemented a plan intended to mitigate the risk of an unauthorized access to the networks and systems, including network firewalls, procedural controls, intrusion detection systems and antivirus applications.

The method, manner, cause and timing of an extended interruption or outage in our networks or systems are impossible to predict. As a result, there can be no assurances that our networks and systems will not fail, or that our business continuity plans will adequately mitigate any damages incurred as a consequence. Should our networks or systems experience an extended interruption or outage, have their security compromised or data lost or corrupted, it would impede our ability to meet product and service delivery obligations, and likely have an immediate impact to the business operations of our clients. This would most likely result in an immediate loss to us of revenue or increase in expense, as well as damaging our reputation. Any of these events could have both an immediate, negative impact upon our financial condition and our short-term revenue and profit expectations, as well as our long-term ability to attract and retain new clients.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

As of December 31, 2005, we were operating from six leased sites in the U.S., representing approximately 526,000 square feet under lease. This amount excludes approximately 36,000 square feet of leased space that we have abandoned.

We lease office facilities totaling approximately 149,000 square feet in Denver, Colorado and surrounding communities. We utilize these office facilities primarily for: (i) corporate headquarters; (ii) sales and marketing activities; (iii) product and operations support; and (iv) R&D activities. The leases for these office facilities expire in the years 2008 through 2015.

We lease office facilities, totaling approximately 201,000 square feet in Omaha, Nebraska. We utilize these facilities primarily for (i) client services, training and product support; (ii) systems and programming activities; (iii) R&D activities; and (iv) general and administrative functions. The leases for these facilities expire in the years 2009 through 2012.

We lease statement production and mailing facilities totaling approximately 176,000 square feet in Omaha, Nebraska and Wakulla County, Florida. The leases for these facilities expire in the years 2011 and 2013, respectively.

Item 3. Legal Proceedings

From time-to-time, we are involved in litigation relating to claims arising out of our operations in the normal course of business. In the opinion of our management, we are not presently a party to any material pending or threatened legal proceedings.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Executive Officers of the Registrant

As of December 31, 2005, our executive officers were Edward C. Nafus (Chief Executive Officer and President), Peter E. Kalan (Executive Vice President and Chief Financial Officer) and Robert M. ("Mike") Scott (Executive Vice President). We have employment agreements with each of the executive officers.

Edward C. Nafus
Chief Executive Officer and President

Mr. Nafus, 65, joined CSG in August 1998 as Executive Vice President and was named the President of our Broadband Division in January 2002. In March 2005, he was added to our Board of Directors. Effective April 1, 2005, Mr. Nafus assumed the position of Chief Executive Officer and President of CSG. From 1978 to 1998, Mr. Nafus held numerous management positions within FDC. From 1992 to 1998, he served as Executive Vice President of FDC; from 1989 to 1992, he served as President of First Data International; and Executive Vice President of First Data Resources from 1984 to 1989. From 1971 to 1978, Mr. Nafus worked in sales management, training and sales for Xerox Corporation. From 1966 to 1971, Mr. Nafus was a pilot and division officer in the United States Navy. Mr. Nafus holds a BS degree in Secondary Education from Jamestown College.

Peter E. Kalan
Executive Vice President and Chief Financial Officer

Mr. Kalan, 46, joined CSG in January 1997 and was named Chief Financial Officer in October 2000. Prior to joining our company, he was Chief Financial Officer at Bank One, Chicago, and he also held various other financial management positions with Bank One in Texas and Illinois from 1985 through 1996. Mr. Kalan holds a BA degree in Business Administration from the University of Texas at Arlington.

Robert M. Scott
Executive Vice President

Mr. Scott, 55, joined CSG in September of 1999 as Vice President of the Broadband Division and served as Senior Vice President of that division from 2001 to 2004. In December 2004, Mr. Scott was named Executive Vice President of our company, and in March 2005, he was made the head of our Broadband Division. Prior to joining CSG, Mr. Scott served for 21 years in a variety of management positions, both domestically and internationally, with FDC. Mr. Scott holds a BA degree in Social Studies from Florida Atlantic University.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed 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 our common stock as reported by NASDAQ/NMS.

	High	Low
2005		
First quarter	$18.93	$15.88
Second quarter	19.75	15.74
Third quarter	21.82	16.15
Fourth quarter	24.76	21.06

	High	Low
2004		
First quarter	$17.70	$12.56
Second quarter	21.22	15.85
Third quarter	20.98	14.02
Fourth quarter	19.22	14.57

On March 8, 2006, the last sale price of our common stock as reported by NASDAQ/NMS was $22.59 per share. On January 31, 2006, the number of holders of record of common stock was 252.

Dividends

We have not declared or paid cash dividends on our common stock since our incorporation. We did, however, complete a two-for-one stock split, effected in the form of a stock dividend, in March 1999. We intend to retain any earnings to finance the growth and development of our business, and at this time, we do not plan to pay cash dividends in the foreseeable future.

Our revolving credit facility contains certain restrictions on the payment of dividends. In addition, the payment of dividends has certain impacts to our Convertible Debt Securities. See Note 7 to our Consolidated Financial Statements for additional discussion of our revolving credit facility and Convertible Debt Securities, and the impact the payment of dividends may have on these items.

Equity Compensation Plan Information

The following table summarizes certain information about our equity compensation plans as of December 31, 2005:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance
Equity compensation plans approved by security holders	987,981	$ 21.20	12,686,319
Equity compensation plan not approved by security holders	467,982	15.82	566,496
Total	1,455,963	$ 19.47	13,252,815

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Of the total number of securities remaining available for future issuance, 12,829,729 shares can be used for various types of stock-based awards, as specified in the individual plans, with the remaining 423,086 shares to be used for our employee stock purchase plan. See Note 14 to our Consolidated Financial Statements for additional discussion of our equity compensation plans.

Issuer Repurchases of Equity Securities

The following table presents information with respect to purchases of company common stock made during the three months ended December 31, 2005 by CSG Systems International, Inc. or any "affiliated purchaser" of CSG Systems International, Inc., as defined in Rule 10b-18(a)(3) under the Exchange Act.

Period	Total Number of Shares Purchased [2]	Weighted-Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs [1]
October 1 - October 31	229,900	$ 22.76	229,900	2,285,914
November 1 - November 30	217,995	24.00	217,995	7,067,919
December 1 - December 31	416,710	22.97	197,500	6,870,419
Total	864,605	$ 23.17	645,395	

1 During the fourth quarter of 2005, our Board of Directors approved a five million share increase in the number of shares we are authorized to repurchase under our stock repurchase program (the "Stock Repurchase Program"), bringing the total number of authorized shares to 20 million. As of December 31, 2005, the total remaining number of shares available for repurchase under the program totaled 6.9 million shares.

2 The total number of shares purchased that are not part of the Stock Repurchase Program represents shares purchased and cancelled in connection with stock incentive plans.

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Item 6. Selected Financial Data

The following selected financial data have been derived from our audited financial statements. The selected financial data presented below should be read in conjunction with, and is qualified by reference to, our MD&A and our Consolidated Financial Statements. The information below is not necessarily indicative of the results of future operations.

	Year Ended December 31,				
	2005	2004	2003	2002	2001
	(in thousands, except per share amounts)				
Statement of Operations Data:					
Revenues:					
Processing and related services (2)	$346,463	$326,556	$ 341,628	$372,426	$339,117
Software, maintenance and services (2)	30,854	24,845	25,766	48,623	134,921
	377,317	351,401	367,394	421,049	474,038
Charge for arbitration ruling attributable to periods prior to July 1, 2003 (2)	—	—	(105,679)	—	—
Total revenues, net	377,317	351,401	261,715	421,049	474,038
Cost of revenues (5):					
Processing and related services	170,344	146,837	140,475	138,452	120,566
Software, maintenance and services	19,720	25,047	30,359	26,696	41,963
Total cost of revenues	190,064	171,884	170,834	165,148	162,529
Gross margin (exclusive of depreciation)	187,253	179,517	90,881	255,901	311,509
Operating expenses (5):					
Research and development	33,932	31,887	30,398	32,764	30,848
Selling, general and administrative	52,492	39,453	50,041	40,864	39,365
Depreciation	9,862	10,412	12,701	14,751	12,696
Restructuring charges (4)	14,534	1,292	2,149	2,256	—
Total operating expenses	110,820	83,044	95,289	90,635	82,909
Operating income (loss)	76,433	96,473	(4,408)	165,266	228,600
Other income (expense):					
Interest expense	(7,537)	(10,261)	(14,296)	(13,817)	(3,035)
Write-off of deferred financing costs (6)	—	(6,569)	—	—	—
Interest and investment income, net	4,059	975	920	1,729	5,112
Other, net	6	(303)	(85)	833	(678)
Total other	(3,472)	(16,158)	(13,461)	(11,255)	1,399
Income (loss) from continuing operations before income taxes	72,961	80,315	(17,869)	154,011	229,999
Income tax (provision) benefit (2)	(26,219)	(29,317)	12,703	(55,960)	(86,558)
Income (loss) from continuing operations	46,742	50,998	(5,166)	98,051	143,441
Discontinued operations (1):					
Loss from discontinued operations (5)	(5,685)	(11,109)	(30,591)	(66,468)	(46,557)
Income tax benefit	12,172	7,295	9,480	13,035	17,037
Discontinued operations, net of tax	6,487	(3,814)	(21,111)	(53,433)	(29,520)
Net income (loss)	$ 53,229	$ 47,184	$ (26,277)	$ 44,618	$113,921
Diluted net income (loss) per common share:					
Income (loss) from continuing operations	$ 0.96	$ 0.99	$ (0.10)	$ 1.87	$ 2.62
Discontinued operations, net of tax	0.13	(0.07)	(0.41)	(1.02)	(0.54)
Net income (loss)	$ 1.09	$ 0.92	$ (0.51)	$ 0.85	$ 2.08
Weighted-average diluted shares outstanding (3)	48,571	51,223	51,432	52,525	54,639
Other Data (at Period End):					
Number of clients' customers processed (2)	45,228	43,472	44,148	45,816	43,283
Balance Sheet Data (at Period End):					
Cash, cash equivalents and short-term investments (1)(7)	$392,224	$149,436	$ 105,397	$ 95,437	$ 83,599
Working Capital (2)(7)	440,676	172,675	69,642	119,782	80,789
Total assets	638,376	710,407	724,775	731,317	374,046
Total debt (6)	230,000	230,000	228,925	270,000	31,500
Total treasury stock (3)	296,976	224,008	171,111	186,045	180,958
Stockholders' equity	298,330	308,070	290,785	282,105	250,048

(1) As discussed above, we sold our GSS and plaNet businesses in 2005. As a result, the results of operations for the GSS and plaNet businesses have been reflected as discontinued operations for all periods presented in our Consolidated Statements of Operations. We recorded a net pretax gain on the disposal of these businesses of $10.9 million in 2005. See Note 2 to our Consolidated Financial Statements and MD&A for additional discussion of these disposals.

(2) During 2003, we recorded a $119.6 million charge to revenue related to the Comcast arbitration ruling award. The award was segregated such that $105.7 million was attributable to periods prior to July 1, 2003, and $13.9 million was attributable to the third quarter of 2003. Of the $13.9 million attributable to the third quarter, we attributed $13.5 million to processing revenues, and the remaining $0.4 million to software maintenance revenues. As a result of the Comcast arbitration award, we were in a net operating loss position for the year, and recorded an income tax benefit of $12.7 million. During the fourth quarter of 2003, we paid Comcast $94.4 million of the arbitration award and in January 2004, we paid the remaining $25.2 million. Additionally, as a result of the arbitration ruling, Comcast customer accounts began being measured differently in October 2003, which resulted in a reduction in the total number of clients' customers processed.

(3) In August 1999, our Board of Directors approved our Stock Repurchase Program which authorized us to purchase shares of our common stock from time-to-time as business conditions warrant. During the years ended December 31, 2005, 2004, 2003, 2002, and 2001, we repurchased 3.8 million, 3.0 million, zero, 1.6 million, and 3.0 million shares, respectively. As of December 31, 2005, 6.9 million shares of the 20.0 million shares authorized under the program remain available for repurchase. See Note 13 to our Consolidated Financial Statements and MD&A for additional discussion of the Stock Repurchase Program.

(4) Beginning in the third quarter of 2002 and continuing through 2005, we made several changes to our business operations and implemented several cost reduction initiatives that resulted in restructuring charges of $14.5 million, $1.3 million, $2.1 million and $2.3 million, respectively, for the years ended December 31, 2005, 2004, 2003 and 2002. See Note 8 to our Consolidated Financial Statements and MD&A for additional discussion of the restructuring charges.

(5) In 2003, we adopted the fair value method of accounting for our stock-based awards. In addition, we completed our exchange of certain stock options for restricted stock (also referred to by us as our "tender offer") in December 2003. As a result, our stock-based compensation expense is significantly higher in 2005 and 2004 when compared to previous years. Additionally, in 2005, certain equity awards held by key members of our management team included a change in control provision that was triggered upon the closing of the sale of the GSS Business. The change in control provision resulted in accelerated vesting as of December 9, 2005 for the equity awards impacted, and thus, deferred stock-based compensation expense of $4.7 million related to the accelerated vesting of these equity awards was recorded as stock-based compensation expense in the fourth quarter of 2005, of which $0.9 million was included in discontinued operations, and $3.8 million was included in continuing operations as part of restructuring charges. Total stock-based compensation expense recognized during 2005, 2004, 2003, 2002, and 2001 was $20.4 million, $14.9 million, $5.6 million, $1.4 million, and zero, respectively. Of these amounts, $17.0 million, $10.6 million, $5.0 million and $1.3 million are reflected in continuing operations for 2005, 2004, 2003 and 2002, respectively, with the remaining amounts reflected in discontinued operations for the respective periods. See Notes 3 and 14 to our Consolidated Financial Statements for additional discussion of these matters.

(6) In February 2002, we entered into a $300 million term credit facility to finance the acquisition of the Kenan Business. In June 2004, we completed an offering of $230 million of Convertible Debt Securities and used the proceeds, along with available cash, cash equivalents and short-term investments to: (i) repay the outstanding balance of the term credit facility; (ii) repurchase 2.1 million of shares of our common stock; and (iii) pay debt issuance costs of $7.2 million. As a result, we wrote off unamortized deferred financing costs attributable to the term credit facility of $6.6 million. See Note 7 to our Consolidated Financial Statements for additional discussion of our long-term debt.

(7) As a result of the sale of the GSS and plaNet businesses, our December 31, 2005 Consolidated Balance Sheet no longer includes any amounts related to these sold businesses. To provide for consistent comparisons between the two most recent years, the December 31, 2004 Consolidated Balance Sheet was restated to reflect the components of the sold GSS and plaNet businesses as assets and liabilities related to discontinued operations. Thus, the 2005 and 2004 cash, cash equivalents and short-term investments and working capital amounts in the above table are presented on a different basis, as the 2003, 2002 and 2001 amounts have not been restated and still include amounts related to the GSS and plaNet businesses.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

Forward-Looking Statements

This report contains a number of forward-looking statements relative to our future plans and our expectations concerning the North American customer care and billing industry, as well as the converging communications industry it serves, and similar matters. These forward-looking statements are based on assumptions about a number of important factors, and involve risks and uncertainties that could cause actual results to differ materially from estimates contained in the forward-looking statements. Some of the risks that are foreseen by management are outlined above within Item 1A, "Risk Factors". Item 1A. constitutes an integral part of this report, and readers are strongly encouraged to review this section closely in conjunction with MD&A.

Management Overview

Market Conditions of the Communications Industry. The communications industry has experienced significant consolidation and increased competition from non-traditional communications providers. The consolidation that has occurred has resulted in a fewer number of service providers who have massive scale and can deliver a total communications package. Plant upgrades and network rationalizations have, for the most part, been completed, allowing service providers to focus their attention on new revenue and growth opportunities. In addition, new competitors, new technologies and unique partnerships are forcing service providers to be more creative in their approaches for rolling out new products and services and enhancing their customers' experiences. These factors, in combination with the improving financial condition of service providers, are resulting in a slightly more positive outlook for the demand for scalable, flexible and cost efficient customer care and billing solutions, which we believe will provide us with new revenue opportunities.

However, another facet of this market consolidation poses certain risks to our company. The consolidation of service providers decreases the potential number of buyers for our products and services, and carries the inherent risk that the consolidators may choose to move their purchased customers to a competitor's system. Should this consolidation result in a concentration of customer accounts being owned by companies with whom we do not have a relationship, or with whom competitors are entrenched, it could negatively affect our ability to maintain or expand our market share, thereby having a material adverse effect to our results of operations. In addition, service providers at times have chosen to use their size and scale to exercise more severe pressure on pricing negotiations.

Our Company . We are a leading provider of outsourced billing, customer care and print and mail solutions and services supporting the North American converged broadband and DBS markets. Our solutions support some of the world's largest and most innovative providers of bundled multi-channel video, Internet, and IP-based services. Our unique combination of solutions, services and expertise ensure that cable and satellite operators can continue to rapidly launch new service offerings, improve operational efficiencies and deliver a high-quality customer experience in a competitive and ever-changing marketplace.

As noted above, the North American communications industry has experienced significant consolidation over the last few years, resulting in a large percentage of the market being served by a fewer number of service providers with greater size and scale. Today, the top seven providers in the video industry serve over 80% of the consumers. Consistent with this market concentration, a large percentage of our revenues from continuing operations are generated from a limited number of clients, with over 70% of our revenues from continuing operations being generated from our five largest clients, which are Comcast, EchoStar, Time Warner, Charter, and Adelphia.

Key Changes to Our Business Operations. Consistent with our decision to intensify our focus on our core competencies in the cable and DBS markets utilizing our ACP product and related services, and improve our operating results, we made several key changes to our business operations during 2005, which are summarized as follows:

- On December 9, 2005, we completed the sale of our GSS Business to Comverse. In addition, on December 30, 2005, we completed the sale of our plaNet Consulting business to a group of private investors led by the plaNet management team. These two businesses were underperforming to our financial expectations and were no longer considered part of our core strategy, and thus they were sold during 2005. As a result of our sale of the GSS Business, we no longer provide customer care and billing products or services outside of North America. We believe the divestiture of these two businesses will allow our company to allocate greater human capital and financial resources towards our core domestic Broadband business.

The historical results of the GSS and the plaNet businesses are reflected as discontinued operations in our results of operations for all periods presented, and are discussed in greater detail below. In addition, in conjunction with the closing of the sale of the GSS Business, during the fourth quarter of 2005, we incurred restructuring charges within our continuing operations of $7.1 million. These restructuring charges, and greater details of the sale of the GSS and plaNet businesses, are discussed below and in Notes 2 and 8 to our Consolidated Financial Statements.

- We currently provide outsourced processing services utilizing the ICMS customer care and billing software application under a long-term processing agreement with FairPoint Communications, Inc. ("FairPoint"), a provider of communication services to rural communities. FairPoint is our only client that receives processing services utilizing the ICMS asset in a service bureau environment. On November 7, 2005, we executed amendments to our long-term processing agreement with FairPoint to effectively terminate the agreement (the amendments are collectively referred to as the "Termination Agreement"). Under the terms of the Termination Agreement, FairPoint is expected to transition and convert all of its customers to an alternative solution no later than December 31, 2006. In conjunction with the termination of the FairPoint contract, we incurred restructuring charges of $6.2 million, and recorded a $0.8 million charge against revenue, during the fourth quarter of 2005. See Note 8 to our Consolidated Financial Statements for further details of this matter.

  During 2005 and 2004, revenues related to this ICMS service bureau offering (which consisted entirely of servicing the FairPoint contract) were $1.8 million and $0.5 million, and operating losses (excluding restructuring charges of $6.2 million for 2005) were $3.7 million and $2.9 million, respectively. We expect to incur an operating loss of approximately $2 million and incur restructuring charges of $2 million ($4 million total operating loss) during 2006 as FairPoint transitions off our system onto a new vendor. This service offering is significantly underperforming to our original financial expectations and is no longer considered part of our core strategy. As a result, once the FairPoint customers are fully transitioned to another vendor, we will cease providing our ICMS service bureau processing services.

- In December 2005, we exercised a buyout provision included in the operating lease (which was scheduled to expire in 2010) for our corporate aircraft for $8.7 million and then sold the aircraft to an unrelated party in January 2006 for $7.1 million (net of costs to sell). We recorded the loss of $1.6 million related to this transaction as a restructuring charge in the fourth quarter of 2005. We believed the use of a corporate aircraft was no longer needed, and thus, the disposal of the aircraft provided us an opportunity to save approximately $2 million annually in operating expenses. See Note 8 to our Consolidated Financial Statements for further details of this matter.

Key Changes to Our Executive Management Team and Board of Directors. In addition to the key changes to our business operations summarized above, we also made several significant changes to our management team and our Board of Directors during 2005, which are summarized as follows:

- In the first quarter of 2005, our then current Chairman of the Board of Directors ("Chairman") and Chief Executive Officer ("CEO"), Mr. Neal Hansen, announced his intent to retire from our company, which led to the following changes:
  - Effective March 31, 2005, Mr. Hansen stepped down as our CEO.
  - Effective April 1, 2005, Mr. Edward Nafus, our then Executive Vice President and President of our Broadband Division, assumed the position of CEO and President of our company. In addition, effective March 7, 2005, Mr. Nafus was added to our Board of Directors.
  - Effective March 7, 2005, Mr. Robert M. "Mike" Scott was made the head of our Broadband Division.
  - Effective June 30, 2005, Mr. Hansen stepped down as Chairman, and left our Board of Directors.
  - Effective July 1, 2005, Mr. Bernard Reznicek, a current Board member, was named non-executive Chairman to replace Mr. Hansen.

We agreed to pay Mr. Hansen $9.6 million in consideration for certain changes to his employment agreement and for post-termination consulting services to be provided as a result of his retirement. Of this amount, $5.6 million was paid in January 2006, $2.0 million will be paid on July 1, 2006, and $2.0 million will be paid on January 2, 2007. As of December 31, 2005, we have recorded expense of $9.4 million related to Mr. Hansen's retirement package, of which $8.9 million was included in expense for 2005 and $0.5 million was recorded as expense in 2004. The remainder of the $0.2 million of expense will be recorded in 2006. The expense related to this matter is reflected within the Selling, General and Administrative caption in the accompanying Consolidated Statements of Operations.

- During 2005, we also made other changes to our Board of Directors. Dr. George Haddix (one of the co-founders of our company with Mr. Hansen), resigned from our Board of Directors, and Mr. Don Reed and Mr. James Unruh were added to our Board of Directors. After these changes, six of our seven Board members are independent directors. See our Form 8-Ks filed on June 1, 2005 and July 6, 2005 for additional details of these matters.
- In conjunction with the sale of the GSS Business:
  - Mr. Alan Michels, our then Executive Vice President and Head of Worldwide Delivery for our GSS Division was terminated from our company effective upon the closing of the sale of the GSS Business. All expenses related to his termination of employment with our company are included in discontinued operations.
  - Mr. Hank Bonde, our then Executive Vice President and President of the GSS Division, was terminated from our company effective December 31, 2005. All expenses related to his termination of employment with our company are included in restructuring charges in continuing operations, and are discussed in greater detail below.

As a result of the above actions during 2005, we believe our business is well positioned, and we have a highly qualified executive management team and Board of Directors in place, to effectively execute on our business strategies going forward.

Results of Operations. A summary of our results of operations for 2005 is as follows:

- Our consolidated revenues from continuing operations for 2005 increased $25.9 million, or 7.4%, to $377.3 million, when compared to $351.4 million for 2004. The increase between years is attributable primarily to higher processing revenues between years.
- Our operating expenses from continuing operations for 2005 increased $46.0 million, or 18.0%, to $300.9 million, when compared to $254.9 million for 2004. The increase in operating expenses from continuing operations between years is due primarily to the following:
  - The cost of processing and related services revenues were $170.3 million for 2005, compared to $146.8 million for 2004, an increase of $23.5 million. This increase relates primarily to an increase in labor-related costs, primarily as a result of an increase in staff levels to address the growth opportunities we see for our VoIP products and services and to accommodate the migration of clients to ACP.
  - Restructuring charges were $14.5 million for 2005, compared to $1.3 million for 2004, an increase of $13.2 million. This increase relates to the key changes we made to our business operations during 2005, as noted above. The $14.5 million of restructuring charges reduced 2005 income from continuing operations by $0.19 per diluted share.
  - Expense related to the retirement of our former CEO was $8.9 million for 2005, compared to $0.5 million for 2004, an increase of $8.4 million. The $8.9 million of expense recorded for this item reduced 2005 income from continuing operations by $0.12 per diluted share.
- Our operating income from continuing operations for 2005 decreased $20.1 million, or 20.8%, to $76.4 million, when compared to $96.5 million for 2004. The operating income margin from continuing operations for 2005 was 20.3%, compared to 27.5% for 2004. These substantial decreases between years are primarily due to the increase in restructuring charges between years, and the expense incurred in conjunction with the retirement of our former CEO, as discussed above. The $14.5 million of restructuring charges and the $8.9 million of retirement benefits recorded in 2005 had the effect of reducing our operating margin by 6.2 percentage points for 2005.

- Income from continuing operations (net of tax) for 2005 was $46.7 million, or $0.96 per diluted share, a decrease of 8.3% when compared to $51.0 million, or $0.99 per diluted share, for 2004. The restructuring charges and CEO retirement expense discussed above reduced 2005 income from continuing operations by $0.31 per diluted share.
- Income (loss) from discontinued operations (net of tax), which relates to the GSS and plaNet businesses, was $6.5 million, or $0.13 per diluted share for 2005, as compared to $(3.8) million, or $(0.07) per diluted share, for 2004. The income for 2005 includes the impact of the net pretax gain on the sale of these businesses of $10.9 million.
- Net income for 2005 was $53.2 million, or $1.09 per diluted share, an increase of 12.8% when compared to $47.2 million, or $0.92 per diluted share, for 2004.
- Continuing operations for 2005 and 2004 include non-cash charges related to depreciation, amortization (primarily shown as a reduction of processing revenues), and stock-based compensation expense totaling $40.5 million (pretax impact), or $0.53 per diluted share, and $32.6 million (pretax impact), or $0.40 per diluted share, respectively. The increase in these non-cash charges between years is due primarily to an increase in stock-based compensation as a result of certain equity awards held by key members of our management team having a change in control provision that was triggered upon the closing of the sale of the GSS Business.
- We continue to generate strong cash flows from our operations. As of December 31, 2005, we had cash, cash equivalents and short-term investments of $392.2 million, compared to $149.4 million as of December 31, 2004. The significant increase between years relates primarily to the cash proceeds received from the sale of the GSS Business.
- Cash flows from operations for 2005 were $102.6 million, compared to $119.3 million for 2004, with the decrease between years related primarily to changes in certain working capital items as a result of timing matters, as discussed in greater detail below.

Other key matters related to our continuing operations for 2005 were as follows:

- Total customer accounts processed on our systems as of December 31, 2005 were 45.2 million, compared to 43.5 million as of December 31, 2004, an increase of 4.0%. The ARPU for the year ended December 31, 2005 was $7.81, compared to $7.46 for the year ended December 31, 2004. The increase in ARPU between years relates primarily to the increased usage of ancillary products and services by our clients.
- As of December 31, 2005, approximately two-thirds of the cable customer accounts processed on our system have been successfully migrated to our ACP platform. We expect to migrate the remaining cable customer accounts to the ACP platform by the end of 2006.
- We successfully renewed all of our material client relationships scheduled for renewal during 2005, including extending our agreement with EchoStar through the end of 2008, and we have no major contracts up for renewal in 2006.
- During the fourth quarter, our Board of Directors increased the total number of authorized shares to be repurchased under our Stock Repurchase Program by five million shares. For 2005, we repurchased 3.8 million shares of our common stock for $73.0 million (weighted-average price of $19.16 per share). As of December 31, 2005, the remaining number of shares authorized for repurchase under the Stock Repurchase Program is 6.9 million shares.

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Restatement of Historical Results of Operations to Reflect the GSS and PlaNet Businesses as Discontinued Operations

As noted above, as a result of the sale of the GSS and plaNet businesses, our historical quarterly results of operations have been restated to reflect the impact of reporting the GSS and plaNet businesses as discontinued operations. Our restated quarterly and annual results of operations for the two most recent years are as follows (in thousands, except per share amounts):

	Quarter Ended				Year Ended
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005	December 31, 2005
Revenues:					
Processing and related services	$ 83,281	$ 88,631	$ 87,478	$ 87,073	$ 346,463
Software, maintenance and services	9,895	8,219	6,614	6,126	30,854
Total revenues	93,176	96,850	94,092	93,199	377,317
Cost of revenues:					
Processing and related services	41,983	41,691	42,453	44,217	170,344
Software, maintenance and services	5,043	5,003	4,601	5,073	19,720
Total cost of revenues	47,026	46,694	47,054	49,290	190,064
Gross margin (exclusive of depreciation)	46,150	50,156	47,038	43,909	187,253
Operating expenses:					
Research and development	7,999	7,857	9,009	9,067	33,932
Selling, general and administrative	14,607	15,045	11,467	11,373	52,492
Depreciation	2,591	2,501	2,324	2,446	9,862
Restructuring charges	3	3	3	14,525	14,534
Total operating expenses	25,200	25,406	22,803	37,411	110,820
Operating income	20,950	24,750	24,235	6,498	76,433
Other income (expense):					
Interest expense	(2,120)	(1,759)	(1,887)	(1,771)	(7,537)
Interest and investment income, net	549	822	787	1,901	4,059
Other, net	(2)	5	8	(5)	6
Total other	(1,573)	(932)	(1,092)	125	(3,472)
Income from continuing operations before income taxes	19,377	23,818	23,143	6,623	72,961
Income tax provision	(6,975)	(8,574)	(8,331)	(2,339)	(26,219)
Income from continuing operations	12,402	15,244	14,812	4,284	46,742
Discontinued operations:					
Income (loss) from discontinued operations, includes fourth quarter net pretax gain on disposals of $10,904	(5,311)	(9,806)	694	8,738	(5,685)
Income tax (provision) benefit	1,490	3,109	(2,004)	9,577	12,172
Discontinued operations, net of tax	(3,821)	(6,697)	(1,310)	18,315	6,487
Net income	$ 8,581	$ 8,547	$ 13,502	$ 22,599	$ 53,229
Basic earnings (loss) per common share:					
Income from continuing operations	$ 0.25	$ 0.32	$ 0.32	$ 0.09	$ 0.98
Discontinued operations, net of taxes	(0.08)	(0.14)	(0.03)	0.39	0.13
Net income	$ 0.17	$ 0.18	$ 0.29	$ 0.48	$ 1.11
Diluted earnings (loss) per common share:					
Income from continuing operations	$ 0.25	$ 0.31	$ 0.31	$ 0.09	$ 0.96
Discontinued operations, net of taxes	(0.08)	(0.14)	(0.03)	0.38	0.13
Net income	$ 0.17	$ 0.17	$ 0.28	$ 0.47	$ 1.09
Weighted-average common shares outstanding:					
Basic shares	49,045	48,151	47,303	46,906	47,851
Diluted shares	49,584	48,881	47,983	47,837	48,571

	Quarter Ended				Year Ended
	March 31, 2004	June 30, 2004	September 30, 2004	December 31, 2004	December 31, 2004
Revenues:					
Processing and related services	$ 80,973	$ 80,744	$ 80,608	$ 84,231	$ 326,556
Software, maintenance and services	6,359	6,049	6,038	6,399	24,845
Total revenues	87,332	86,793	86,646	90,630	351,401
Cost of revenues:					
Processing and related services	33,624	34,431	37,681	41,101	146,837
Software, maintenance and services	5,831	7,133	6,704	5,379	25,047
Total cost of revenues	39,455	41,564	44,385	46,480	171,884
Gross margin (exclusive of depreciation)	47,877	45,229	42,261	44,150	179,517
Operating expenses:					
Research and development	7,776	7,725	8,392	7,994	31,887
Selling, general and administrative	10,648	9,709	8,549	10,547	39,453
Depreciation	2,691	2,604	2,580	2,537	10,412
Restructuring charges	949	(39)	105	277	1,292
Total operating expenses	22,064	19,999	19,626	21,355	83,044
Operating income	25,813	25,230	22,635	22,795	96,473
Other income (expense):					
Interest expense	(3,613)	(2,744)	(1,972)	(1,932)	(10,261)
Write-off of deferred financing costs	—	(6,569)	—	—	(6,569)
Interest and investment income, net	153	165	243	414	975
Other, net	(97)	(50)	(2)	(154)	(303)
Total other	(3,557)	(9,198)	(1,731)	(1,672)	(16,158)
Income from continuing operations before income taxes	22,256	16,032	20,904	21,123	80,315
Income tax provision	(8,123)	(5,852)	(7,631)	(7,711)	(29,317)
Income from continuing operations	14,133	10,180	13,273	13,412	50,998
Discontinued operations:					
Income (loss) from discontinued operations	(4,756)	(3,569)	490	(3,274)	(11,109)
Income tax benefit	1,456	1,145	2,570	2,124	7,295
Discontinued operations, net of tax	(3,300)	(2,424)	3,060	(1,150)	(3,814)
Net income	$ 10,833	$ 7,756	$ 16,333	$ 12,262	$ 47,184
Basic earnings (loss) per common share:					
Income from continuing operations	$ 0.27	$ 0.20	$ 0.27	$ 0.27	$ 1.01
Discontinued operations, net of taxes	(0.06)	(0.05)	0.06	(0.02)	(0.08)
Net income	$ 0.21	$ 0.15	$ 0.33	$ 0.25	$ 0.93
Diluted earnings (loss) per common share:					
Income from continuing operations	$ 0.27	$ 0.20	$ 0.26	$ 0.26	$ 0.99
Discontinued operations, net of taxes	(0.06)	(0.05)	0.06	(0.02)	(0.07)
Net income	$ 0.21	$ 0.15	$ 0.32	$ 0.24	$ 0.92
Weighted-average common shares outstanding:					
Basic shares	51,682	51,285	49,565	49,375	50,477
Diluted shares	52,255	52,096	50,324	50,216	51,223

Additional Information Related to Our Continuing Operations

Our continuing operations consist of the Broadband Division and corporate overhead expense related to our ongoing business. Summarized information related to these items is show below (in thousands). Significant fluctuations in these items between years are discussed throughout our MD&A and in the notes to our Consolidated Financial Statements.

	Year Ended December 31,		
	2005	2004	2003
Total revenues, net	$377,317	$351,401	$261,715
Operating expenses:			
Broadband Division	237,667	213,531	215,835
Corporate overhead expense:			
Neal Hansen retirement benefits (as discussed above)	8,855	516	—
Restructuring charges	14,534	1,292	2,149
All other corporate overhead expense	39,828	39,589	48,139
Total corporate overhead expense	63,217	41,397	50,288
Total operating expenses	300,884	254,928	266,123
Operating income (loss)	76,433	96,473	(4,408)
Other income (expense), net	(3,472)	(16,158)	(13,461)
Income (loss) from continuing operations, before income taxes	72,961	80,315	(17,869)
Income tax (provision) benefit	(26,219)	(29,317)	12,703
Income (loss) from continuing operations	$ 46,742	$ 50,998	$ (5,166)

Significant Client Relationships

Adelphia . Adelphia is our fifth largest client. For both 2005 and 2004, revenues from Adelphia represented approximately 9% of our total revenues from continuing operations. We currently process on our systems approximately three million domestic broadband customers for Adelphia under a contract that runs through March 2009. Adelphia has been operating under bankruptcy protection since June 2002. It has been publicly announced that Adelphia intends to sell out of bankruptcy its broadband business jointly to Time Warner and Comcast. This transaction is expected to close as early as the second quarter of 2006. Upon the closing of this transaction, we expect the Adelphia customers currently processed by us to remain on our systems and be transferred to the respective Comcast and Time Warner contracts. Because the Comcast and Time Warner contracts have lower per unit pricing than the Adelphia contract (due to the relative size of Comcast and Time Warner when compared to Adelphia), we anticipate that processing revenues related to these customer accounts will be lower in 2006 by approximately $8 million, assuming the Adelphia transaction closes as expected in the second quarter of 2006.

Charter. Charter is our fourth largest client. For 2005 and 2004, revenues from Charter represented approximately 10% and 9%, respectively, of our total revenues from continuing operations. We renewed our contract with Charter in June 2002, with the term of the new contract running though the end of 2012. The Charter contract contains provisions establishing annual minimum customer account levels that have to be processed on our systems, which we expect Charter to exceed based on the number of Charter customers currently on our systems. Under the terms of the Charter contract, which does not include exclusivity for us, Charter could remove one or more regions from our systems, or significantly reduce the number of customers on our systems, without automatically incurring a financial penalty.

Comcast. Comcast continues to be our largest client. For 2005 and 2004, revenues from Comcast represented approximately 22% and 24%, respectively, of our total revenues from continuing operations. We expect that the percentage of our revenues for 2006 related to Comcast will trend up slightly from that of 2005, primarily due to the migration of certain Adelphia customers to the Comcast contract during 2006, as discussed above.

We renewed our contract with Comcast in the first quarter of 2004, with the term of the new contract running through the end of 2008. The Comcast contract contains provisions establishing annual financial minimums for 2006, which we currently expect to exceed based on Comcast’s more recent spending history with us, and due to number of Comcast customers currently on our systems. Under the terms of the Comcast contract, which does not include exclusivity for us, Comcast could remove one or more regions from our systems, or significantly reduce the number of customers on our systems, without automatically incurring a financial penalty. The Comcast contract and related amendments are included in the exhibits to our periodic filings with the SEC. The documents are available on the Internet and we encourage readers to review these documents for further details.

EchoStar. EchoStar is our second largest client. For both 2005 and 2004, revenues from EchoStar represented approximately 21% of our total revenues from continuing operations. During the fourth quarter of 2005, we signed a new processing agreement with EchoStar to continue providing customer care and billing support services. The EchoStar contract was effective November 1, 2005, runs through the end of December 2008, and provides EchoStar with the option to extend the term of the agreement for either one or two years beyond the end of December 2008. The new contract includes certain financial commitments from EchoStar such that if EchoStar terminates the agreement before expiration for reasons other than cause, the balance of the financial commitments will be due to us. However, the EchoStar contract does not provide us with the exclusive right to provide customer care and billing services to EchoStar, which differs from the previous processing agreement with EchoStar.

The new EchoStar contract provides for certain pricing reductions when compared to the previous processing agreement with EchoStar, which by itself, would have resulted in lower revenues from EchoStar between 2005 and 2006 by approximately $6 million. However, we expect that our revenues in 2006 related to EchoStar will not differ materially from that of 2005 due to our expectation of continued growth in the number of EchoStar’s customers processed on our systems, and our expectation of selling a historically consistent amount of new products and services to EchoStar. The EchoStar contract is included in the exhibits to our periodic filings with the SEC. The documents are available on the Internet and we encourage readers to review these documents for further details.

Time Warner. Time Warner is our third largest client. For both 2005 and 2004, revenues from Time Warner represented approximately 10% of our total revenues from continuing operations. We expect that the percentage of our revenues in 2006 related to Time Warner will trend up slightly from that of 2005, primarily due to the migration of certain Adelphia customers to the Time Warner contract during 2006, as discussed above.

We renewed our contract with Time Warner in the second quarter of 2003, with the term of the new contract running though the end of the first quarter of 2013. The Time Warner contract contains provisions establishing annual minimum customer account levels that have to be processed on our systems, which we expect Time Warner to exceed based on the number of Time Warner customers currently on our systems, and as a result of the additional customer accounts that are expected to be migrated from the Adelphia contract. Under the terms of the Time Warner contract, which does not include exclusivity for us, Time Warner could remove one or more regions from our systems, or significantly reduce the number of customers on our systems, without automatically incurring a financial penalty.

Stock Repurchase Program

During the fourth quarter of 2005, our Board of Directors approved a five million share increase in the number of shares we are authorized to repurchase under our Stock Repurchase Program, bringing the total number of authorized shares to 20 million. In April 2005, we established a formal plan with a financial institution that complies with the provisions of Rule 10b5-1 under the Securities Exchange Act of 1934 (the “Rule 10b5-1 Plan”) to repurchase shares of our common stock on the open market. Any shares repurchased under the Rule 10b5-1 Plan are counted towards the 20 million share limit authorized under the Stock Repurchase Program. The Rule 10b5-1 Plan supplements any stock repurchases we may decide to purchase under the existing terms of our Stock Repurchase Program. In effect, the Rule 10b5-1 Plan facilitates achieving stock buyback objectives more readily by permitting the execution of trades during periods that would otherwise be prohibited by internal trading policies. The maximum quarterly repurchase limitation established by us under the Rule 10b5-1 Plan is $15 million.

As of December 31, 2005, a summary of the shares repurchased under our program is as follows (in thousands, except per share amounts):

	2005	2004	2003	1999-2002	Total
Shares repurchased	3,808	2,983	—	6,339	13,130
Total amount paid	$72,968	$52,897	—	$199,710	$325,575
Weighted-average price per share	$ 19.16	$ 17.73	—	$ 31.51	$ 24.80

The shares repurchased under the program are being held as treasury shares, and may possibly be used, at our discretion, to fulfill issuances of common stock under our various equity compensation plans. As of December 31, 2005, the total remaining number of shares available for repurchase under the program totaled 6.9 million shares. The Stock Repurchase Program does not have an expiration date.

Subsequent to December 31, 2005 through March 8, 2006, we have repurchased an additional 0.5 million shares of common stock under the program for $11.2 million (weighted-average price of $22.33 per share), bringing the total remaining number of shares available for repurchase under the program as of March 8, 2006 to 6.4 million shares.

Stock-Based Compensation Expense

As discussed in greater detail in Note 3 to the Consolidated Financial Statements, in 2003 we adopted the fair value method of accounting for our stock-based awards. Stock-based compensation expense is included in the following captions in the Consolidated Statements of Operations (in thousands):

	Year Ended December 31,		
	2005	2004	2003
Continuing Operations:			
Cost of processing and related services.	$ 3,259	$ 2,622	$ 119
Cost of software, maintenance and services	758	871	27
Research and development	1,137	1,193	54
Selling, general and administrative	7,688	5,934	4,797
Restructuring charges	4,205	—	—
Total continuing operations	17,047	10,620	4,997
Discontinued operations	3,311	4,266	562
Total stock-based compensation expense (1)(2)	$20,358	$14,886	$5,559

(1) We completed an exchange of certain stock options for restricted stock (also referred to by us as our “tender offer”) in December 2003. As a result, our stock-based compensation expense is significantly higher in 2005 and 2004 when compared to 2003.

(2) The increase in stock-based compensation expense between 2005 and 2004 is due primarily to certain equity awards held by key members of our management team having a change in control provision that was triggered upon the closing of the sale of the GSS Business. The change in control provision resulted in accelerated vesting as of December 9, 2005 for the equity awards impacted, and thus, deferred stock-based compensation expense of $4.7 million related to the accelerated vesting of these equity awards was recorded as stock-based compensation expense in the fourth quarter of 2005, of which $0.9 million was included in discontinued operations, and $3.8 million was included in continuing operations as part of restructuring charges. This acceleration of vesting for these equity awards had the effect of eliminating $3.4 million of stock-based compensation that was scheduled to be recognized in 2006 had the GSS Business sale not occurred, of which $0.7 million relates to discontinued operations, and $2.7 million relates to continuing operations. See Note 8 to our Consolidated Financial Statements for additional discussion.

Subsequent Event—Purchase of Telution, Inc.

On March 1, 2006, we acquired Telution, Inc. (“Telution”), a Chicago-based provider of operations support system (“OSS”) technologies that enable communications companies to bring bundled, advanced services to market quickly and effectively. We acquired Telution and its COMX solution to expand our ability to support cable and satellite operators as they deliver advanced and IP-based services, designed to attract and retain consumers who have begun to expect the availability of video, voice and data services over nearly any device at the time and location they choose. As a result of this acquisition, we will extend our ability to support our clients’ sales, ordering, partnering and service provisioning processes as well as delivering enhanced customer care capabilities through all customer touch points—the Web, interactive television, field service, statement, the call center and more. We will integrate COMX into our ACP product, accelerating our product roadmap to quickly enable operators to more easily bundle and deploy wireless, content, business services and IPTV offerings. In addition, the integrated solution will enable operators to better support customers of bundled services as they choose new services and seek support for existing services.

We acquired Telution for approximately $22 million in cash, which was paid at the closing of the transaction on March 1, 2006. In addition, the purchase agreement provides for contingent payments of up to $8 million over the next three years. The contingent payments are dependent upon certain product integration and revenue targets.

We do not expect this transaction to have a significant impact on our first quarter 2006 revenues, but do expect that the transaction will add $5 million to $7 million in revenues for the full-year 2006.

We expect to incur certain one-time charges related to this acquisition in the first quarter of 2006. Excluding these one-time charges, which are not estimatable at this time, we do not expect this acquisition to have a significant impact to our results of operations for the first quarter of 2006 or full-year 2006.

Critical Accounting Policies

The preparation of our financial statements in conformity with accounting principles generally accepted in the U.S. requires us to select appropriate accounting policies, and to make judgments and estimates affecting the application of those accounting policies. In applying our accounting policies, different business conditions or the use of different assumptions may result in materially different amounts reported in our Consolidated Financial Statements.

We have identified the most critical accounting policies that affect our financial condition and the results of our business’ continuing operations. These critical accounting policies were determined by considering our accounting policies that involve the most complex or subjective decisions or assessments. The most critical accounting policies identified relate to: (i) revenue recognition; (ii) allowance for doubtful accounts receivable; (iii) impairment assessments of long-lived assets; (iv) loss contingencies; (v) income taxes; and (vi) capitalization of internal software development costs. These critical accounting policies, as well as our other significant accounting policies, are disclosed in the notes to our Consolidated Financial Statements.

Revenue Recognition. The revenue recognition policies that involve the most complex or subjective decisions or assessments that may have a material impact on our business’ continuing operations relate to: (i) the application of the guidelines of Emerging Issues Task Force (“EITF”) Issue No. 00-21, “Accounting for Revenue Arrangements with Multiple Deliverables” (“EITF 00-21”) when determining a revenue arrangement’s separate units of accounting; and (ii) the accounting for software arrangements.

For those revenue arrangements subject to the separation criteria of EITF No. 00-21, we account for each of the individual units of accounting as a separate and discrete earnings process considering, among other things, whether a delivered item has value to the client on a stand-alone basis. For such multiple-element arrangements, total revenue is allocated to the separate units of accounting based upon objective and reliable evidence of the fair value of the undelivered item. The determination of separate units of accounting, and the determination of objective and reliable evidence of fair value of the undelivered item, both require judgments to be made by us.

The accounting for software arrangements, especially when software is sold in a multiple-element arrangement, is complex and requires judgments in the following areas: (i) the identification of the separate elements of the software arrangement; (ii) the determination of whether any undelivered elements are essential to the functionality of the delivered elements; (iii) the assessment of whether our hosted service transactions meet the requirements of EITF Issue No. 00-03, “Application of AICPA Statement of Position 97-2 to Arrangements That Include the Right to Use Software Stored on Another Entity’s Hardware”, to be treated as a separate element to the software arrangement; (iv) the determination of vendor-specific objective evidence of fair value for the various undelivered elements of the software arrangement; and (v) the period of time maintenance services are expected to be performed. The evaluation of these factors, and the ultimate revenue recognition decisions, require significant judgments to be made by us. The judgments made in this area could have a significant effect on revenues recognized in any period by changing the amount and/or the timing of the revenue recognized. In addition, because software licenses typically have little or no direct, incremental costs related to the recognition of the revenue, these judgments could also have a significant effect on our results of operations.

Allowance for Doubtful Accounts Receivable. We maintain an allowance for doubtful accounts receivable based on client-specific allowances, as well as a general allowance. Specific allowances are maintained for clients which are determined to have a high degree of collectibility risk based on such factors, among others, as: (i) the aging of the accounts receivable balance; (ii) the client’s past payment experience; (iii) the economic condition of the industry in which the client conducts the majority of its business; and (iv) a deterioration in a client’s financial condition, evidenced by weak financial condition and/or continued poor operating results, reduced credit ratings, and/or a bankruptcy filing. In addition to the specific allowance, we maintain a general allowance for all our accounts receivable which are not covered by a specific allowance. The general allowance is established based on such factors, among others, as: (i) the total balance of the outstanding accounts receivable, including considerations of the aging categories of those accounts receivable; (ii) past history of uncollectible accounts receivable write-offs; and (iii) the overall creditworthiness of the client base. Our credit risk is heightened due to our concentration of clients within the U.S. and Canadian cable television and satellite industries. A considerable amount of judgment is required in assessing the realizability of accounts receivable. Should any of the factors considered in determining the adequacy of the overall allowance change significantly, an adjustment to the provision for doubtful accounts receivable may be necessary. Because of the overall significance of our gross billed accounts receivable balance ($106.1 million as of December 31, 2005), such an adjustment could be material.

Impairment Assessment of Long-Lived Assets . Long-lived assets, which for us relates primarily to property and equipment and client contracts, are required to be evaluated for possible impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Under the current accounting standard, a long-lived asset is impaired if estimated future undiscounted cash flows associated with that asset, without consideration of interest, are insufficient to recover the carrying amount of the long-lived asset. Once deemed impaired, even if by $1, the long-lived asset is written down to its fair value which could be considerably less than the carrying amount or future undiscounted cash flows. The determination of estimated future cash flows and, if required, the determination of the fair value of a long-lived asset, are by their nature, highly subjective judgments. Changes to one of more of the assumptions utilized in such an analysis could materially affect our impairment conclusions for long-lived assets.

Loss Contingencies. In the ordinary course of business, we are subject to claims (and potential claims) related to various items including but not limited to: (i) legal and regulatory matters; (ii) client and vendor contracts; (iii) product and service delivery matters; and (iv) labor matters. We follow the guidelines of SFAS No. 5, “Accounting for Contingencies” in determining the appropriate accounting and disclosures for such matters, which requires us to assess the likelihood of any adverse judgments in or outcomes to these matters, as well as the potential ranges of probable losses. A determination of the amount of reserves for such contingencies, if any, for these contingencies is based on an analysis of the issues, often with the assistance of legal counsel. The evaluation of such issues, and our ultimate accounting and disclosure decisions, are by their nature, subject to various estimates and highly subjective judgments. Should any of the factors considered in determining the adequacy of any required reserves change significantly, an adjustment to the reserves may be necessary. Because of the potential significance of these issues, such an adjustment could be material.

Income Taxes. We are required to estimate our income tax liability in each jurisdiction in which we operate, which includes primarily the U.S. (including both federal and state income taxes). Various judgments are required in evaluating our tax positions and determining our provisions for income taxes. During the ordinary course of our business, there are certain transactions and calculations for which the ultimate income tax determination may be uncertain. In addition, we may be subject to examination of our income tax returns by various tax authorities which could result in adverse outcomes. For these reasons, we establish reserves for tax-related uncertainties based on estimates of whether additional taxes and interest may be due. We adjust these reserves based upon changing facts and circumstances, such as the closing of a tax audit or the closing of a tax year upon the expiration of a statute of limitations. Should any of the factors considered in determining the adequacy of any required reserves change significantly, an adjustment to the reserves may be necessary. Because of the potential significance of these issues, such an adjustment could be material.

This process requires us to estimate the actual current tax liability together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These temporary differences result in deferred income tax assets and liabilities in our Consolidated Financial Statements. We must then assess the likelihood that our net deferred income tax assets will be recovered primarily from future taxable income, and to the extent recovery is not likely, we must establish a valuation allowance. As of December 31, 2005, we had net deferred income tax assets of $42.8 million, which represented approximately 7% of our total assets. Management believes that sufficient taxable income will be generated in the future to realize the benefit of our net deferred income tax assets. The assumption of future taxable income is, by its nature, subject to various estimates and highly subjective judgments.

Capitalization of Internal Software Development Costs. We expend substantial amounts on R&D for both new and existing (i.e., enhancements) software products and related services. Such costs are subject to capitalization under certain circumstances. The determination of whether internal software R&D costs are subject to capitalization is by its nature, highly subjective and involves significant judgments. This decision could significantly affect earnings during the development period by either: (i) capitalizing development costs; or (ii) expensing pre-technological feasibility and pre-application development stage research costs. Further, once capitalized, the software costs are generally amortized on a straight-line basis over the estimated economic life of the product. The determination of the expected useful life of a product is highly judgmental. Finally, capitalized software R&D costs are subject to the same judgments when evaluating for possible impairment as discussed above for other long-lived assets.

We did not capitalize any internal software R&D costs, as discussed above, during the years ended December 31, 2005, 2004, or 2003. In addition, we do not have any capitalized internal software R&D costs included in our December 31, 2005 and 2004 Consolidated Balance Sheets. We believe that during these periods no material internal software R&D costs were required to be capitalized. Our conclusion is primarily based upon the fact that the feature-rich, pre-integrated, and highly-scalable nature of our products requires that our development efforts include complex design, coding and testing methodologies, which include next generation software languages and development tools. Development projects of this nature carry a high-degree of development risk. Substantially all of our internal software R&D efforts are of this nature, and therefore, we believe the costs subject to capitalization during these periods were not material.

Results of Operations

The following table sets forth certain financial data and the percentage of total revenues for the periods indicated (in thousands):

	Year Ended December 31,					
	2005		2004		2003	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
Revenues:						
Processing and related services	$346,463	91.8%	$326,556	92.9%	$ 341,628	130.5%
Software, maintenance and services	30,854	8.2	24,845	7.1	25,766	9.9
	377,317	100.0	351,401	100.0	367,394	140.4
Charge for arbitration ruling attributable to periods prior to July 1, 2003	—	—	—	—	(105,679)	(40.4)
Total revenues, net	377,317	100.0	351,401	100.0	261,715	100.0
Cost of revenues:						
Processing and related services	170,344	45.2	146,837	41.8	140,475	53.7
Software, maintenance and services	19,720	5.2	25,047	7.1	30,359	11.6
Total cost of revenues	190,064	50.4	171,884	48.9	170,834	65.3
Gross margin (exclusive of depreciation)	187,253	49.6	179,517	51.1	90,881	34.7
Operating expenses:						
Research and development	33,932	9.0	31,887	9.1	30,398	11.6
Selling, general and administrative	52,492	13.9	39,453	11.2	50,041	19.1
Depreciation	9,862	2.6	10,412	3.0	12,701	4.9
Restructuring charges	14,534	3.8	1,292	0.3	2,149	0.8
Total operating expenses	110,820	29.3	83,044	23.6	95,289	36.4
Operating income (loss)	76,433	20.3	96,473	27.5	(4,408)	(1.7)
Other income (expense):						
Interest expense	(7,537)	(2.0)	(10,261)	(2.9)	(14,296)	(5.5)
Write-off of deferred financing costs	—	—	(6,569)	(1.9)	—	—
Interest and investment income, net	4,059	1.0	975	0.3	920	0.4
Other, net	6	—	(303)	(0.1)	(85)	—
Total other	(3,472)	(1.0)	(16,158)	(4.6)	(13,461)	(5.1)
Income (loss) from continuing operations before income taxes	72,961	19.3	80,315	22.9	(17,869)	(6.8)
Income tax (provision) benefit	(26,219)	(6.9)	(29,317)	(8.4)	12,703	4.9
Income (loss) from continuing operations	46,742	12.4	50,998	14.5	(5,166)	(1.9)
Discontinued operations:						
Loss from discontinued operations, includes net pretax gain on 2005 disposals of $10,904	(5,685)	(1.5)	(11,109)	(3.2)	(30,591)	(11.7)
Income tax benefit	12,172	3.2	7,295	2.1	9,480	3.6
Discontinued operations, net of tax	6,487	1.7	(3,814)	(1.1)	(21,111)	(8.1)
Net income (loss)	$ 53,229	14.1%	$ 47,184	13.4%	$ (26,277)	(10.0)%
Basic earnings (loss) per common share:						
Income (loss) from continuing operations	$ 0.98		$ 1.01		$ (0.10)	
Discontinued operations, net of tax	0.13		(0.08)		(0.41)	
Net income (loss)	1.11		0.93		(0.51)	
Diluted earnings (loss) per common share:						
Income (loss) from continuing operations	0.96		0.99		(0.10)	
Discontinued operations, net of tax	0.13		(0.07)		(0.41)	
Net income (loss)	$ 1.09		$ 0.92		$ (0.51)	
Weighted-average shares outstanding:						
Basic	47,851		50,477		51,432	
Diluted	48,571		51,223		51,432	

Detailed Discussion of Results of Operations

Total Revenues. Total revenues from continuing operations for: (i) 2005 increased $25.9 million, or 7.4%, to $377.3 million, from $351.4 million for 2004; and (ii) 2004 increased $89.7 million, or 34.3%, to $351.4 million, from $261.7 million for 2003.

- The increase in total revenues from continuing operations between 2005 and 2004 relates primarily to an increase in our processing revenues.
- The large increase in revenues between 2004 and 2003 was due to the $105.7 million charge for the Comcast arbitration ruling attributable to periods prior to July 1, 2003 that was recorded in the third quarter of 2003. See Note 4 to our Consolidated Financial Statements for details regarding the arbitration proceedings we had with Comcast in 2003 (the “Comcast Arbitration”), and the resulting financial impact to our business as a result of the arbitration ruling.

Processing Revenue. Processing revenues for: (i) 2005 increased $19.9 million, or 6.1%, to $346.5 million, from $326.6 million for 2004; and (ii) 2004 decreased by $15.0 million, or 4.4%, to $326.6 million, from $341.6 million for 2003.

- The increase in processing revenues between 2005 and 2004 was primarily due to: (i) an increase in the number of customer accounts processed on our systems; and (ii) increased usage of ancillary products and services. These ancillary products and services consist of such things as marketing services and the use of reporting tools. Spending on such items is done at the discretion of our clients. The demand for such products and services from our clients increased between years, and we expect the demand for such services to remain strong going forward as well.
- The decrease in processing revenues between 2004 and 2003 was primarily due to lower processing revenues from Comcast as a result of the Comcast Arbitration ruling in the third quarter of 2003.

Additional information related to processing revenues is as follows:

- Amortization of the client contracts intangible asset (reflected as a reduction of processing revenues) for 2005, 2004, and 2003 was $12.7 million, $11.4 million, and $6.4 million, respectively. The increase in amortization between years was primarily due to the acceleration of amortization related to the new Comcast Contract effective in March 2004. The Comcast Contract amortization is expected to be approximately $3 million per quarter through the end of the Comcast Contract term of December 31, 2008.
- Total customer accounts processed on our systems as of December 31, 2005, 2004, and 2003 were 45.2 million, 43.5 million, and 44.1 million, respectively.
    - The increase in customer accounts processed on our systems between 2005 and 2004 relates primarily to organic growth experienced by our clients.
    - During 2004, we renewed a client contract which resulted in a modification to the definition of customer billing units for this client, which had the effect of lowering the customer volume counts. Also, the customers of an Internet dial-up service provider were converted off our system during 2004. These two items together resulted in a total reduction in customer accounts processed on our system by approximately 2 million accounts when compared to those in 2003. This reduction was offset principally by organic growth experienced by our existing clients.
- ARPU for 2005, 2004, and 2003 was $7.81, $7.46, and $7.58, respectively.
    - The increase in 2005 ARPU when compared to 2004 was primarily attributed to higher revenues related to our clients’ discretionary and variable use of ancillary products and services, as noted above.
    - The decrease in 2004 ARPU when compared to 2003 was primarily related to the reduction in Comcast processing revenues as a result of the Comcast Arbitration ruling, as noted above.

  The ARPU for the fourth quarter of 2005 was $7.72 compared to $7.86 for the third quarter of 2005. The reduction in the fourth quarter 2005 ARPU is related primarily to the new EchoStar Contract, which went into effect on November 1, 2005.

Software, Maintenance and Services Revenues. Software, maintenance and services revenues for: (i) 2005 increased $6.1 million, or 24.2%, to $30.9 million, from $24.8 million for 2004; and (ii) 2004 was relatively flat between years at $24.8 million, compared to $25.8 million for 2003. The increase between 2005 and 2004 was due primarily to an increase in software license sales of our workforce automation and call center solutions during the first half of 2005.

Expected Impact s to 2006 Revenues. Communication service providers continue to look for ways to improve their financial and operational performance. One way in which service providers attempt to accomplish this is through the selling or exchanging of market locations with other service providers in order to gain a larger concentration of customer accounts within a particular geographic region (referred to as "regionalization"). Such regionalization efforts may result in additions or reductions in the number of customer accounts processed on our systems, depending upon whether the customer accounts impacted by the regionalization projects will be added or removed from one of our clients' contracts after the ownership transfer between service providers is completed.

We expect to experience a reduction in the number of customer accounts processed on our systems during the first half of 2006 as a result of certain client regionalization projects. We expect that the impact of these regionalization projects will be the movement of approximately one million customer accounts currently processed on our systems to a competitor's system. This reduction in customers processed on our systems is not associated with the expected transfer of the Adelphia customer accounts mentioned above. Although this reduction in the number of customers processed on our systems, and certain of the client matters discussed above under "Significant Client Relationships", are expected to have a negative impact on our 2006 revenues, we believe our business opportunities are such that we expect our 2006 revenues to be flat to slightly down when compared to 2005 revenues from continuing operations. As a result of the recurring revenue nature of our business model, we have visibility into approximately 90% of our expected 2006 revenues. In addition, we have no major contracts up for renewal in 2006. However, there can be no assurance that we will be successful in our attempts to achieve our overall revenue expectations for 2006.

Cost of Processing and Related Services. The cost of processing and related services revenues consists principally of: (i) data processing and communications costs; (ii) statement production costs (e.g., labor, paper, envelopes, equipment, and equipment maintenance, etc.); (iii) client support organizations (e.g., client call centers, account management, etc.); (iv) various product support organizations (e.g., product management and delivery, product maintenance, etc.); and (v) facilities and infrastructure costs related to the statement production and support organizations. The costs related to new product development (including enhancements to existing products) are included in R&D expenses.

The cost of processing and related services for: (i) 2005 increased $23.5 million, or 16.0%, to $170.3 million, from $146.8 million for 2004; and (ii) 2004 increased $6.3 million, or 4.5%, to $146.8 million, from $140.5 million for 2003.

- The increase in cost of processing and related services between 2005 and 2004 was primarily due to: (i) an increase in labor-related costs, primarily as a result of merit wage increases and the increase in staff levels to support the growth opportunities of our VoIP products and services and to accommodate the migration of clients to ACP; (ii) an increase in data processing costs, primarily due to growth in the number of customers processed on our systems, and greater processing requirements for ACP functionality; and (iii) an increase in variable costs related to the delivery of ancillary products and services (e.g., print costs, etc.), which directly correlate with the increase in revenues related to ancillary products and services.
- The increase in cost of processing and related services between 2004 and 2003 was primarily due to: (i) an increase in data processing costs, primarily due to greater processing requirements for ACP functionality, and an increase in the cumulative number of our clients' customer accounts processed on our system throughout the year; and (ii) an increase in stock-based compensation expense.

  In response to the expected reduction in revenues resulting from the Comcast Arbitration ruling, during the fourth quarter of 2003, we implemented a cost reduction initiative, consisting primarily of involuntary employee terminations and a reduction of costs related to certain of our employee compensation and fringe benefit programs, to include a freeze in wages for 2004. A large percentage of the expected savings from this cost reduction initiative was expected to impact our cost of processing and related services. However, the benefits from the cost reduction initiative implemented in late 2003 were principally offset by an increase in labor-related costs primarily as a result of the merit wage increases in August 2004 and the increase in staff added in the latter part of 2004 to support the growth opportunities of our VoIP products and services and migration of clients to ACP.

Gross margin percentages related to our processing and related services revenues were 50.8%, 55.0%, and 58.9% for 2005, 2004, and 2003, respectively. The decreases in the gross margin percentages between years relates primarily to the increase in costs related to the VoIP and ACP initiatives, as mentioned above, without a commensurate increase in revenues associated with such initiatives. This is the result of the investment we are making in our VoIP products and services, as well as our efforts to migrate our clients to the ACP platform. That is, we do not receive any additional revenue from our clients associated with their migration to the ACP platform. In addition, at this time, the incremental revenues from VoIP products and services are not significant. In addition, the gross margin percentages were negatively impacted by the lower Comcast revenues beginning in 2004.

Our gross margin percentage related to processing and related services revenues for the fourth quarter of 2005 was approximately 49%, which reflected the impact of two months of the new pricing under the EchoStar Contract.

Cost of Software, Maintenance and Services. The cost of software, maintenance and services revenues consists principally of: (i) client support organizations (e.g., client call centers, account management, etc.); (ii) various product support organizations (e.g., product management and delivery, product maintenance, etc.); (iii) professional services organizations; (iv) facilities and infrastructure costs related to these organizations; and (v) third-party software costs and/or royalties related to certain software products. The costs related to new product development (including enhancements to existing products) are included in R&D expenses.

The cost of software, maintenance and services for: (i) 2005 decreased $5.3 million, or 21.3%, to $19.7 million, from $25.0 million for 2004 and (ii) 2004 decreased $5.4 million, or 17.5%, to $25.0 million, from $30.4 million for 2003. The decrease was related primarily to reductions in our personnel assigned to software maintenance projects.

Gross margin (loss) percentages related to our software, maintenance and services revenues were 36.1%, (0.8%), and (17.8%) for 2005, 2004, and 2003, respectively. The improvement in the gross margin percentages between years primarily related to lower costs between periods, as noted above, and 2005 having the benefit of the impact of increased software license sales of our workforce automation and call center solutions during the first half of 2005.

Variability in quarterly revenues and operating results are inherent characteristics of companies that sell software licenses, and perform professional services. Our quarterly revenues for software licenses and professional services revenues may fluctuate, depending on various factors, including the timing of executed contracts and revenue recognition, and the delivery of contracted services or products. However, the costs associated with software and professional services revenues are not subject to the same degree of variability (i.e., these costs are generally fixed in nature within a relatively short period of time), and thus, fluctuations in our software and maintenance, professional services, and overall gross margins, will likely occur between periods.

Overall Gross Margin . Our overall gross margin for 2005, 2004, and 2003 was $187.3 million, $179.5 million, and $90.9 million, respectively. The overall gross margin percentages for 2005, 2004, and 2003 were 49.6%, 51.1%, and 34.7%, respectively. The changes in the gross margin and gross margin percentage between 2005 and 2004 were due to the factors discussed above. The gross margin and gross margin percentage for 2003 were significantly impacted by the Comcast Arbitration ruling. The $105.7 million reduction in processing revenues in 2003 related to the Comcast Arbitration ruling had the effect of lowering our overall gross margin percentage by approximately 19 percentage points.

R&D Expense . R&D expense for: (i) 2005 increased $2.0 million, or 6.4%, to $33.9 million, from $31.9 million for 2004; and (ii) 2004 increased $1.5 million, or 4.9%, to $31.9 million, from $30.4 million for 2003. These increases were primarily due to increased employee-related costs, to include the impacts of the merit wage increases in August 2005 and 2004.

During 2005, 2004, and 2003, we focused our development and enhancement efforts on various R&D projects consisting principally of enhancements to ACP functionalities and related software products, targeted to increase the functionalities and features of the products, including those necessary to service VoIP product offerings. We did not capitalize any internal software development costs during 2005, 2004, and 2003. As a percentage of total revenues, R&D expense for 2005, 2004, and 2003 was 9.0%, 9.1%, and 11.6%, respectively. The reason for the decrease in R&D expense as a percentage of total revenues between 2004 and 2003 was due to the lower revenues in 2003 resulting from the Comcast Arbitration ruling. Absent the impact of the $105.7 million reduction in processing revenues in 2003 related to the Comcast Arbitration ruling, R&D expense as a percentage of revenues would have been 8.3%.

At this time, we expect our future R&D efforts to continue to focus on similar tasks as noted above, and we expect to spend a larger percentage of our total revenues on R&D in the future.

Selling, General and Administrative Expense ("SG&A") . SG&A expense for: (i) 2005 increased $13.0 million, or 33.0%, to $52.5 million, from $39.5 million for 2004; and (ii) 2004 decreased $10.5 million, or 21.2%, to $39.5 million, from $50.0 million for 2003. As a percentage of total revenues, SG&A expense for 2005, 2004, and 2003 was 13.9%, 11.2%, and 19.1%, respectively.

- The increase in SG&A expense between 2005 and 2004 relates primarily to: (i) an increase of $8.4 million related to the retirement benefits recorded for our former CEO, as discussed above; (ii) an increase of $4.5 million in various personnel-related costs, principally related to stock-based compensation expense as a result of new equity awards; and (iii) an increase in bad debt expense between years due to the recognition of negative bad debt expense of approximately $2 million in 2004 related to the sale of the Adelphia pre-bankruptcy accounts receivable (see Note 10 to our Consolidated Financial Statements for further details), with no comparable amount for 2005. These increases were offset to a certain degree by $2.5 million of expense recorded in 2004 related to other executive management departures from our company.
- The decrease in SG&A expense between 2004 and 2003 relates primarily to: (i) a decrease in legal fees due to the Comcast Arbitration concluding in October 2003 (such costs were approximately $12 million for 2003 with no comparable amounts in 2004); and to a much lesser degree (ii) a decrease in bad debt expense of approximately $2 million in 2004 due to the recognition of negative bad debt expense in 2004 related to the sale of the Adelphia pre-bankruptcy accounts receivable, with no comparable amounts in 2003. These decreases were offset to a certain degree by $2.5 million of expense recorded in 2004 related to other executive management departures from our company; and (ii) an increase in stock-based compensation between periods of $1.1 million. The increase in stock-based compensation relates to our exchange of certain stock options for restricted stock in December 2003.

Depreciation Expense . Depreciation expense for all property and equipment is reflected separately in the aggregate and is not included in the cost of revenues or the other components of operating expenses. Depreciation expense for: (i) 2005 was $9.9 million, compared to $10.4 million for 2004; and (ii) 2004 was $10.4 million compared to $12.7 million for 2003. The decreases in depreciation expense between years relate primarily to the limited amount of capital expenditures in 2003 and 2004, as a result of our focus on cost controls during this time frame. The limited amount of capital expenditures during this time period did not have a material adverse impact on our business. Capital expenditures from continuing operations during 2005, 2004, and 2003 were approximately $7 million, $4 million, and $3 million, respectively, and consisted principally of: (i) computer hardware and related equipment; (ii) statement production equipment; and (iii) facilities and internal infrastructure improvements. We expect our capital expenditures for 2006 to be approximately $12 million, and to be consistent with the types of purchases we have made over the most recent years, as noted above.

Restructuring Charges. Our restructuring charges relate to various cost reduction initiatives implemented primarily as a result of the Comcast Arbitration ruling in 2003 and the changes we made to our business operations in 2005, as discussed above. See Note 8 to our Consolidated Financial Statements for a more detailed discussion of our cost reduction initiatives and related restructuring charges, including the current activity in accrued liabilities related to the restructuring charges. Restructuring charges included in total operating expenses, and the impact (net of related estimated income tax expense) these restructuring charges had on net income (loss) from continuing operations and diluted earnings per share, for the years ended December 31, 2005, 2004, and 2003 are as follows (in thousands, except diluted earnings per share):

	Year Ended December 31,		
	2005	2004	2003
Activities related to the sale of the GSS Business:			
Stock-based compensation related to change in control provision	$ 3,783	$ —	$ —
Involuntary termination of executive officer (1)	1,357	—	—
Involuntary termination of certain corporate support staff (1)	590	—	—
Management incentive bonuses related to the GSS Business sale	1,409	—	—
Subtotal—restructuring charges related to the sale of the GSS Business	7,139	—	—
Disposal of corporate aircraft (1)	1,556	—	—
Termination of the FairPoint contract	6,209	—	—
Facility abandonments	(389)	1,045	(246)
Involuntary terminations primarily related to the Comcast Arbitration ruling	—	—	2,217
All other restructuring charges	19	247	178
Total restructuring charges	$14,534	$1,292	$2,149
Impact of restructuring charges on results of continuing operations (i.e., have reduced operating results):			
Net income	$ 9,311	$ 820	$1,460
Diluted earnings per share	$ 0.19	$ 0.02	$ 0.03

(1) These involuntary terminations are expected to result in annual savings of approximately $2 million. In addition, the disposal of the corporate aircraft is expected to result in annual savings of approximately $2 million.

At this time, we expect to incur additional restructuring charges in 2006 of $2.7 million, of which approximately $2 million relates to the FairPoint contract termination, and the remainder relates to further facility consolidations.

Operating Income. Operating income for: (i) 2005 was $76.4 million, or 20.3% of total revenues, compared to $96.5 million, or 27.5% of total revenues for 2004; and (ii) 2004 was $96.5 million, or 27.5% of total revenues, compared to an operating loss of $(4.4) million, or (1.7)% of total revenues for 2003.

- The decreases in operating income and the operating income margin between 2005 and 2004 are primarily due to the increase in restructuring charges between years, and the expense incurred in conjunction with the retirement of our former CEO, as discussed above. The $14.5 million of restructuring charges and the $8.9 million of retirement benefits recorded in 2005 had the effect of reducing our operating margin by 6.2 percentage points for 2005. Since we do not expect costs of this nature to occur to this degree in 2006, we expect our operating income and net income to improve in 2006, when compared to that of 2005.
- The substantial improvement in operating income between 2004 and 2003 was mainly due to the increase in revenue between years, primarily due to the impact of the Comcast Arbitration ruling in 2003, and to a much lesser extent, an improvement in total operating expense between years. Our total consolidated operating expenses for 2004 decreased $11.2 million, or 4.2%, to $254.9 million, when compared to $266.1 million for 2003, primarily due to the cost reduction initiatives implemented during 2003. The $105.7 million reduction in processing revenues in 2003 related to the Comcast Arbitration ruling had the effect of lowering our operating income margin percentage by approximately 29 percentage points.

Our operating results include non-cash charges related to depreciation, amortization (primarily shown as a reduction of processing revenues), and stock-based compensation expense. The total amount of these non-cash expenses, and their impact (net of related estimated income tax expense) on net income (loss) from continuing operations and diluted earnings per share, for the years ended December 31, 2005, 2004, and 2003 are as follows (in thousands, except diluted earnings per share):

	Year Ended December 31,		
	2005	2004	2003
Non-cash expenses related to:			
Depreciation	$ 9,862	$10,412	$12,701
Amortization	13,586	11,598	7,107
Stock-based employee compensation	17,047	10,620	4,997
Total	$40,495	$32,630	$24,805
Impact of non-cash expenses on results of continuing operations (i.e., have reduced operating results):			
Net income	$25,941	$20,720	$16,855
Diluted earnings per share	0.53	0.40	0.33

Interest Expense . The following are the key changes related to our interest expense between years:

- Interest expense for: (i) 2005 decreased $2.8 million, or 26.5%, to $7.5 million, from $10.3 million for 2004; (ii) 2004 decreased $4.0 million, or 28.2%, to $10.3 million, from $14.3 million for 2003.
- The weighted-average balance of our long-term debt for 2005, 2004, and 2003 was $230.0 million, $224.2 million, and $249.0 million, respectively.
- The weighted-average interest rate on our debt borrowings for 2005, 2004, and 2003, including the amortization of deferred financing costs and commitment fees on our revolving credit facility, was 3.2%, 4.1%, and 5.3%, respectively.

The change in the weighted-average balance of our long-term debt and the weighted-average interest rate between years relates primarily to the issuance of our Convertible Debt Securities in June 2004 and the retirement of our 2002 Credit Facility with the proceeds from such issuance. The Convertible Debt Securities have a stated coupon rate of 2.5%, which is substantially less than the interest rates paid on our previous bank debt. See Note 7 to our Consolidated Financial Statements for additional discussion of our Convertible Debt Securities.

Write-off of Deferred Financing Costs. As result of the repayment and termination of the 2002 Credit Facility with the proceeds from the issuance of our Convertible Debt Securities in June 2004, we wrote-off unamortized deferred financing costs attributable to the 2002 Credit Facility of $6.6 million (pretax impact) during the second quarter of 2004, which had the effect of reducing our 2004 net income per diluted share by $0.08.

Interest and Investment Income, net. Interest and investment income, net, for: (i) 2005 increased $3.1 million to $4.1 million for 2005, from $1.0 million for 2004; (ii) 2004 was $1.0 million, compared to $0.9 million for 2003. The large increase in 2005 was primarily attributable to an increase in operating funds available for investment throughout the year and the interest earned on the cash proceeds received from the sale of the GSS Business.

Income Tax Provision/Benefit. The following are the key changes related to our income tax provision/benefit between years:

- For the year ended December 31, 2005, we recorded an income tax provision of $26.2 million, or an effective income tax rate of approximately 36%, compared to an income tax provision of $29.3 million, or an effective income tax rate of approximately 37% for the year ended December 31, 2004.

- For the year ended December 31, 2003, we recorded an income tax benefit of $12.7 million, or an effective income tax rate of approximately 71%. The 2003 effective income tax rate was impacted by our net operating loss position resulting from the $119.6 million Comcast Arbitration charge, as discussed above, as well as the resolution of certain state and federal income tax issues.

As of December 31, 2005, our net deferred income tax assets were $42.8 million and represented approximately 7% of total assets. We continue to believe that sufficient taxable income will be generated to realize the benefit of these deferred income tax assets. Our assumptions of future profitable operations are supported by our strong operating performances over the last several years.

Discontinued Operations. As a result of the sale of the GSS and plaNet businesses discussed above, the GSS and plaNet businesses have been reflected as discontinued operations in our results of operations for all periods presented. Gain (loss) from discontinued operations (net of tax) for: (i) 2005 increased $10.3 million to $6.5 million, from $(3.8) million for 2004; and (ii) 2004 improved $17.3 million to $(3.8) million, from $(21.1) million for 2003.

The components of the GSS and plaNet businesses included in discontinued operations (with the 2005 period for the GSS Business representing January 1, 2005 through December 9, 2005) and the significant fluctuations between periods, are as follows (in thousands):

	Year Ended December 31,		
	2005	2004	2003
GSS Business:			
Total revenues	$161,737	$166,446	$165,656
Operating expenses:			
Restructuring charges	7,128	1,402	9,701
All other operating expenses (1)	171,412	174,165	189,435
Total operating expenses	178,540	175,567	199,136
Operating loss (2)(3)	(16,803)	(9,121)	(33,480)
Other income (expense), net (4)	3,631	4	4,562
Gain on sale of business (5)	23,755	—	—
Discontinued operations, before income taxes	10,583	(9,117)	(28,918)
Income tax benefit	10,328	6,568	8,893
Discontinued operations, net of tax	$ 20,911	$ (2,549)	$ (20,025)

	Year Ended December 31,		
	2005	2004	2003
plaNet Business:			
Total revenues	$ 10,597	$ 11,900	$ 12,289
Total operating expenses	14,018	13,904	13,962
Operating loss	(3,421)	(2,004)	(1,673)
Other income (expense), net	4	12	—
Loss on sale of business (5)	(12,851)	—	—
Discontinued operations, before income taxes	(16,268)	(1,992)	(1,673)
Income tax benefit	1,844	727	587
Discontinued operations, net of tax	$ (14,424)	$ (1,265)	$ (1,086)

(1) As required by SFAS No. 144, our GSS Business long-lived assets related to property and equipment and software were no longer subject to periodic depreciation and amortization once the GSS Business assets were classified as held for sale as of September 30, 2005. Therefore, our results of discontinued operations for the GSS Business for 2005, 2004, and 2003 include nine, twelve, and twelve months, respectively, of depreciation and amortization related to these long-

lived assets. As a result, depreciation and amortization expense related to the long-lived assets of the GSS Business included in discontinued operations for 2005, 2004, and 2003 was $14.2 million, $18.7 million, and $19.4 million, respectively.

(2) The change in operating loss between 2004 and 2003 relates primarily to the restructuring activities undertaken in 2003. We incurred significant restructuring charges in 2003 as part of a cost reduction initiative for the GSS Business. The lower operating expenses in 2004 reflect the success of the 2003 restructuring activity, and the improvement in restructuring charges between periods.

(3) The change in operating loss between 2005 and 2004 relates primarily to the change in restructuring charges between years. In 2005, we recorded significant restructuring charges related to the abandonment of a facility and the realignment of certain management and sales personnel.

(4) This relates primarily to foreign currency gains and losses, which fluctuated between years as a result of changes in the exchange rates for various foreign currencies, principally the British Pound and the Euro.

(5) These amounts related to the respective gain and loss on the disposition of the businesses.

The results of operations for the GSS and plaNet businesses reflected in the above table differs from that disclosed in our unaudited condensed financial statements presented in our January 24, 2006 quarterly earnings release and related Form 8-K furnished on that date. The differences relate primarily to the determination of the final purchase price for both businesses that were completed after January 24, 2006 (and are now reflected in the audited December 31, 2005 Consolidated Financial Statements), and the final determination of the gain and loss on the sale of the GSS and plaNet businesses and related income tax impacts, which were still in progress as of January 24, 2006. The change in our earnings as a result of this final accounting is summarized as follows (in thousands, except per share amounts):

	Quarter Ended December 31, 2005			Year Ended December 31, 2005		
	Previously Reported	Final Results	Increase	Previously Reported	Final Results	Increase
Income (loss), net of tax:						
Income from continuing operations	$ 4,284	$ 4,284	$ —	$ 46,742	$46,742	$ —
Discontinued operations	9,784	18,315	8,531	(2,044)	6,487	8,531
Net income	$ 14,068	$ 22,599	$ 8,531	$ 44,698	$53,229	$8,531
Diluted earnings (loss) per common share:						
Income from continuing operations	$ 0.09	$ 0.09	$ —	$ 0.96	$ 0.96	$ —
Discontinued operations, net of tax	0.20	0.38	0.18	(0.04)	0.13	0.17
Net income	$ 0.29	$ 0.47	$ 0.18	$ 0.92	$ 1.09	$ 0.17

Liquidity

Basis of Presentation. Cash flows have not been segregated between continuing operations and discontinued operations in the accompanying Consolidated Statements of Cash Flows. Therefore, all historical cash flow information presented below reflects the cash flow results from both continuing and discontinued operations.

However, the December 31, 2004 Consolidated Balance Sheet has been restated to reflect the balance sheet components of the GSS and plaNet businesses as assets and liabilities related to discontinued operations. We believe this presentation provides a comparable basis to analyze our balance sheet activity for continuing operations between the December 31, 2005 and 2004 balance sheet dates. Therefore, all balance sheet information and related discussions presented below reflect this restatement, unless otherwise noted. See Note 2 to our Consolidated Financial Statements for additional discussion of the basis of presentation for our discontinued operations.

Cash and Liquidity . As of December 31, 2005, our principal sources of liquidity included cash, cash equivalents, and short-term investments of $392.2 million, compared to $149.4 million as of December 31, 2004. The increase is primarily due to the cash proceeds we received from the sale of the GSS Business in December 2005. We generally invest our excess cash balances in low-risk, short-term investments to limit our exposure to market risks. All of our cash, cash equivalents, and short-term investments are located in the U.S., and as a result, we have ready access to all of our cash and short-term investment balances.

In addition to the above sources of liquidity, we also have a five-year, $100 million senior secured revolving credit facility (the "2004 Revolving Credit Facility") with a syndicate of U.S. financial institutions that expires in September 2009. The 2004 Revolving Credit Facility has a $40 million sub-facility for standby and commercial letters of credit and a $10 million sub-facility for same day advances. As of the date of this filing, we have made no borrowings under the 2004 Revolving Credit Facility. Our ability to borrow under the 2004 Revolving Credit Facility is subject to a limitation of total indebtedness based upon the results of consolidated leverage and interest coverage ratio calculations, and a minimum liquidity requirement. As of December 31, 2005, we were in compliance with the financial ratios and other covenants of the 2004 Revolving Credit Facility, and had, after taking into consideration outstanding letters of credit, approximately $98 million of the 2004 Revolving Credit Facility available to us. As of the date of this filing, the outstanding letters of credit have been cancelled, and thus, the entire $100 million is available to us.

Cash Flows From Operating Activities. We calculate our cash flows from operating activities in accordance with generally accepted accounting principles, beginning with net income (loss) and then adding back the impact of non-cash items (e.g., depreciation, amortization, stock-based compensation, etc.), and then factoring in the impact of changes in working capital items.

The primary use of our cash is to fund our operating activities. Approximately one-half of our total operating costs relate to labor costs (both employees and contracted labor) for: (i) compensation; (ii) related fringe benefits; and (iii) reimbursements for travel and entertainment expenses. The other primary cash requirements for our operating expenses consist of: (i) postage; (ii) paper and related supplies for our statement processing centers; (iii) data processing and related services and communication lines for our service bureau processing business; and (iv) rent and related facility costs. These items are purchased under a variety of both short-term and long-term contractual commitments. See "Cash Flows From Investing Activities" and "Cash Flows From Financing Activities" below for the other primary uses of our cash. A summary of our material contractual obligations is provided below as well.

Our primary source of cash is from our operating activities. Our current business model consists of a significant amount of recurring revenue sources related to our long-term processing arrangements (billed monthly), and software maintenance agreements (billed monthly, quarterly, or annually.) This recurring revenue base provides us with a reliable and predictable source of cash. In addition, software license fees and professional services revenues provide for material amounts of cash, but the payment streams for these items are not as predictable.

Our consolidated net cash flows provided by (used in) operating activities, which consists of cash from operations and changes in working capital items, for the quarters and years ended for the indicated periods are as follows (in thousands). These amounts are reflected in our Consolidated Statements of Cash Flows.

	2005	2004	2003
Quarter ended:			
March 31(1)(3)	$ 18,865	$ 31,965	$ 22,222
June 30 (2)(3)	43,283	40,186	37,141
September 30	24,712	24,805	39,446
December 31(4)(5)	15,714	22,312	(38,456)
Years ended	$102,574	$119,268	$ 60,353

(1) Cash flows from operations for the first quarter of 2004 reflect approximately $10 million of favorable changes in working capital related to the Comcast arbitration.

(2) Approximately $14 million of the cash flows from operations for the second quarter of 2004 can be attributed to the sale of certain Adelphia pre-bankruptcy accounts receivable (See Note 10 to our Consolidated Financial Statements) to a third party and to higher than normal cash collections of accounts receivable within the GSS Business.

(3) Cash flows from operating activities for the first quarter of 2005 were negatively impacted by approximately $9 million due to a key domestic client delaying payment of an invoice until after quarterend. This amount was subsequently paid in April 2005, which resulted in the payment of four monthly invoices by this client in the second quarter of 2005. The payment of the delayed invoice, along with payments related to certain one-time client contract settlements, contributed approximately $12 million to our cash flows from operating activities for the second quarter of 2005.

(4) The cash flow used in operating activities of $(38.5) million in the fourth quarter of 2003 relates primarily to the $94.4 million paid to Comcast during the fourth quarter of 2003 as a result of the Comcast Arbitration ruling. Absent this amount, we generated strong cash flows from operating activities for 2003, primarily as a result of our improved cash collections of our GSS Business accounts receivable during the last two quarters of 2003.

(5) Cash flows from operating activities for the fourth quarter of 2005 were negatively impacted by approximately $10 million due to a key domestic client delaying payment of an invoice until after quarterend. This amount was received in January 2006.

We believe this table illustrates our ability to consistently generate strong quarterly and annual cash flows, and the importance of managing our working capital items, in particular, timely collections of our accounts receivable.

The cash flows related to the GSS and plaNet business in 2005 were not significant when compared to that of our continuing operations. Therefore, we do not expect the sale of the GSS and plaNet businesses to have a significant impact on our liquidity or cash flows from operating activities in the future.

Management of our billed accounts receivable is one of the primary factors in maintaining strong quarterly cash flows from operating activities. Our billed trade accounts receivable balance includes billings for several non-revenue items (primarily postage, sales tax, and deferred revenue items). As a result, we evaluate our performance in collecting our accounts receivable through our calculation of days billings outstanding (“DBO”) rather than a typical days sales outstanding (“DSO”) calculation. DBO is calculated based on the billings for the period (including non-revenue items) divided by the average monthly net trade accounts receivable balance for the period. Our target range for our DBO is 55-65 days.

Our gross and net billed trade accounts receivable and related allowance for doubtful accounts receivable (“Allowance”) related to our continuing operations as of the end of the indicated periods, and the related DBOs for the quarters then ended, are as follows (in thousands, except DBOs):

Quarter Ended	Gross	Allowance	Net Billed	DBO
2004:				
December 31	$ 93,926	$ (1,948)	$ 91,978	58
2005:				
March 31	95,857	(1,950)	93,907	57
June 30	91,224	(1,403)	89,821	60
September 30	95,775	(1,338)	94,437	60
December 31(1)	106,136	(1,324)	104,812	61

(1) The increase in both the gross and net billed accounts receivable between September 30, 2005 and December 31, 2005 is due primarily to a key domestic client delaying payment of approximately $10 million until after quarterend, as discussed above.

Significant fluctuations in key balance sheet items between December 31, 2005 and 2004, related to our continuing operations, that impacted our cash flows from operating activities are as follows.

Other Current Assets.

The increase in other current assets from $6.4 million as of December 31, 2004 to $17.1 million as of December 31, 2005 relates primarily to:

- The disposal of our corporate aircraft, as discussed above. As of December 31, 2005, other current assets included $7.1 million related to the carrying value of the aircraft we purchased in December 2005 in conjunction with the buyout of our lease. We sold the aircraft in January 2006; and

- The final purchase price for the GSS Business due from Comverse. As of December 31, 2005, other current assets included $3.8 million related to the final purchase price due from Comverse. This amount was paid by Comverse in February 2006.

Accounts Payable.

The increase in accounts payable from $14.4 million as of December 31, 2004 to $17.3 million as of December 31, 2005 relates primarily to accrued costs (e.g., attorney fees, etc.) related to the sale of the GSS Business. A significant portion of these costs are expected to be paid in the first quarter of 2006.

Accrued Employee Compensation.

The increase in accrued employee compensation from $18.3 million as of December 31, 2004 to $32.4 million as of December 31, 2005 relates primarily to the accrual of retirement benefits for our former CEO during 2005, as discussed above. We paid $5.6 million of the retirement benefits to our former CEO in January 2006, with the remaining payments due as follows: $2 million scheduled to be paid in July 2006, and $2 million scheduled to be paid in January 2007. As of December 31, 2005, of the total $9.4 million accrued, $7.8 million is included in accrued employee compensation, and $1.6 million is included in other non-current liabilities.

Deferred Revenue.

The increase in deferred revenue from $12.0 million as of December 31, 2004 to $18.5 million as of December 31, 2005 relates primarily to the deferral of fees related to conversion/set-up services provided under long-term processing contracts. Such fees will be recognized as revenue over the term of the respective processing contract as the related processing services are performed.

Income Taxes.

The decrease in income taxes payable from $23.5 million as of December 31, 2004 to zero as of December 31, 2005 relates primarily to the timing of income tax payments. The estimation of, and the timing related to, our quarterly tax payments were such that we were in a payable situation as of December 31, 2004, and in a receivable position as of December 31, 2005. The income tax receivable recorded as of December 31, 2005 is expected to be substantially collected in the first half of 2006.

Other Current Liabilities.

The increase in other current liabilities from $9.0 million as of December 31, 2004 to $15.8 million as of December 31, 2005 relates primarily to the termination of the FairPoint contract, as discussed above. Under the terms of the FairPoint Termination Agreement, we are required to pay FairPoint a $4 million termination fee during 2006. The full amount of this termination fee was accrued as of December 31, 2005. See Note 8 to our Consolidated Financial Statements for additional discussion of this matter.

Other Non-Current Liabilities.

The increase in other non-current liabilities from $1.5 million as of December 31, 2004 to $6.3 million as of December 31, 2005 relates primarily to:

- The accrual of the non-current portion (i.e., to be paid in 2007) of the retirement benefits to be made to our former CEO ($1.6 million as of December 31, 2005), as mentioned above; and
- Indemnifications totaling $2.8 million that were recorded in conjunction with the sale of the GSS and plaNet businesses. See Note 12 to our Consolidated Financial Statements for additional discussion of this matter.

The Comcast Arbitration ruling in 2003 had the following key impacts to changes in our operating assets and liabilities for 2004 and 2003, as reflected in our cash flows from operating activities for these periods.

Arbitration Charge Payable.

The decrease in the arbitration charge payable reflected in the Consolidated Statements of Cash Flows relates to the $119.6 million Comcast arbitration award. We paid approximately $95 million of this amount in the fourth quarter of 2003. During the first quarter of 2004, we paid the remaining approximately $25 million.

Income Tax Payable/Receivable.

We were in a domestic net operating loss ("NOL") position for 2003 as a result of the $119.6 million Comcast charge recorded in 2003. As a result, our income tax receivable as of December 31, 2003 was $35.1 million, which resulted from our ability to claim a refund for 2003 income taxes already paid, and from our ability to carry back our NOL to prior years. During the first quarter of 2004, we received approximately $34 million of this income tax receivable, and identified additional income tax receivable amounts during our final preparation of our 2003 U.S. Federal income tax return, which was filed in March 2004. As a result, our December 31, 2004, income taxes receivable was $4.1 million.

Cash Flows From Investing Activities . During 2005, our cash flows from investing activities included two unique items already discussed above: the net proceeds from the sale of discontinued operations (the GSS and plaNet businesses) and the purchase of the corporate aircraft held for sale. Our typical investing activities consist of purchases/sales of short-term investments, purchases of property and equipment, and investments in client contracts, which are discussed as follows:

Purchases/Sales of Short-term Investments.

We generally invest our excess cash balances in low-risk, short-term investments to limit our exposure to market risks. These short-term investments are readily convertible into cash. During the year ended December 31, 2005, we purchased $88.1 million and sold $66.3 million of short-term investments. We continually evaluate the possible uses of our excess cash balances and will likely purchase additional short-term investments in the future.

Property and Equipment/Client Contracts.

Our business is not capital intensive. Our biggest capital outlays typically relate to computer and statement production equipment. Our investment in client contracts typically consists of cash payments to clients as an incentive to bring business to our company, and direct and incremental costs that we have capitalized related to revenue arrangements where we are required to defer conversion/set-up services fees and recognize those fees as the related processing services are performed.

Our annual capital expenditures for property and equipment, and investments in client contracts were as follows (in thousands):

	2005	2004	2003
Property and equipment	$12,798	$9,655	$9,021
Client contracts	6,060	3,466	1,767

Of the property and equipment capital expenditures for the year ended December 31, 2005 and 2004, approximately 56% and 41%, respectively, related to our continuing operations. Our property and equipment expenditures consisted principally of computer hardware and related equipment, and facilities and internal infrastructure items. For 2006, we expect that capital expenditures related to our continuing operations will be approximately $12 million.

All of the investments in client contracts for the year ended December 31, 2005 and 2004 related to our continuing operations. These investments relate primarily to costs incurred for conversion/set-up services related to long-term processing arrangements. As of December 31, 2005, we did not have any material commitments for capital expenditures or for investments in client contracts.

Cash Flows From Financing Activities. We have had limited financing activities over the last several years, and historically, we have not been active in the capital markets. Our financing activities typically consist of various debt-related transactions, and activities with our common stock.

Long-Term Debt.

During the first quarter of 2004, we made a mandatory $30 million prepayment on our 2002 Credit Facility. This payment was made with the proceeds from our $34 million of income tax refunds received in March 2004, as discussed above.

In June 2004, we completed our offering of the Convertible Debt Securities. We used a portion of the $230 million of proceeds from the Convertible Debt Securities to repay the outstanding balance of $198.9 million and terminate our 2002 Credit Facility. In connection with the issuance of the Convertible Debt Securities, we incurred debt issuance costs of approximately $7 million.

Common Stock.

Proceeds from the issuance of common stock relates to our various stock-based employee compensation plans, primarily from the exercise of stock options. The $5.3 million of cash received from the issuance of common stock for the year ended December 31, 2005 relates primarily to the exercise of stock options throughout the year.

Repurchase of Common Stock.

As discussed above, during 2005, 2004, and 2003, we repurchased shares of our common stock under the guidelines of our Stock Repurchase Program for $73.0 million, $52.9 million, and zero, respectively. In addition, outside of our Stock Repurchase Program, during 2005 and 2004, we repurchased from our employees and then cancelled approximately 394,000 shares and 174,000 shares of our common stock for $8.3 million and $3.0 million, respectively, in connection with minimum tax withholding requirements resulting from the vesting of restricted stock under our stock incentive plans.

Contractual Obligations and Other Commercial Commitments and Contingencies

We have various contractual obligations that are recorded as liabilities in our Consolidated Balance Sheet. Other items, such as certain purchase commitments and other executory contracts are not recognized as liabilities in our Consolidated Balance Sheet, but are required to be disclosed.

The following table summarizes our significant contractual obligations and commercial commitments as of December 31, 2005, and the future periods in which such obligations are expected to be settled in cash (in thousands).

	Total	Less than 1 year	Years 2–3	Years 4-5	More than 5 Years
Long-term debt	$336,375	$ 5,750	$11,500	$11,500	$307,625
Operating leases	50,696	7,495	15,774	11,282	16,145
Purchase obligations	135,926	38,356	56,946	40,230	394
Severance/retirement	12,635	10,404	2,231	—	—
Total	$535,632	$62,005	$86,451	$63,012	$324,164

Our long-term debt obligations are discussed in more detail in Note 7 to our Consolidated Financial Statements. The contractual obligation amount reflected for our long-term debt is based upon the following assumptions: (i) our Convertible Debt Securities are outstanding through their due date of June 15, 2024; (ii) upon settlement of the Convertible Debt Securities, our cash obligation will not exceed the principal amount of the Convertible Debt Securities; and (iii) interest paid through the life of the Convertible Debt Securities at a rate of 2.5% per annum. The operating lease and severance/retirement benefits contractual obligations are discussed in Note 12 to our Consolidated Financial Statements. Our purchase obligations consist primarily of our expected base fees under the FDC services agreement (discussed in Note 12 to our Consolidated Financial Statements), data communication services, and third-party software /software maintenance.

Of the total contractual obligations and commercial commitments above, approximately $249 million is reflected on our Consolidated Balance Sheet and approximately $287 million is not.

Off-Balance Sheet Arrangements

In conjunction with the sale of the GSS and planet businesses, we have agreed to indemnify the buyers of the businesses against certain losses they may incur in connection with the purchased business subsequent to the sale dates. See Note 12 to the Consolidated Financial Statements for further discussion of those indemnifications.

Capital Resources

Our discontinued operations did not have a significant impact on our historical sources or uses of capital resources, and therefore, we expect the sale of the GSS and plaNet businesses to have little to no effect on our future sources or uses of capital resources.

As of December 31, 2005, we had $392.2 million of cash and short-term investments available to fund our operations, and we expect to generate additional cash during 2006. The following are the key items to consider in assessing our sources and uses of capital resources:

- During 2005, we repurchased 3.8 million shares of our common stock for $73 million under our Stock Repurchase Program. At this time, we expect to purchase approximately $60 million of our common stock under our Stock Repurchase Program during 2006. We have the ability to purchase a greater amount of shares under the Stock Repurchase Plan during 2006.
- We acquired Telution for approximately $22 million in cash, which was paid at the closing of the transaction on March 1, 2006. In addition, the purchase agreement provides for contingent payments of up to $8 million over the next three years. The contingent payments are dependent upon certain product integration and revenue targets.
- At this time, we expect to spend approximately $12 million on capital expenditures during 2006. However, as of December 31, 2005, we have made no significant capital commitments.
- As of December 31, 2005, we were required to pay our former CEO, Mr. Hansen, $9.6 million of retirement benefits, of which $5.6 million was paid in January 2006, $2.0 million will be paid in July 2006, and $2.0 million will be paid in January 2007.
- We are required to pay FairPoint $4 million pursuant to our Termination Agreement during 2006.
- Our Convertible Debt Securities bear interest at a rate of 2.5% per annum, which is payable semiannually in arrears on June 15 and December 15 of each year. The Convertible Debt Securities are callable by us for cash, on or after June 20, 2011. The Convertible Debt Securities can be put back to us by the holders for cash at June 15, 2011, 2016 and 2021, or upon a change of control, at a repurchase price equal to 100% of the principal amount of the Convertible Debt Securities, plus accrued interest. The Convertible Debt Securities are subject to certain conversion triggers based upon: (i) the price of our common stock; (ii) the trading price of the Convertible Debt Securities; (iii) us putting the Convertible Debt Securities back to the holders; (iv) the occurrence of specified corporate transactions, to include a change of control as defined in the bond Indenture; and (v) if a certain level of dividends are declared, or a certain number of shares of our common stock are repurchased under a self-tender offer by us. We do not expect any of the conversion triggers to occur during the next 12 months. As a result, in the near-term, we expect our annual debt service costs related to the Convertible Debt Securities to be limited to the annual interest payments of $5.8 million.

  The Convertible Debt Securities are convertible into the our common stock, under the specified conditions and settlement terms outlined above, at an initial conversion rate of 37.3552 shares per $1,000 principal amount of Convertible Debt Securities, which is equal to an effective conversion price of $26.77 per share. The bond Indenture includes anti-dilution provisions for the holders such that the conversion rate (and thus, the effective conversion price) can be adjusted in the future for certain events, to include stock dividends, stock splits/reverse splits, the issuance of warrants to purchase our stock at a price below the then-current market price, cash dividends, and certain purchases of our common stock by us pursuant to a self-tender offer or exchange offer. A lower effective conversion price may have several impacts to us, including a greater potential for: (i) the occurrence of the conversion trigger based upon the price of our common stock; and (ii) the Convertible Debt Securities having an impact on our diluted earnings per share if our common stock price exceeds the then-current effective conversion price.

- The interest rate for borrowings under the 2004 Revolving Credit Facility, except for same day advances, is chosen at our option and is based upon a base rate or adjusted LIBOR rate, plus an applicable margin. The base rate represents the higher of a floating prime rate and a floating rate equal to 50 basis points in excess of the Federal Funds Effective Rate. The interest rate for same day advances is based upon base rate, plus an applicable margin. The applicable margins are dependent on our leverage ratio, as defined, and range from zero to 100 basis points for base rate loans and 125 to 225 basis points for LIBOR loans. As of December 31, 2005, we had made no borrowings under the 2004 Revolving Credit Facility, and at this time, we do not expect to make any borrowings under the 2004 Revolving Credit Facility in 2006. We pay a quarterly commitment fee on the unused portion of the 2004 Revolving Credit Facility. This rate is dependent on our leverage ratio and ranges from 25 to 50 basis points per annum. As of December 31, 2005, the commitment fee rate was 37.5 basis points per annum. As of December 31, 2005, after taking into consideration outstanding letters of credit, approximately $98 million of the 2004 Revolving Credit Facility was available to us. As of the date of this filing, the outstanding letters of credit have been cancelled, and thus, the entire $100 million is available to us.

In summary, going forward, we expect to continue to make investments in client contracts, capital equipment, and R&D, and expect to continue to make stock repurchases under our Stock Repurchase Program. In addition, as part of our growth strategy, we are continually evaluating potential business and asset acquisitions, and investments in market share expansion with our existing and potential new clients. We believe that our current cash and short-term investments balance, together with cash expected to be generated from future operating activities and the amount available under the 2004 Revolving Credit Facility, will be sufficient to meet our anticipated cash requirements for at least the next 12 months.

Ratio of Earnings to Fixed Charges

The ratio of earnings to fixed charges is computed by dividing fixed charges into earnings. “Earnings” is defined as income from continuing operations before income taxes, plus fixed charges. “Fixed charges” consist of interest expense (including the amortization of deferred financing costs) and the estimated interest component of rental expense. Our consolidated ratio of earnings to fixed charges for the year ended December 31, 2005, was 7.48:1.00. See Exhibit 12.10 to this document for information regarding the calculation of our ratio of earnings to fixed charges.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the potential loss arising from adverse changes in market rates and prices. As of December 31, 2005, we are exposed to market risks related to changes in interest rates, and fluctuations and changes in the market value of our short-term investments. We have not historically entered into derivatives or other financial instruments for trading or speculative purposes.

As a result of the sale of the GSS Division during December 2005 (see Note 2 to our Consolidated Financial Statements), all of our future revenues from continuing operations are expected to be generated from North America, primarily from the U.S. As a result, we are no longer exposed to significant foreign exchange rate risk.

Market Risk Related to Long-Term Debt. We are exposed to interest rate risk related to long-term debt from two sources: our Convertible Debt Securities, and our 2004 Revolving Credit Facility.

The Convertible Debt Securities are convertible into shares of our common stock under specified conditions, unless previously redeemed by us or put back to us by the holders. The interest rate on the Convertible Debt Securities is fixed, and thus, as it relates to our borrowings under the Convertible Debt Securities, we are not exposed to changes in interest rates. Commencing with the six-month period beginning June 15, 2011, we will pay contingent interest equal to 0.25% of the average trading price of the Convertible Debt Securities if the average trading price equals 120% or more of the principal amount of the Convertible Debt Securities.

The interest rate for borrowings under the 2004 Revolving Credit Facility, except for same day advances, is chosen at our option, and is based upon a base rate or adjusted LIBOR rate, plus an applicable margin. The base rate represents the higher of a floating prime rate and a floating rate equal to 50 basis points in excess of the Federal Funds Effective Rate. The interest rate for same day advances is based upon base rate, plus an applicable margin. The applicable margins are dependent on our leverage ratio, as defined, and range from zero to 100 basis points for base rate loans and 125 to 225 basis points for LIBOR loans. As of December 31, 2005 we had made no borrowings under the 2004 Revolving Credit Facility.

See Note 7 to the Consolidated Financial Statements for additional information related to our long-term debt.

Market Risk Related to Cash Equivalents and Short-term Investments. Our cash and cash equivalents as of December 31, 2005 and 2004 were $392.2 million and $149.4 million, respectively. Our cash balances are typically “swept” into overnight money market accounts on a daily basis, and at times, any excess funds are invested in low-risk, somewhat longer term, cash equivalent instruments and short-term investments. We have minimal market risk for our cash and cash equivalents due to the relatively short maturities of the instruments.

Our short-term investments as of December 31, 2005 and 2004 were $46.1 million and $23.9 million, respectively. The day-to-day management of our cash equivalents and short-term investments is done by the money management branch of one of the largest financial institutions in the U.S. This financial institution manages our cash equivalents and short-term investments based upon strict and formal investment guidelines established by us. Under these guidelines, short-term investments are limited to highly liquid, short-term government and corporate securities that have a credit rating of A-1 / P-1 or better.

We do not utilize any derivative financial instruments for purposes of managing our market risks related to interest rate risk.

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Item 8. Financial Statements and Supplementary Data

CSG SYSTEMS INTERNATIONAL, INC.
CONSOLIDATED FINANCIAL STATEMENTS
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Management's Report on Internal Control Over Financial Reporting

Management of CSG Systems International, Inc. and subsidiaries (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) or 15d-15(f) under the Securities Exchange Act of 1934, as amended. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

(i) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(ii) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(iii) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Based on our assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2005.

The Company's independent registered public accounting firm, KPMG LLP, has issued an attestation report on management's assessment and the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. That report appears immediately below.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
CSG Systems International, Inc.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that CSG Systems International, Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). CSG Systems International, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that CSG Systems International, Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, CSG Systems International, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CSG Systems International, Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2005, and our report dated March 13, 2006 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Denver, Colorado
March 13, 2006

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
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, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 consolidated 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, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of CSG Systems International, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 13, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Denver, Colorado
March 13, 2006

CSG SYSTEMS INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	December 31, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 346,113	$ 125,509
Short-term investments	46,111	23,927
Total cash, cash equivalents and short-term investments	392,224	149,436
Trade accounts receivable-		
Billed, net of allowance of $1,324 and $1,948	104,812	91,978
Unbilled and other	6,660	5,856
Deferred income taxes	9,565	6,142
Income taxes receivable	5,032	4,040
Other current assets	17,145	6,368
Assets related to discontinued operations	—	70,867
Total current assets	535,438	334,687
Property and equipment, net	21,143	24,256
Goodwill	623	623
Client contracts, net	41,661	50,427
Deferred income taxes	33,275	38,808
Other assets	6,236	7,241
Assets related to discontinued operations	—	254,365
Total assets	$ 638,376	$ 710,407
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Client deposits	$ 19,651	$ 19,446
Trade accounts payable	17,306	14,437
Accrued employee compensation	32,447	18,329
Deferred revenue	9,575	9,085
Income taxes payable	—	23,488
Other current liabilities	15,783	8,969
Liabilities related to discontinued operations	—	68,258
Total current liabilities	94,762	162,012
Non-current liabilities:		
Long-term debt	230,000	230,000
Deferred revenue	8,943	2,959
Other non-current liabilities	6,341	1,532
Liabilities related to discontinued operations	—	5,834
Total non-current liabilities	245,284	240,325
Total liabilities	340,046	402,337
Stockholders' equity:		
Preferred stock, par value $.01 per share; 10,000,000 shares authorized; zero shares issued and outstanding	—	—
Common stock, par value $.01 per share; 100,000,000 shares authorized; 14,708,778 and 8,757,614 shares reserved for employee stock purchase plan and stock incentive plans; 47,886,480 and 51,016,326 shares outstanding	601	595
Additional paid-in capital	316,764	298,767
Deferred employee compensation	—	(1,320)
Treasury stock, at cost, 12,290,485 and 8,482,496 shares	(296,976)	(224,008)
Accumulated other comprehensive income (loss):		
Unrealized gain (loss) on short-term investments, net of tax	71	(5)
Cumulative translation adjustments related to discontinued operations	—	9,400
Accumulated earnings	277,870	224,641
Total stockholders' equity	298,330	308,070
Total liabilities and stockholders' equity	$ 638,376	$ 710,407

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

CSG SYSTEMS INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Year Ended December 31, 2005	2004	2003
Revenues:			
Processing and related services	$346,463	$326,556	$ 341,628
Software, maintenance and services	30,854	24,845	25,766
	377,317	351,401	367,394
Charge for arbitration ruling attributable to periods prior to July 1, 2003	—	—	(105,679)
Total revenues, net	377,317	351,401	261,715
Cost of revenues:			
Processing and related services	170,344	146,837	140,475
Software, maintenance and services	19,720	25,047	30,359
Total cost of revenues	190,064	171,884	170,834
Gross margin (exclusive of depreciation)	187,253	179,517	90,881
Operating expenses:			
Research and development	33,932	31,887	30,398
Selling, general and administrative	52,492	39,453	50,041
Depreciation	9,862	10,412	12,701
Restructuring charges	14,534	1,292	2,149
Total operating expenses	110,820	83,044	95,289
Operating income (loss)	76,433	96,473	(4,408)
Other income (expense):			
Interest expense	(7,537)	(10,261)	(14,296)
Write-off of deferred financing costs	—	(6,569)	—
Interest and investment income, net	4,059	975	920
Other, net	6	(303)	(85)
Total other	(3,472)	(16,158)	(13,461)
Income (loss) from continuing operations before income taxes	72,961	80,315	(17,869)
Income tax (provision) benefit	(26,219)	(29,317)	12,703
Income (loss) from continuing operations	46,742	50,998	(5,166)
Discontinued operations:			
Loss from discontinued operations, includes net pretax gain on 2005 disposals of $10,904	(5,685)	(11,109)	(30,591)
Income tax benefit	12,172	7,295	9,480
Discontinued operations, net of tax	6,487	(3,814)	(21,111)
Net income (loss)	$ 53,229	$ 47,184	$ (26,277)
Basic earnings (loss) per common share:			
Income (loss) from continuing operations	$ 0.98	$ 1.01	$ (0.10)
Discontinued operations, net of tax	0.13	(0.08)	(0.41)
Net income (loss)	1.11	0.93	(0.51)
Diluted earnings (loss) per common share:			
Income (loss) from continuing operations	0.96	0.99	(0.10)
Discontinued operations, net of tax	0.13	(0.07)	(0.41)
Net income (loss)	$ 1.09	$ 0.92	$ (0.51)
Weighted-average shares outstanding:			
Basic	47,851	50,477	51,432
Diluted	48,571	51,223	51,432

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

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CSG SYSTEMS INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2005, 2004 and 2003
(in thousands)

	Shares of Common Stock Outstanding	Common Stock	Additional Paid-in Capital	Deferred Employee Compensation	Treasury Stock	Foreign Currency Translation	Unrealized Gain (Loss) on Short-Term Investments	Accumulated Earnings	Total Stockholders' Equity
BALANCE, January 1, 2003	51,727	$ 577	$ 255,452	$ (3,904)	$(186,045)	$ 1,060	$ (6)	$ 214,971	$ 282,105
Comprehensive loss:									
Net loss	—	—	—	—	—	—	—	(26,277)	
Unrealized gain on investments, net of tax impact	—	—	—	—	—	—	7	—	
Foreign currency translation adjustments	—	—	—	—	—	5,459	—	—	
Comprehensive loss	—	—	—	—	—	—	—	—	(20,811)
Issuance of common stock pursuant to employee stock purchase plan	129	2	1,313	—	—	—	—	—	1,315
Exercise of stock options	41	—	355	—	—	—	—	—	355
Tax benefit of employee stock-based compensation plans	—	—	33	—	—	—	—	—	33
Issuance of restricted common stock pursuant to agreement	480	—	—	(3,697)	14,934	—	—	(11,237)	—
Issuance of restricted common stock pursuant to employee stock-based compensation plans	210	2	(2)	—	—	—	—	—	—
Issuance of restricted common stock pursuant to tender offer to exchange stock options for restricted stock	1,214	12	(12)	—	—	—	—	—	—
Repurchase and cancellation of restricted common stock issued pursuant to employee stock-based compensation plans	(13)	—	(207)	—	—	—	—	—	(207)
Stock-based employee compensation expense	—	—	2,416	3,143	—	—	—	—	5,559
Tax benefit of common stock warrants	—	—	22,436	—	—	—	—	—	22,436
BALANCE, December 31, 2003	53,788	593	281,784	(4,458)	(171,111)	6,519	1	177,457	290,785
Comprehensive income:									
Net income	—	—	—	—	—	—	—	47,184	
Unrealized loss on investments, net of tax impact	—	—	—	—	—	—	(6)	—	
Foreign currency translation adjustments	—	—	—	—	—	2,881	—	—	
Comprehensive income	—	—	—	—	—	—	—	—	50,059
Repurchase of common stock pursuant to Board-approved stock repurchase program	(2,983)	—	—	—	(52,897)	—	—	—	(52,897)
Issuance of common stock pursuant to employee stock purchase plan	84	1	1,182	—	—	—	—	—	1,183
Exercise of stock options	560	6	5,737	—	—	—	—	—	5,743
Tax benefit of employee stock-based compensation plans	—	—	1,312	—	—	—	—	—	1,312

CSG SYSTEMS INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY—(Continued)
For the Years Ended December 31, 2005, 2004 and 2003
(in thousands)

	Shares of Common Stock Outstanding	Common Stock	Additional Paid-in Capital	Deferred Employee Compensation	Treasury Stock	Foreign Currency Translation	Unrealized Gain (Loss) on Short-Term Investments	Accumulated Earnings	Total Stockholders' Equity
Issuance of restricted common stock pursuant to employee stock-based compensation plans	10	—	—	—	—	—	—	—	—
Cancellation of restricted common stock issued pursuant to employee stock-based compensation plans	(269)	(3)	(882)	885	—	—	—	—	—
Repurchase and cancellation of restricted common stock issued pursuant to employee stock-based compensation plans	(174)	(2)	(2,999)	—	—	—	—	—	(3,001)
Stock-based employee compensation expense	—	—	12,633	2,253	—	—	—	—	14,886
BALANCE, December 31, 2004	51,016	595	298,767	(1,320)	(224,008)	9,400	(5)	224,641	308,070
Comprehensive income:									
Net income	—	—	—	—	—	—	—	53,229	
Unrealized gain on investments, net of tax impact	—	—	—	—	—	—	76	—	
Foreign currency translation adjustments (relates to the sale of the GSS Business)	—	—	—	—	—	(9,400)	—	—	
Comprehensive income	—	—	—	—	—	—	—	—	43,905
Repurchase of common stock pursuant to Board-approved stock repurchase program	(3,808)	—	—	—	(72,968)	—	—	—	(72,968)
Issuance of common stock pursuant to employee stock purchase plan	68	—	1,138	—	—	—	—	—	1,138
Exercise of stock options	369	4	4,174	—	—	—	—	—	4,178
Tax benefit of employee stock-based compensation plans	—	—	2,001	—	—	—	—	—	2,001
Issuance of restricted common stock pursuant to employee stock-based compensation plans	911	9	(9)	—	—	—	—	—	—
Cancellation of restricted common stock issued pursuant to employee stock-based compensation plans	(276)	(3)	3	—	—	—	—	—	—
Repurchase and cancellation of restricted common stock issued pursuant to employee stock-based compensation plans	(394)	(4)	(8,348)	—	—	—	—	—	(8,352)
Modification to stock-based awards	—	—	(600)	600	—	—	—	—	—
Stock-based employee compensation expense	—	—	19,638	720	—	—	—	—	20,358
BALANCE, December 31, 2005	47,886	$ 601	$ 316,764	$ —	$(296,976)	$ —	$ 71	$ 277,870	$ 298,330

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

CSG SYSTEMS INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31, 2005	2004	2003
Cash flows from operating activities:			
Net income (loss)	$ 53,229	$ 47,184	$ (26,277)
Adjustments to reconcile net income (loss) to net cash provided by operating activities-			
Depreciation	13,690	15,091	17,378
Amortization	25,130	27,310	24,303
Restructuring charge for abandonment of facilities and impairment of assets	10,451	909	4,424
Net pretax gain on disposition of discontinued operations	(10,904)	—	—
Gain on short-term investments	(336)	(49)	(19)
Write-off of deferred financing costs	—	6,569	—
Deferred income taxes	(1,947)	17,887	2,018
Tax benefit of stock-based compensation awards	2,001	1,312	33
Stock-based employee compensation	20,358	14,886	5,559
Changes in operating assets and liabilities:			
Trade accounts and other receivables, net	(17,271)	(4,003)	45,604
Other current and non-current assets	2,939	(338)	(1,536)
Arbitration charge payable	—	(25,181)	25,181
Income taxes payable/receivable	(6,565)	26,231	(41,244)
Accounts payable and accrued liabilities	8,618	(10,075)	(2,003)
Deferred revenue	3,181	1,535	6,932
Net cash provided by operating activities	102,574	119,268	60,353
Cash flows from investing activities:			
Net proceeds from the disposition of discontinued operations	239,760	—	—
Purchases of property and equipment	(12,798)	(9,655)	(9,021)
Purchase of aircraft held for sale	(8,712)	—	—
Purchases of short-term investments	(88,058)	(45,094)	(15,463)
Proceeds from sale/maturity of short-term investments	66,286	26,210	13,495
Acquisition of and investments in assets	(579)	(834)	(2,613)
Acquisition of and investments in client contracts	(6,060)	(3,466)	(1,767)
Net cash provided by (used in) investing activities	189,839	(32,839)	(15,369)
Cash flows from financing activities:			
Proceeds from issuance of common stock	5,316	6,926	1,670
Repurchase of common stock	(81,320)	(55,898)	(207)
Proceeds from long-term debt	—	230,000	—
Payments on long-term debt	—	(228,925)	(41,075)
Payments of deferred financing costs	(87)	(8,213)	(1,077)
Net cash used in financing activities	(76,091)	(56,110)	(40,689)
Effect of exchange rate fluctuations on cash	(3,760)	2,835	3,678
Net increase in cash and cash equivalents	212,562	33,154	7,973
Cash and cash equivalents, beginning of period	133,551	100,397	92,424
Cash and cash equivalents, end of period	$346,113	$ 133,551	$100,397
Cash and cash equivalents, end of period, classified as follows:			
Continuing operations	$346,113	$ 125,509	$100,397
Assets related to discontinued operations	—	8,042	—
Total cash and cash equivalents, end of period	$346,113	$ 133,551	$100,397
Supplemental disclosures of cash flow information:			
Cash paid (received) during the period for-			
Interest	$ 6,177	$ 8,237	$ 11,251
Income taxes	25,923	(23,009)	13,035

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

CSG SYSTEMS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General

CSG Systems International, Inc. (the “Company” or “CSG”), a Delaware corporation, was formed in October 1994 and is based in Denver, Colorado. The Company is a leading provider of outsourced billing, customer care and print and mail solutions and services supporting the North American convergent broadband and direct broadcast satellite markets. The Company’s solutions support some of the world’s largest and most innovative providers of bundled multi-channel video, Internet, voice and IP-based services. The Company’s combination of solutions, services and expertise ensure that cable and satellite providers can continue to rapidly launch new service offerings, improve operational efficiencies and deliver a high-quality customer experience in a competitive and ever-changing marketplace. The Company is an S&P Midcap 400 company.

2. Discontinued Operations

GSS Business. On December 9, 2005, the Company closed on an agreement to sell its Global Software Services (“GSS”) business to Comverse, Inc., a division of Comverse Technology, Inc. (“Comverse”). The GSS business purchased by Comverse included: (i) the Kenan FX software and services portfolio acquired from Lucent Technologies in 2002, and the Davinci Business acquired in 2002 (both previously reported as the GSS Division by the Company); (ii) the ICMS customer care and billing assets (the “ICMS Business”) acquired from IBM in 2002 (previously reported as part of the Broadband Services (“Broadband”) Division by the Company); and (iii) certain corporate personnel and functions that directly support the GSS business (previously reported as part of the Company’s corporate overhead expenses). These components are collectively referred to as the “GSS Business.”

The final purchase price and net cash proceeds from the sale are summarized as follows (in thousands):

Gross purchase price due from Comverse	$251,000
Less final purchase price adjustments (finalized in February 2006)	(445)
Final purchase price due from Comverse	250,555
Cash included in the GSS Business assets sold	(8,042)
Final purchase price, net of cash sold	242,513
Less costs to sell the GSS Business	(5,002)
Net pretax cash proceeds from the sale of the GSS Business	$237,511

Comverse paid the Company $246.8 million at closing, pending the determination of the final purchase price adjustments. As a result, the accompanying December 31, 2005 Consolidated Balance Sheet includes a $3.8 million accounts receivable (reflected in “other current assets”) from Comverse for the final purchase price adjustment. This amount was paid by Comverse in February 2006.

plaNet Business. On December 30, 2005, the Company closed on an agreement to sell its plaNet Consulting business (the “plaNet Business”) to a group of private investors led by the plaNet management team. The plaNet Business sold excludes the Company’s Broadband Professional Services Group and the ICMS Service Bureau processing business, both of which were retained by the Company, and as a result, are included in the Company’s results of continuing operations for all periods presented. Of the final purchase price of $1.6 million (net of $0.1 million of costs to sell the business), $1.5 million had been received as of December 31, 2005.

Discontinued Operations. The decision to sell these two businesses is consistent with the Company’s decision to intensify its focus on the Company’s core competencies in the North American cable and direct broadcast markets utilizing its Advanced Convergent Platform (“ACP”) product and related services. As a result of the sale of the GSS Business, the Company no longer provides customer care and billing products or services outside of North America.

CSG SYSTEMS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The GSS Business and plaNet Business both meet the definition of a "component of an entity" and thus have been accounted for as discontinued operations under Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." As a result, the results of operations for the GSS Business and plaNet Business have been reflected as discontinued operations for all periods presented in the accompanying Consolidated Statements of Operations. Cash flows have not been segregated between continuing operations and discontinued operations in the accompanying Consolidated Statements of Cash Flows. To provide for consistent presentation between periods for continuing operations, the December 31, 2004 Consolidated Balance Sheet has been restated to reflect the December 31, 2004 balance sheet components of the sold GSS and plaNet businesses as assets and liabilities related to discontinued operations. As deemed appropriate, the following Notes to the Consolidated Financial Statements have been modified to focus on the Company's continuing operations, which consist of the Broadband Division and the corporate personnel and functions supporting the Company's ongoing business.

The individual components of the GSS and plaNet businesses included in discontinued operations (with the 2005 period for the GSS Business representing January 1, 2005 through December 9, 2005) are as follows (in thousands):

	Year Ended December 31,		
	2005	2004	2003
GSS Business:			
Total revenues	$161,737	$166,446	$165,656
Total operating expenses	178,540	175,567	199,136
Operating loss	(16,803)	(9,121)	(33,480)
Other income (expense), net	3,631	4	4,562
Gain on sale of business	23,755	—	—
Discontinued operations, before income taxes	10,583	(9,117)	(28,918)
Income tax benefit	10,328	6,568	8,893
Discontinued operations, net of income taxes	$ 20,911	$ (2,549)	$ (20,025)
plaNet Business:			
Total revenues	$ 10,597	$ 11,900	$ 12,289
Total operating expenses	14,018	13,904	13,962
Operating loss	(3,421)	(2,004)	(1,673)
Other income (expense), net	4	12	—
Loss on sale of business	(12,851)	—	—
Discontinued operations, before income taxes	(16,268)	(1,992)	(1,673)
Income tax benefit	1,844	727	587
Discontinued operations, net of income taxes	$ (14,424)	$ (1,265)	$ (1,086)

The amounts reported as assets and liabilities related to discontinued operations in the accompanying December 31, 2004, Consolidated Balance Sheet are as follows (in thousands):

	GSS Business	plaNet Business	Total
Assets related to discontinued operations:			
Cash, cash equivalents, and short-term investments	$ 8,042	$ —	$ 8,042
Trade accounts receivable, net of allowance	55,771	2,481	58,252
Property and equipment, net of depreciation	9,991	229	10,220
Software, net of amortization	24,695	—	24,695
Goodwill	205,530	12,193	217,723
Other assets	4,982	1,318	6,300
Total assets related to discontinued operations	309,011	16,221	325,232
Liabilities related to discontinued operations:			
Trade accounts payable	7,462	513	7,975
Accrued employee compensation	12,530	1,000	13,530
Deferred revenue	47,259	791	48,050
Other liabilities	4,537	—	4,537
Total liabilities related to discontinued operations	71,788	2,304	74,092
Net assets related to discontinued operations	$ 237,223	$13,917	$251,140

The $8.0 million of cash, cash equivalents, and short-term investments reflected in the above table represents the actual amount of cash, cash equivalents and short-term investments that were sold as part of the GSS Business to Comverse.

3. Summary of Significant Accounting Policies

Principles of Consolidation. The accompanying Consolidated Financial Statements include the accounts of the Company and its subsidiaries. All material intercompany accounts and transactions have been eliminated.

Use of Estimates in Preparation of Consolidated Financial Statements. The preparation of the accompanying Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America ("U.S") 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The more critical estimates and related assumptions that affect the Company's financial condition and results of operations are in the areas of: (i) revenue recognition; (ii) allowance for doubtful accounts receivable; (iii) impairment assessments of long-lived assets; (iv) loss contingencies; (v) income taxes; and (vi) capitalization of internal software development costs.

Revenue Recognition. The Company uses various judgments and estimates in connection with the determination of the amount of revenues to be recognized in each accounting period. The Company's primary revenue recognition criteria include: (i) persuasive evidence of an arrangement; (ii) delivery; (iii) fixed or determinable fees; and (iv) collectibility of fees. In addition, for multiple-element arrangements that are not subject to a higher level of authoritative literature, the Company follows the guidelines of the Financial Accounting Standards Board's ("FASB") Emerging Issues Task Force ("EITF") Issue No. 00-21 ("EITF 00-21"), "Accounting for Revenue Arrangements with Multiple Deliverables", in determining the separate units of accounting. For those revenue arrangements subject to the separation criteria of EITF 00-21, the Company accounts for each of the individual units of accounting as a separate and discrete earnings process considering, among other things, whether a delivered item has value to the client on a stand-alone basis. For such multiple-element arrangements, total revenue is allocated to the separate units of accounting based upon objective and reliable evidence of the fair value of the undelivered item.

The Company has historically derived a significant percentage of its total revenues from continuing operations from processing and related services. Processing and related services revenues consist primarily of monthly processing fees generated from the Company's core service bureau customer care and billing application called ACP (formerly CCS/BP) and services ancillary to ACP, and generally, are not subject to various judgments and estimates in determining the proper revenue recognition. Processing and related services revenues are recognized as the services are performed. Processing fees are typically billed monthly based on the number of client's customers served, ancillary services are typically billed on a per transaction basis, and customized print and mail services are billed on a usage basis. Fees received to convert client customers onto the Company's service bureau customer care and billing applications (as well as the costs to perform the conversion or set-up services) are generally deferred and recognized over the term of the client's processing arrangement.

The Company's historical revenues from continuing operations related to software licenses, maintenance services (also known as post-contract customer support, or PCS) and professional services are substantially less than those generated from processing and related services. Software and maintenance revenues consist of the sale of software licenses (principally one-time perpetual licenses) and related software maintenance services. Professional services revenues consist of a variety of consulting services, such as product installation, business consulting, and training services. A substantial percentage of the total combined revenues from these three sources comes from maintenance services.

Software license fees are recognized using the guidelines of: (i) American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 97-2, "Software Revenue Recognition", as amended ("SOP 97-2"); (ii) SOP 98-9, "Software Revenue Recognition, With Respect to Certain Transactions" ("SOP 98-9"); and (iii) AICPA Technical Questions and Answers, Section 5100, "Revenue Recognition". For software arrangements that have multiple elements, such as software, maintenance and professional services, the Company allocates the contract value to the respective elements based on vendor-specific objective evidence ("VSOE") of their individual fair values, determined in accordance with SOP 97-2. VSOE for maintenance services is established by pricing the maintenance services based upon a substantive maintenance renewal rate expressed as a consistent percentage of the stipulated license fees. For those software arrangements that have multiple elements for which the Company does not have VSOE of fair value on one or more of the delivered elements, the Company allocates the contract value to the respective elements based upon the "residual method" in accordance with SOP 98-9. Under the residual method, the undiscounted fair value of the undelivered elements is deferred and subsequently recognized as they are delivered. The Company's software arrangements generally do not include implementation services that involve significant production, modification or customization of the software being licensed.

For certain software arrangements, the Company has agreed to "host" the software on Company-owned hardware. In accordance with EITF Issue No. 00-03, "Application of AICPA Statement of Position 97-2 to Arrangements That Include the Right to Use Software Stored on Another Entity's Hardware", these hosting services are treated as a separate element of the software arrangement when the client has a contractual right to take possession of the software at any time during the hosting period without incurring a significant penalty and it is feasible for the client to either run the software on its own hardware or contract with another party unrelated to the Company to host the software.

Maintenance fees are recognized ratably over the service period. The Company's maintenance services consist primarily of client and product support, technical updates (e.g., bug fixes, etc.), and unspecified upgrades or enhancements. If specified upgrades or enhancements are offered in an arrangement, which is rare, they are accounted for as a separate element in accordance with SOP 97-2.

Revenues from professional services generally consist of software installation projects with a relatively short duration period. These revenues are generally recognized as the installation work is completed.

Deferred Revenue and Unbilled Accounts Receivable . Client payments and billed amounts due from clients in excess of revenue recognized are recorded as deferred revenue. Revenue recognized prior to the scheduled billing date is recorded as unbilled accounts receivable. Deferred revenue as of December 31, 2005 and 2004 relates primarily to fees received to convert client customers onto the Company's service bureau customer care and billing applications, which are recognized over the term of the client's processing arrangement.

Postage. The Company passes through to its clients the cost of postage that is incurred on behalf of those clients, and typically requires an advance payment on expected postage costs. These advance payments are included in "client deposits" in the accompanying Consolidated Balance Sheets and are classified as current liabilities regardless of the contract period. The Company nets the cost of postage against the postage reimbursements, and includes the net amount in processing and related services revenues. The Company has concluded that net treatment of these revenues is appropriate as the Company: (i) generally has little or no credit risk with regard to postage, as the Company requires postage deposits from its clients based on contractual arrangements prior to the mailing of customer statements; (ii) has no discretion over the supplier of postal delivery services; and (iii) is not the primary obligor in the postal delivery service. The cost of postage that has been shown net of the postage reimbursements from the Company's clients for the years ended December 31, 2005, 2004, and 2003 was $182.2 million, $180.4 million, and $167.7 million, respectively.

Cash and Cash Equivalents. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents consist primarily of repurchase agreements, commercial paper, and institutional money market funds. In the first quarter of 2005, the Company reclassified its holdings in auction-rate securities from cash equivalents to short-term investments based on further interpretative guidance on the underlying characteristics of such instruments. Auction rate securities are investments that are typically backed by preferred stock or long-term, variable rate debt instruments whose interest rates are reset at predetermined short-term intervals through an auction process. Prior period amounts for cash equivalents and short-term investments have been reclassified to conform to this presentation. As a result, as of December 31, 2004, 2003 and 2002, cash and cash equivalents amounts were decreased and short-term investments amounts were increased by $7.2 million, $5.0 million and $2.0 million, respectively. The change in classification had no impact on the Company's previously reported current assets, net income (loss), cash flows from operating activities, or changes in stockholders' equity for any period.

Short-term Investments and Other Financial Instruments . The Company classifies all of its short-term investments as "available-for-sale" in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Short-term investments are stated at fair value, with unrealized gains and losses on such securities included, net of the related income tax effect, in stockholders' equity. For all short-term investments, unrealized losses that are considered "other than temporary" are recognized immediately in earnings. Realized gains and losses on short-term investments are included in earnings and are derived using the specific identification method for determining the cost of the investments. Realized and unrealized gains and losses were not material in any period presented.

The Company's short-term investments at December 31, 2005 and 2004 consisted of the following (in thousands):

	As of December 31,	
	2005	2004
Corporate and municipal auction-rate securities	$37,550	$ 7,200
U.S. government and agencies	3,984	15,482
Corporate debt securities	4,577	1,211
Other	—	34
Total	$46,111	$23,927

While the Company's auction-rate securities held as of December 31, 2005 and 2004 have contractual maturities that extend beyond 10 years from the date of acquisition, these securities are priced and traded as short-term instruments due to the liquidity provided through an interest rate reset feature and have been classified by the Company as short-term investments. All other short-term investments held by the Company as of December 31, 2005 and 2004 have contractual maturities of less than one year from the time of acquisition. Proceeds from the sale/maturity of short-term investments were $66.3 million, $26.2 million and $13.5 million in 2005, 2004, and 2003, respectively.

The Company's other material balance sheet financial instruments as of December 31, 2005 and 2004 include cash and cash equivalents, accounts receivable, accounts payable, and long-term debt. Because of their short maturities, the carrying amounts of cash equivalents, accounts receivable, and accounts payable approximate their fair value. As of December 31, 2005, and 2004, the fair value of the Company's long-term debt, based upon quoted market prices, was approximately $227 million and $232 million, respectively. The fair value of the contingent interest feature of the Company's long-term debt, considered an embedded derivative, as of December 31, 2005 and 2004, was $0.1 million (see Note 7). The Company does not utilize any derivative financial instruments for purposes of managing the market risks related to its financial instruments.

Concentrations of Credit Risk. In the normal course of business, the Company is exposed to credit risk. The principal concentrations of credit risk relate to cash deposits, short-term investments and the Company's accounts receivable. The Company regularly monitors credit risk exposures and takes steps to mitigate the likelihood of these exposures resulting in a loss. The Company holds its cash deposits and short-term investments with a financial institution it believes to be of sound financial condition.

The Company does not require collateral or other security to support accounts receivable. The Company evaluates the credit worthiness of its clients in conjunction with its revenue recognition processes, as well as through its ongoing collectibility assessment processes for accounts receivable. The Company maintains an allowance for doubtful accounts receivable based upon factors surrounding the credit risk of specific clients, historical trends and other information. The Company uses various judgments and estimates in determining the adequacy of the allowance for doubtful accounts receivable. See Note 5 for additional details of our concentration of accounts receivable.

The activity in the Company's allowance for doubtful accounts receivable for continuing operations for the years ended December 31 is as follows (in thousands):

	Year Ended December 31,		
	2005	2004	2003
Balance, beginning of year	$1,948	$ 6,248	$7,340
Reductions to expense	(112)	(2,615)	(512)
Write-offs	(591)	(2,305)	(580)
Other	79	620	—
Balance, end of year	$1,324	$ 1,948	$6,248

In 2004, $2.2 million of the reductions to expense and $1.7 million of the write-offs related to the sale of the Adelphia accounts receivable (see Note 10).

Property and Equipment . Property and equipment are recorded at cost (or at estimated fair value if acquired in a business combination) and are depreciated over their estimated useful lives ranging from three to ten years. Leasehold improvements are depreciated over the shorter of their economic life or the lease term. Depreciation expense is computed using the straight-line method for financial reporting purposes. Depreciation expense for all property and equipment is reflected separately in the aggregate and is not included in the cost of revenues or the other components of operating expenses. Depreciation for income tax purposes is computed using accelerated methods.

CSG SYSTEMS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Software. The Company expends substantial amounts on research and development ("R&D"), particularly for new products or services, or for enhancements of existing products and services. For development of software products that are to be licensed by the Company, the Company follows SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed" ("SFAS 86"). SFAS 86 requires that the cost of developing software be expensed prior to establishing technological feasibility, and those costs be capitalized once technological feasibility has been established. Capitalization ceases upon general release of the software. For development of software to be used internally (e.g., processing systems software), the Company follows SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 requires that the cost of developing software for internal use be expensed prior to the application development stage.

The Company expended $33.9 million, $31.9 million, and $30.4 million, respectively, for internal software R&D projects related to continuing operations in the years ended December 31, 2005, 2004, and 2003. The Company did not capitalize any internal software R&D costs under SFAS 86 or SOP 98-1 in the years ended December 31, 2005, 2004, or 2003 as the costs subject to capitalization during these periods were not material. The Company did not have any capitalized internal software R&D costs included in its December 31, 2005 or 2004 accompanying Consolidated Balance Sheets. The determination of whether internal R&D costs are subject to capitalization is, by its nature, highly subjective and involves various judgments.

Realizability of Long-Lived Assets. The Company evaluates the recoverability of its long-lived assets, other than goodwill, in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Long-lived assets are required to be evaluated for possible impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. A long-lived asset is impaired if estimated future undiscounted cash flows associated with that asset are insufficient to recover the carrying amount of the long-lived asset. If deemed impaired, the long-lived asset is written down to its fair value.

Restructuring Charges. The Company accounts for restructuring charges related to contract terminations in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"), and restructuring charges related to employee termination benefits in accordance with SFAS No. 112, "Employers' Accounting for Postemployment Benefits—an Amendment of FASB Statement No. 5 and 43". SFAS 146 requires that the liability for costs associated with a restructuring activity be recognized when the liability is incurred. For facility abandonments, the liability is recognized and measured at its fair value when the Company ceases using the rights conveyed by the lease agreement. Since the Company's employee termination benefits are provided pursuant to a substantive ongoing benefit arrangement, SFAS 112 requires that a liability for the employee termination benefits be recognized when it is probable that the benefits will be paid and the amounts to be paid can be reasonably estimated in accordance with SFAS No. 5, "Accounting for Contingencies" ("SFAS 5").

Loss Contingencies . The Company follows the guidelines of SFAS 5 in determining the appropriate accounting and disclosures for the Company's loss and gain contingencies. The Company accrues for a loss contingency when: (i) it is probable that an asset has been impaired, or a liability has been incurred; and (ii) the amount of the loss can be reasonably estimated. The determination of accounting for loss contingencies is subject to various judgments and estimates. The Company does not record the benefit from a gain contingency until the benefit is realized.

Earnings Per Common Share ("EPS"). EPS has been computed in accordance with SFAS No. 128, "Earnings Per Share". Basic EPS is computed by dividing income (loss) (the numerator) by the weighted-average number of common shares outstanding during the period (the denominator). Diluted EPS is consistent with the calculation of basic EPS while considering the effect of potentially dilutive common shares outstanding during the period. Unvested shares of restricted stock are not included in the basic EPS calculation. Basic and diluted EPS are presented on the face of the Company's Consolidated Statements of Operations.

No reconciliation of the basic and diluted EPS numerators is necessary as net income (loss) is used as the numerators for all periods presented. The reconciliation of the EPS denominators is included in the following table (in thousands):

	Year Ended December 31,		
	2005	2004	2003
Basic weighted-average common shares	47,851	50,477	51,432
Dilutive effect of common stock options	309	311	—
Dilutive effect of unvested restricted stock	411	435	—
Dilutive effect of Convertible Debt Securities	—	—	—
Diluted weighted-average common shares	48,571	51,223	51,432

Because the Company was in a net loss position for the year ended December 31, 2003, potentially dilutive common shares of 0.3 million (related to certain unvested shares of restricted stock and certain stock options) were excluded in calculating dilutive EPS, as their effect was antidilutive. In addition, irrespective of whether the Company was in a net income or net loss position, potentially dilutive common shares related to stock options and unvested shares of restricted stock of 0.8 million, 1.2 million and 2.8 million, respectively, for the years ended December 31, 2005, 2004, and 2003, were excluded from the computation of diluted EPS as their effect was antidilutive.

The Company adopted EITF Issue No. 04-8, “The Effect of Contingently Convertible Instruments on Diluted Earnings per Share” (“EITF 04-8”) during the fourth quarter of 2004. EITF 04-8 states that shares to be potentially issued under contingently convertible instruments should be included in diluted earnings per share (if dilutive) regardless of whether any of the contingent conversion features have been met. On December 15, 2004, in conjunction with the adoption of EITF 04-8, the Company exercised an irrevocable election to settle the $230 million principal amount of its Convertible Debt Securities in cash upon conversion. After exercising the irrevocable election, the Company was able to achieve “Instrument C” status as described in EITF No. 90-19, “Convertible Bonds with Issuer Option to Settle for Cash upon Conversion” (“EITF 90-19”) for its Convertible Debt Securities. Instrument C status allows the Company to calculate dilution related to the Convertible Debt Securities using the “treasury stock” method. Under the treasury stock method, the Company has experienced no dilution related to the Convertible Debt Securities as the Company’s average stock price has not exceeded the current effective conversion price of $26.77 per share since their issuance in June 2004. In future periods, the Convertible Debt Securities will impact the Company’s diluted earnings per share calculation only in those periods in which the Company’s average stock price exceeds the then current effective conversion price. As discussed in Note 7, the current effective conversion price of $26.77 per share may be adjusted in the future for certain events, to include stock dividends, stock splits/reverse splits, the issuance of warrants to purchase Company stock at a price below the then-current market price, cash dividends, and certain purchases by the Company of its common stock pursuant to a self-tender offer or exchange offer.

Stock-Based Compensation . During the fourth quarter of 2003, the Company adopted the fair value method of accounting for stock-based awards in accordance with SFAS No. 123, “Accounting for Stock-Based Compensation” (“SFAS 123”), using the prospective method of transition as outlined in SFAS No. 148, “Accounting for Stock-Based Compensation—Transition and Disclosure—An Amendment of FASB Statement No. 123” (“SFAS 148”). The adoption of SFAS 123 was effective as of January 1, 2003. Under the prospective method of transition, all stock-based awards granted, modified, or settled on or after January 1, 2003, are accounted for in accordance with SFAS 123. Stock-based awards granted prior to January 1, 2003, continue to be accounted for in accordance with Accounting Principles Board No. 25, “Accounting for Stock Issued to Employees”, and related Interpretations (“APB 25”), and follow the disclosure provisions of SFAS 123 and SFAS 148.

At December 31, 2005, the Company had several stock-based compensation plans (see Note 14). The Company recorded stock-based compensation expense (includes both continuing and discontinued operations) of $20.4 million, $14.9 million and $5.6 million, respectively, for the years ended December 31, 2005, 2004, and 2003.

Because the Company continues to follow APB 25 for all stock-based awards granted prior to January 1, 2003, and the prospective method of transition under SFAS 148 for stock-based awards granted, modified, or settled on or after January 1, 2003, compensation expense recorded in the Company's accompanying Consolidated Statements of Operations is less than what would have been recognized if the fair value based method under SFAS 123 had been applied to all awards for all periods. Had compensation expense for the Company's stock-based compensation plans been based on the fair value at the grant dates for awards under those plans for all periods, consistent with the methodology of SFAS 123, the Company's net income (loss) and net income (loss) per share for the years ended December 31, 2005, 2004, and 2003, would approximate the pro forma amounts as follows (in thousands, except per share amounts):

	Year Ended December 31,		
	2005	2004	2003
Net income (loss), as reported	$ 53,229	$ 47,184	$(26,277)
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects	12,648	9,200	3,455
Deduct: Total stock-based compensation expense determined under the fair value-based method for all awards, net of related tax effects	(14,825)	(13,960)	(18,671)
Net income (loss), pro forma	$ 51,052	$ 42,424	$(41,493)
Net income (loss) per share:			
Basic—as reported	$ 1.11	$ 0.93	$ (0.51)
Basic—pro forma	1.07	0.84	(0.81)
Diluted—as reported	1.09	0.92	(0.51)
Diluted—pro forma	1.05	0.83	(0.81)

Comprehensive Income (Loss). The components of comprehensive income (loss) are reflected in the accompanying Consolidated Statements of Stockholders' Equity.

Reclassification. Certain December 31, 2004 and 2003 amounts have been reclassified to conform to the December 31, 2005 presentation.

Accounting Pronouncements Issued But Not Yet Effective. In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"). This statement is a revision of SFAS 123, and supersedes APB 25 and its related implementation guidance. SFAS 123R establishes standards for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments.

The Company will adopt SFAS 123R and all related amendments and interpretations effective January 1, 2006 (the "Effective Date"). When the Company adopts SFAS 123R, it expects to use the modified prospective method of transition. Under the modified prospective application, SFAS 123R will apply to new awards and to awards modified, repurchased, or cancelled after the Effective Date. Additionally, compensation cost for the portion of awards that the Company continues to account for in accordance with APB 25 for which the requisite service has not been rendered that are outstanding as of the Effective Date will be recognized as the requisite service is rendered on or after the Effective Date. The compensation cost for that portion of awards shall be based on the grant-date fair value of those awards as calculated for either recognition or pro forma disclosures under SFAS 123. The Company does not expect the adoption of SFAS 123R to have a significant impact to its consolidated financial statements.

4. Comcast Arbitration

Arbitration Resolution. During 2002 and 2003, the Company was involved in various legal proceedings with its largest client, Comcast Corporation ("Comcast"), consisting principally of arbitration proceedings related to the Comcast Master Subscriber Agreement. In October 2003, the Company received an unfavorable ruling in the arbitration proceedings. The Comcast arbitration ruling included an award of $119.6 million to be paid by the Company to Comcast. The award was based on the arbitrator's determination that the Company had violated the most favored nations ("MFN") clause of the Comcast Master Subscriber Agreement. The Company recorded the full impact from the arbitration ruling in the third quarter of 2003 as a charge to revenues. As specified in the arbitration ruling, the $119.6 million was segregated such that $105.7 million was attributable to periods prior to July 1, 2003, and $13.9 million was attributable to the third quarter of 2003. Of the $13.9 million attributable to the third quarter of 2003, $13.5 million was attributed to processing revenues, and $0.4 million was attributed to maintenance revenues. In the fourth quarter of 2003, the Company paid approximately $95 million of the arbitration award to Comcast, and in January 2004, the Company paid the remaining portion of the arbitration award of approximately $25 million. In addition to the arbitration award, the Company paid to Comcast interest of $1.1 million.

Signing of New Comcast Contract. In March 2004, the Company signed a new contract with Comcast (the "Comcast Contract"). The Comcast Contract superseded the former Comcast Master Subscriber Agreement that was set to expire at the end of 2012. Under the new agreement, the Company expects to continue to support Comcast's video and high-speed Internet customers at least through December 31, 2008. The pricing inherent in the Comcast Contract was consistent with that of the arbitration ruling in October 2003.

Impact of Comcast Contract on Client Contracts Intangible Asset . The Company has a long-lived client contracts intangible asset related to its Comcast Contract that has a net carrying value as of December 31, 2005 of $34.2 million. During the first quarter of 2004, the Company evaluated the carrying value of this intangible asset in light of the net cash flows expected to be generated from the Comcast Contract, and concluded that there was no impairment to this asset as a result of the new Comcast Contract. No events have occurred or additional facts have become available since that evaluation was performed that would cause the Company to change its first quarter of 2004 conclusion. However, as a result of the shortened term of the Comcast Contract, effective in March 2004, the Company was required to accelerate the amortization of this intangible asset. Total amortization related to the Comcast Contract for the years ended December 31, 2005, 2004, and 2003 was $12.1 million, $10.5 million, and $5.7 million, respectively. The amortization of the client contracts intangible asset is recorded as a reduction in processing revenues, as opposed to amortization expense, in the accompanying Consolidated Statements of Operations.

5. Segment and Related Information

Segment Information. Segment and related information is presented in accordance with SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 requires disclosures of selected information about operating segments and related disclosures about products and services, geographic areas, and major customers. SFAS 131 requires operating segments to be determined based on the way management organizes a company for purposes of making operating decisions and assessing performance. As a result of the sale of the GSS and plaNet businesses (see Note 2), the Company's Broadband Division is the only reportable segment, as defined by SFAS 131.

Products and Services. The Company's continuing operations consist of its processing operations and related software products. The Company generates a substantial percentage of its revenues by providing outsourced customer care and billing services to the U.S. and Canadian cable television and satellite industries through its core service bureau processing product, ACP. The Company licenses its software products (e.g., ACSR, Workforce Express, etc.) and provides its professional services principally to its existing base of processing clients to enhance the core functionality of its service bureau processing application, increase the efficiency and productivity of the clients' operations, and allow clients to effectively roll out new products and services to new and existing markets, such as high-speed data/ISP, IP markets, and residential telephony. The

Company's full suite of processing, software, and professional services allows clients to automate their customer care and billing functions. These functions include set-up and activation of customer accounts, sales support, order processing, invoice calculation, production and mailing of invoices, management reporting, electronic presentment and payment of invoices, and deployment and management of the client's field technicians.

Geographic Regions. All revenues and long-lived assets related to the Company's continuing operations are attributable to the Company's operations in North America, primarily the U.S.

Significant Clients and Industry Concentration . The North American communications industry has experienced significant consolidation over the last few years, resulting in a large percentage of the market being served by a limited number of service providers with greater size and scale. Consistent with this market concentration, a large percentage of the Company's revenues from continuing operations are generated from a limited number of clients, with over 70% of the Company's revenues from continuing operations being generated from its five largest clients, which are Comcast, EchoStar Communications Corporation ("EchoStar"), Time Warner Inc. ("Time Warner"), Charter Communications ("Charter"), and Adelphia Communications ("Adelphia"). See Note 4 for additional discussion of the Company's business relationship and contract with Comcast. Revenues from these clients represented the following percentages of the Company's total revenues from continuing operations for the following periods:

	Year Ended December 31,		
	2005	2004	2003
Comcast	22%	24%	46%
EchoStar	21%	21%	25%
Time Warner	10%	10%	16%
Charter	10%	9%	13%
Adelphia	9%	9%	8%

For 2003, these percentages were calculated using the total net revenue base of $261.7 million (which includes the $105.7 million of the Comcast arbitration charge attributed to periods prior to July 1, 2003). The calculation of these percentages for Comcast, EchoStar, Time Warner, Charter and Adelphia for 2003 using a revenue base of $367.4 million (which excludes the $105.7 million of the Comcast arbitration charge attributed to periods prior to July 1, 2003) would result in 33%, 18%, 11%, 9%, and 6%, respectively.

As of December 31, 2005 and 2004, the percentage of net billed accounts receivable balances from continuing operations attributable to these clients were as follows:

	As of December 31,	
	2005	2004
Comcast	21%	26%
EchoStar	29%	20%
Time Warner	9%	10%
Charter	11%	12%
Adelphia	6%	7%

The Company expects to continue to generate a significant percentage of its future revenues from a limited number of clients, including Comcast, EchoStar, Time Warner, Charter, and Adelphia. There are inherent risks whenever a large percentage of total revenues are concentrated with a limited number of clients. One such risk is that, should a significant client: (i) terminate or fail to renew its contract with the Company, in whole or in part for any reason; (ii) significantly reduce the number of customers processed on the Company's systems, or (iii) experience significant financial or operating difficulties, it could have a material adverse effect on the Company's financial condition and results of operations (including possible impairment, or significant acceleration of the amortization of intangible assets).

6. Long-Lived Assets

Property and Equipment. Property and equipment included in continuing operations at December 31 consists of the following (in thousands):

	Useful Lives (years)	2005	2004
Computer equipment	3	$ 17,440	$ 31,996
Leasehold improvements	5-10	8,027	7,970
Operating equipment	3-5	43,809	42,430
Furniture and equipment	8	12,587	12,532
Capital projects in process	—	613	1,155
		82,476	96,083
Less—accumulated depreciation		(61,333)	(71,827)
Property and equipment, net		$ 21,143	$ 24,256

Intangible Assets . The amount of goodwill related to continuing operations was $0.6 million as of December 31, 2005 and 2004. The Company does not have any intangible assets with indefinite lives other than goodwill.

The Company's intangible assets included in continuing operations subject to ongoing amortization consist of client contracts. As of December 31, 2005 and 2004, the carrying values of these assets were as follows (in thousands):

	2005			2004		
	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Client contracts	$110,295	$ (68,634)	$41,661	$105,883	$ (55,456)	$50,427

Client contracts consist of: (i) investments in client contracts; and (ii) direct and incremental costs that the Company has capitalized related to revenue arrangements where the Company has deferred fees to convert or set-up client customers onto the Company's service bureau customer care and billing applications.

Investments in client contracts are principally incentives provided to new or existing clients to convert their customer accounts to, or retain their customers accounts on, the Company's customer care and billing systems. Investments in client contracts related to client incentives are amortized ratably over the lives of the respective client contracts, which have termination dates that range from 2008 through 2013. As of December 31, 2005 and 2004, the Company had an investment in client contracts related to client incentives, net of accumulated amortization, of $39.8 million and $46.9 million, respectively. Pursuant to EITF 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)," the amortization of the investments in client contracts related to client incentives is reflected as a reduction in processing and related services revenues in the accompanying Consolidated Statements of Operations, and for the years ended December 31, 2005, 2004, and 2003 was $12.7 million, $11.4 million, and $6.4 million, respectively.

Client contracts related to the deferral of conversion/set-up services costs are amortized proportionately over the same period that the deferred conversion/set-up services fees are recognized as revenue, and are reflected in cost of processing and related services in the accompanying Consolidated Statements of Operations. As of December 31, 2005 and 2004, the Company had client contracts related to conversion/set-up services costs, net of accumulated amortization, of $1.9 million and $3.5 million, respectively. The amortization of client contracts related to the deferral of conversion/set-up services costs was $0.9 million and $0.2 million for the years ended December 31, 2005 and 2004, respectively. During 2005, the Company entered into a contract termination agreement with a FairPoint Communications, Inc. ("FairPoint"), which resulted in the impairment of $4.3 million of a client contract related to conversion/set-up services for this client (see Note 8).

The aggregate amortization related to client contracts included in continuing operations for the years ended December 31, 2005, 2004, and 2003, was $13.6 million, $11.6 million, and $6.4 million, respectively. The weighted-average remaining amortization period of client contracts as of December 31, 2005 was approximately 42 months. Based on the December 31, 2005 net carrying value of these intangible assets, the estimated amortization for each of the five succeeding fiscal years ending December 31 will be: 2006—$13.5 million; 2007—$12.7 million; 2008—$12.6 million; 2009—$0.8 million; and 2010—$0.7 million.

7. Debt

The Company's debt at December 31 consists of the following (in thousands):

	2005	2004
Senior subordinated convertible contingent debt securities, due June 15, 2024, interest at 2.50%	$230,000	$230,000
2004 Revolving Credit Facility, due September 2009, interest at base rate or adjusted LIBOR, plus applicable margin	—	—
	230,000	230,000
Less—current portion	—	—
Long-term debt, net of current maturities	$230,000	$230,000

Convertible Debt Securities. On June 2, 2004, the Company completed an offering of $230.0 million of 2.5% senior subordinated convertible contingent debt securities due June 15, 2024 (the "Convertible Debt Securities") to qualified buyers pursuant to Rule 144A under the Securities Act of 1933.

The Company used the proceeds from the Convertible Debt Securities, along with available cash, cash equivalents and short-tem investments, to: (i) repay the outstanding balance of $198.9 million and terminate its 2002 Credit Facility (including the revolving credit facility); (ii) repurchase 2.1 million shares of the Company's common stock for $40.0 million (market price of $18.72 per share) from the initial purchasers of the Convertible Debt Securities; and (iii) pay debt issuance costs of $7.2 million. As a result of the repayment of the 2002 Credit Facility, the Company wrote-off deferred financing costs of $6.6 million during 2004.

The Convertible Debt Securities are unsecured, subordinated to any of the Company's future senior debt, and senior to the Company's future junior subordinated debt. The Convertible Debt Securities, issued at a price of 100% of their principal amount, bear interest at a rate of 2.5% per annum, which is payable semiannually in arrears on June 15 and December 15 of each year, beginning on December 15, 2004. The Convertible Debt Securities are callable by the Company for cash, on or after June 20, 2011, at a redemption price equal to 100% of the principal amount of the Convertible Debt Securities, plus accrued interest. The Convertible Debt Securities can be put back to the Company by the holders for cash at June 15, 2011, 2016 and 2021, or upon a change of control (as defined in the bond Indenture), at a repurchase price equal to 100% of the principal amount of the Convertible Debt Securities, plus any accrued interest.

Commencing with the six-month period beginning June 15, 2011, the Company will pay contingent interest equal to 0.25% of the average trading price of the Convertible Debt Securities during any six-month period if the average trading price of the Convertible Debt Securities for the five consecutive trading days ending on the second trading day immediately preceding the first day of the six-month period equals 120% or more of the principal amount of the Convertible Debt Securities.

The Convertible Debt Securities are convertible into the Company's common stock, under the specified conditions and settlement terms outlined below, at an initial conversion rate of 37.3552 shares per $1,000 principal amount of Convertible Debt Securities, which is equal to an effective conversion price of $26.77 per share. The bond Indenture includes anti-dilution provisions for the holders such that the conversion rate (and thus, the effective conversion price) can be adjusted in the future for certain events, to include stock dividends, stock splits/reverse splits, the issuance of warrants to purchase Company stock at a price below the then-current market price, cash dividends, and certain purchases by the Company of its common stock pursuant to a self-tender offer or exchange offer.

Holders of the Convertible Debt Securities can convert their securities: (i) at any time the price of the Company's common stock trades over $34.80 per share (130% of the $26.77 effective conversion price) for a specified period of time; (ii) at any time the trading price of the Convertible Debt Securities fall below 98% of the average conversion value for the Convertible Debt Securities for a specified period of time; (iii) upon the Company exercising its right to redeem the Convertible Debt Securities at any time after June 20, 2011; (iv) at any time upon the occurrence of specified corporate transactions, to include a change in control (as defined in the bond Indenture); and (v) if a certain level of dividends are declared, or a certain number of shares of the Company's common stock are repurchased under a self-tender offer by the Company. As of December 31, 2005 none of the contingent conversion features have been achieved, and thus, the Convertible Debt Securities are not convertible by the holders.

The Company originally had the right to settle the Convertible Debt Securities upon conversion by delivering Company common stock, cash or any combination of Company common stock and cash. However, on December 15, 2004, pursuant to Section 10.3(c) of the Indenture relating to the Convertible Debt Securities, the Company notified the trustee and holders of the Convertible Debt Securities that it was exercising its irrevocable election to satisfy in cash 100% of the $230 million principal amount of the Convertible Debt Securities converted after the date of the notification. After such election, the Company may still satisfy its conversion obligation, to the extent it exceeds the principal amount, in Company common stock, cash or any combination of Company common stock and cash. The Company made the irrevocable election to settle in cash 100% of the $230 million principal amount of the Convertible Debt Securities in conjunction with its adoption of EITF 04-8, which became effective during the fourth quarter of 2004. See Note 3 for additional discussion of this matter.

In conjunction with the issuance of the Convertible Debt Securities, the Company entered into a registration rights agreement with the initial purchasers, in which the Company agreed to: (i) file a shelf registration statement with the SEC for the benefit of the holders of the Convertible Debt Securities within 90 days of the completion of the Convertible Debt Securities offering; (ii) use reasonable best efforts to cause such registration statement to become effective as promptly as possible, but in no event later than 180 days from the completion of the Convertible Debt Securities offering; and (iii) keep the registration statement effective for a specified period of time. If the Company defaults on the registration rights agreement, it will be required to pay additional interest at a rate of 0.25% per annum on the principal amount of the Convertible Debt Securities up to and including the 90th day following such default, and additional interest at a rate of 0.50% per annum on the principal amount of the Convertible Debt Securities from and after the 91st day following such default. On July 16, 2004, the Company filed a shelf registration statement on Form S-3 with the SEC for the Convertible Debt Securities. On November 22, 2004, the Form S-3 was declared effective by the SEC. As of December 31, 2005, the Form S-3 remains effective.

The fair value of the Convertible Debt Securities as of December 31, 2005 and 2004, based upon quoted market prices, was approximately $227 million and $232 million, respectively. The contingent interest feature of the Convertible Debt Securities discussed above is considered an embedded derivative that is required to be bifurcated and accounted for as a freestanding derivative financial instrument. The fair value of this derivative financial instrument, as of December 31, 2005 and 2004, was $0.1 million.

2004 Revolving Credit Facility. On September 21, 2004, the Company entered into a five-year, $100 million senior secured revolving credit facility (the "2004 Revolving Credit Facility") with a syndicate of U.S. financial institutions. The 2004 Revolving Credit Facility is guaranteed by the capital stock of the Company and all of its existing and future domestic subsidiaries, and 65% of the capital stock of all the Company's future foreign subsidiaries. The 2004 Revolving Credit Facility has a $40 million sub-facility for standby and commercial letters of credit and a $10 million sub-facility for same day advances provided solely by the U.S financial institution where the Company maintains its cash deposits.

The 2004 Revolving Credit Facility requires maintenance of certain financial ratios, including a leverage ratio and an interest coverage ratio. In addition, the 2004 Revolving Credit Facility subjects the Company to certain limitations, including: (i) the incurrence of certain indebtedness and liens on Company property; (ii) the execution of contracts that represent certain fundamental changes in the Company's business; (iii) the sale of Company property except in the ordinary course of business; (iv) the making of certain restricted payments, as defined (to include cash dividends); and (v) the making of investments, as defined. As of December 31, 2005, the Company was in compliance with the financial ratios and other covenants of the 2004 Revolving Credit Facility, and had, after taking into consideration outstanding letters of credit, approximately $98 million of the 2004 Revolving Credit Facility available.

The interest rate for borrowings under the 2004 Revolving Credit Facility, except for same day advances, is chosen at the option of the Company and is based upon a base rate or adjusted LIBOR rate, plus an applicable margin. The base rate represents the higher of a floating prime rate and a floating rate equal to 50 basis points in excess of the Federal Funds Effective Rate. The interest rate for same day advances is based upon base rate, plus an applicable margin. The applicable margins are dependent on the Company's leverage ratio, as defined, and range from zero to 100 basis points for base rate loans and 125 to 225 basis points for LIBOR loans.

As of December 31, 2005, the Company had made no borrowings under the 2004 Revolving Credit Facility. The Company pays a quarterly commitment fee on the unused portion of the 2004 Revolving Credit Facility. This rate is dependent on the Company's leverage ratio and ranges from 25 to 50 basis points per annum. As of December 31, 2005, the commitment fee rate was 37.5 basis points per annum.

In conjunction with securing the 2004 Revolving Credit Facility, the Company incurred fees of $0.7 million.

Deferred Financing Costs. As of December 31, 2005, net deferred financing costs related to the Convertible Debt Securities were $5.6 million, and are being amortized to interest expense through the first date the holders of the Convertible Debt Securities can be put back to the Company by the holders (June 15, 2011), or approximately seven years from the date of issuance. As of December 31, 2005, net deferred financing costs related to the 2004 Revolving Credit Facility were $0.6 million, and are being amortized to interest expense over the five-year term of the credit agreement. The net deferred financing costs are reflected in Other Assets in the accompanying Consolidated Balance Sheets. Interest expense for the years ended December 31, 2005, 2004, and 2003 includes amortization of deferred financing costs of $1.2 million, $1.7 million, and $2.3 million, respectively. The weighted-average interest rate on the Company's debt borrowings, including amortization of deferred financing costs and commitment fees on the revolving credit facilities, for the years ended December 31, 2005, 2004, and 2003 was 3.2%, 4.1%, and 5.3%, respectively.

8. Restructuring Charges

The following are the key restructuring activities over the last three years that impacted the Company's results from continuing operations:

- In response to the expected reduction in revenues resulting from the Comcast arbitration ruling received in October 2003 (see Note 4), the Company implemented a cost reduction initiative in the fourth quarter of 2003. The cost reduction initiative, resulting in restructuring expense related primarily to employee termination benefits of $2.2 million, consisted of: (i) involuntary employee terminations from all areas of the Company's continuing operations; (ii) a reduction of costs related to certain of the Company's employee compensation and fringe benefit programs, to include a wage freeze; (iii) limited hiring of new employees; and (iv) a reduction in costs in several discretionary spending areas. This cost reduction initiative was substantially completed in the first quarter of 2004.
- During the first quarter of 2004, the Company abandoned a portion of one if its current office facilities, resulting in a restructuring charge of $1.0 million during 2004.

- During the fourth quarter of 2005, the Company had the following restructuring activities:
  - As a result of the sale of the GSS Business, the Company has recorded restructuring expenses in its continuing operations related to the following events:
    - Certain equity awards held by key members of the Company's management team included a change in control provision that was triggered upon the closing of the sale of the GSS Business (see Note 14). The change in control provision resulted in accelerated vesting as of December 9, 2005 for the equity awards impacted, and thus, deferred stock-based compensation expense of $3.8 million related to the accelerated vesting of these equity awards was recorded.
    - In December 2005, the Company entered into a separation agreement with one of its executive officers. As a result, cash separation benefits of $0.9 million and stock based compensation expense of $0.4 million, related to the accelerated vesting of certain equity awards, were recorded. The cash separation benefits are expected to be paid in the first quarter of 2006.
    - The Company involuntarily terminated approximately 10 people, consisting primarily of employees performing corporate support functions, prior to the end of 2005. The Company incurred restructuring charges related to these involuntary terminations of $0.6 million, which is expected to be substantially paid in 2006.
    - The Company's Board of Directors authorized the payment of incentive bonuses for certain members of the Company's management team involved in the divestiture of the GSS Business, with the bonuses considered earned and payable upon the successful closing of the sale of the GSS Business. The incentive bonuses, which were paid in the first quarter of 2006, resulted in an expense of $1.4 million.
  - The Company exercised a buyout provision included in the operating lease for its corporate aircraft for $8.7 million and then sold the aircraft to an unrelated party in January 2006 for $7.1 million (net of costs to sell). The Company recorded restructuring expense of $1.6 million related to this transaction. As of December 31, 2005, the aircraft was reflected in other current assets in the accompanying Consolidated Balance Sheet.
- The Company currently provides outsourced processing services utilizing the ICMS customer care and billing software application under a long-term processing agreement with FairPoint, a provider of communication services to rural communities. FairPoint is the Company's only client that receives processing services utilizing the ICMS asset in a service bureau environment. During 2005 and 2004, revenues related to the FairPoint contract were $1.8 million and $0.5 million, and operating losses (excluding restructuring charges of $6.2 million for 2005) were $3.7 million and $2.9 million, respectively.

  In November 2005, the Company executed amendments to its long-term processing agreement with FairPoint to effectively terminate the agreement (the amendments are collectively referred to as the "Termination Agreement"). Under the terms of the Termination Agreement, FairPoint is expected to transition and convert all of its customers to an alternative solution no later than December 31, 2006. In addition, the Company will pay FairPoint a contract termination fee of $4.0 million, which is expected to be paid in equal installments of $1.0 million on March 15, 2006, June 15, 2006, September 15, 2006 and December 15, 2006.

  The Termination Agreement resulted in restructuring charges totaling $6.2 million related to (i) the involuntary termination of employees; (ii) severance and retention bonuses for the Company employees continuing to service the FairPoint processing agreement (which is being recognized ratably over the employees' remaining service period); (iii) the impairment of FairPoint long-lived assets relating primarily to conversion/set-up costs that had been previously capitalized; and (iv) the impact of the contract termination fee. In addition to these restructuring charges, the Company recorded a $0.8 million charge against revenue during the fourth quarter of 2005 as part of the accounting for the Termination Agreement.

The restructuring activities discussed above resulted in restructuring charges $14.5 million, $1.3 million, and $2.1 million for the years ended December 31, 2005, 2004, and 2003, respectively, which have been reflected as a separate line item in the accompanying Consolidated Statements of Operations.

The activity in the business restructuring reserves related to continuing operations during the years ended December 31, 2005, 2004, and 2003 is as follows (in thousands):

	Termination Benefits	Facilities Abandonment	Other	Total
January 1, 2003, balance	$ 92	$ 108	$ —	$ 200
Charged to expense during year	2,217	(246)	178	2,149
Cash payments	(605)	—	—	(605)
Other	—	154	(178)	(24)
December 31, 2003, balance	1,704	16	—	1,720
Charged to expense during year	247	1,045	—	1,292
Cash payments	(1,951)	(160)	—	(2,111)
Other	—	(59)	—	(59)
December 31, 2004, balance	—	842	—	842
Charged to expense during year	2,010	(389)	12,913	14,534
Cash payments	(106)	(228)	—	(334)
Other (primarily non-cash charges)	—	32	(7,486)	(7,454)
December 31, 2005, balance	$ 1,904	$ 257	$ 5,427	$ 7,588

Of the $7.6 million business restructuring reserve balance as of December 31, 2005, $7.5 million was included in current liabilities and $0.1 million was included in non-current liabilities.

9. Income Taxes

The Company accounts for income taxes in accordance with the asset and liability method. Tax provisions and credits are recorded at statutory rates for taxable items included in the accompanying Consolidated Statements of Operations regardless of the period for which such items are reported for tax purposes. Deferred income taxes are recognized for temporary differences between financial statement and income tax bases of assets and liabilities.

Income Tax Provision (Benefit). The income tax provision (benefit) related to continuing operations consists of the following (in thousands):

	Year Ended December 31,		
	2005	2004	2003
Current:			
Federal	$22,334	$18,329	$(13,713)
State	980	599	(3,024)
	23,314	18,928	(16,737)
Deferred:			
Federal	2,200	9,837	6,921
State	705	552	(2,887)
	2,905	10,389	4,034
Total income tax provision (benefit)	$26,219	$29,317	$(12,703)

As the result of the sale of the GSS and plaNet businesses (see Note 2), the income (loss) from continuing operations is from North American sources, principally, the U.S.

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

	Year Ended December 31,		
	2005	2004	2003
Provision (benefit) at federal rate of 35%	$25,536	$28,110	$ (6,254)
State income taxes, net of federal impact	1,095	748	(3,842)
Research and development credits	(194)	(661)	(1,494)
Resolution of certain income tax contingencies and related items	109	469	(1,494)
Stock-based compensation	—	655	—
Other	(327)	(4)	381
Total income tax provision (benefit)	$26,219	$29,317	$(12,703)

Income tax benefits associated with the Company's ability to claim a tax deduction for stock-based compensation awards in excess of the book expense associated with those stock-based compensation awards are recorded as a reduction to income taxes payable and as an increase to additional paid-in capital. For the years ended December 31, 2005, 2004 and 2003, the Company recognized income tax benefits related to stock-based compensation awards of approximately $2.0 million, $1.3, and zero, respectively. Such income tax benefits are included in net cash provided by operating activities in the accompanying Consolidated Statements of Cash Flows. In instances where the Company's book expense associated with stock-based compensation awards exceeds the tax deduction the Company is able to claim for those stock-based compensation awards, additional income tax expense is recognized. For the year ended December 31, 2004, the Company recognized additional income tax expense associated with stock-based compensation awards of $0.7 million.

The Company is required to estimate its income tax liability in each jurisdiction in which it operates, including both federal and state income taxes. Various judgments and estimates are required in evaluating the Company's tax positions and determining the Company's provisions for income taxes. During the ordinary course of business, there are certain transactions and calculations for which the ultimate income tax determination may be uncertain. In addition, the Company may be subject to examination of its income tax returns by various tax authorities, which could result in adverse outcomes. For these reasons, the Company establishes reserves for tax-related uncertainties based on estimates of whether additional taxes and interest may be due. These reserves are adjusted based upon changing facts and circumstances, such as the closing of a tax audit or the expiration of a statute of limitations. As of December 31, 2005, the Company believes it had adequate reserves to cover its exposure to tax-related uncertainties.

Deferred Income Taxes. Deferred income taxes reflect the expected utilization of tax net operating loss ("NOL") carryforwards and the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Net deferred income tax assets as of December 31 are attributable to the following (in thousands):

	2005	2004
Current deferred income tax assets:		
Accrued expenses and reserves	$ 9,565	$ 6,142
Noncurrent deferred income tax assets (liabilities):		
Purchased research and development	21,469	25,102
Software	4,347	5,275
Client contracts and related intangibles	6,058	6,354
Noncompete agreements	2,438	3,044
Net operating loss (NOL) carryforwards	3,533	3,541
Property and equipment	(4,782)	(4,937)
Contingent interest related to Convertible Debt Securities	(9,171)	(3,215)
Stock-based compensation	3,093	2,861
Deferred revenue	2,985	—
Contingent payments	1,639	—
Other	1,666	1,468
	33,275	39,493
Valuation allowance	—	(685)
Net deferred income tax assets	$42,840	$44,950

Management regularly assesses the likelihood that deferred tax assets will be recovered from future taxable income. To the extent management believes that it is more likely than not that a deferred tax asset will not be realized, a valuation allowance is established. Except for the valuation allowances discussed in the following paragraph, the Company believes that it is more likely than not that sufficient taxable income will be generated in the future to realize the benefit of its net deferred income tax assets.

As of December 31, 2005, the Company has: (i) an acquired federal NOL carryforward of $5.2 million, which will begin to expire in 2013 and can be utilized through 2022; and (ii) state NOL carryforwards of $32.7 million, which will expire beginning in 2008 and ending in 2024. The acquired federal NOL carryforward is attributable to the pre-acquisition periods of an acquired subsidiary. The utilization of this NOL carryforward is limited pursuant to Section 382 of the Internal Revenue Code of 1986, as amended. As of December 31, 2004, the Company had established a valuation allowance of $0.7 million attributed to foreign tax credit carryforwards.

As discussed in Note 7, the Company completed an offering of Convertible Debt Securities in June 2004. The Convertible Debt Securities are subject to special U.S. Treasury regulations governing contingent payment debt instruments. These regulations allow the Company to take a tax deduction for interest expense on its U.S. Federal income tax return at a constant rate of 9.09% (subject to certain adjustments), compounded semi-annually, which represents the estimated yield on comparable non-contingent, non-convertible, fixed-rate debt instruments with terms and conditions otherwise similar to the Convertible Debt Securities. This interest expense deduction is greater than the interest expense reflected in the Consolidated Statements of Operations. This is considered a temporary difference, and thus does not impact the Company's overall effective income tax rate. As a result, the Company will be building a deferred tax liability until the Convertible Debt Securities are settled. Upon settlement, if the holders are able to achieve or exceed the 9.09% target yield on the Convertible Debt Securities, the cumulative deferred tax liability will be reclassified to stockholders' equity. If the holders are not able to achieve the 9.09% target yield, the Company will be required to pay the portion of the cumulative deferred tax liability to the U.S. tax authorities (without interest or penalties) determined by comparing the actual yield and the target yield, with the amount of the cumulative deferred tax liability not paid to the U.S. tax authorities reclassified to stockholders' equity.

10. Sale of Adelphia Accounts Receivable

In June 2002, Adelphia filed for bankruptcy protection. At that time, the Company adjusted its allowance for doubtful accounts and deferred revenue balances for the estimated realizability of Adelphia's pre-bankruptcy accounts receivable. In the second quarter of 2004, the Company sold, without recourse, $8.0 million of Adelphia pre-bankruptcy accounts receivable to an independent third party for $6.3 million. The Company has accounted for the transfer of the pre-bankruptcy accounts receivable as a "sale" using the guidance of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets" and removed the accounts receivable from the accompanying Consolidated Balance Sheet. The Company had no continuing involvement or retained interest in the transferred accounts receivable, and as a result of a bankruptcy court order stipulating to the amount of the pre-bankruptcy accounts receivable, there is no risk that the account receivable will be put back to the Company. The excess of the cash received over the Company's net carrying value of the pre-bankruptcy accounts receivable at the date of sale, totaling $3.5 million, was recognized in earnings in the accompanying Consolidated Statements of Operations during the second quarter of 2004, with $1.3 million recorded as processing revenues (primarily for services performed prior to the bankruptcy filing in June 2002) and $2.2 million as a reduction of bad debt expense.

11. Employee Retirement Benefit Plans

Defined Contribution-Type Plans. The Company sponsors a defined contribution plan covering substantially all U.S.-based employees of the Company. Participants may contribute up to 25% of their annual wages, subject to certain limitations, as pretax, salary deferral contributions. The Company makes certain matching, and at its discretion, service-based contributions to the plan. The Company's matching and service-related contributions related to its continuing operations for the years ended December 31, 2005, 2004, and 2003 were $3.5 million, $2.7 million, and $5.2 million, respectively.

Deferred Compensation Plan . The Company has a non-qualified deferred compensation plan for certain executives which allows the participants to defer a portion of their annual compensation. The Company provides a 25% matching contribution of the participant's deferral, up to a maximum contribution of $6,250 per year, plus a return on the deferred account balance attributable to the individual participants. As of December 31, 2005 and 2004, the Company has recorded a liability for this obligation of $4.8 million and $4.5 million, respectively. The Company's expense related to its continuing operations for this plan for the years ended December 31, 2005, 2004, and 2003 was $0.3 million, $0.4 million, and $0.6 million, respectively. The plan is unfunded.

12. Commitments, Guarantees and Contingencies

Operating Leases. The Company leases certain office and production facilities under operating leases that run through 2015. The leases generally are renewable and provide for the payment of real estate taxes and certain other occupancy expenses. Future aggregate minimum lease payments under these agreements for the years ending December 31 are as follows: 2006—$7.5 million, 2007—$7.9 million, 2008—$7.9 million, 2009—$6.1 million, 2010—$5.2 million, and thereafter—$16.1 million. The Company subleases portions of certain office facilities it has abandoned. The total minimum lease payments to be received in the future under signed noncancelable subleases as of December 31, 2005 totaled $0.8 million. Total rent expense from continuing operations for the years ended December 31, 2005, 2004, and 2003 was $9.3 million, $9.4 million, and $9.7 million, respectively.

Service Agreements. The Company outsources to First Data Corporation ("FDC") the data processing and related computer services required for the operation of its processing services and certain related products. The ACP proprietary software is run in FDC's facility to obtain the necessary mainframe computer capacity and other computer support services without making the substantial capital and infrastructure investments that would be necessary for the Company to provide these services internally. The Company's clients are connected to the FDC facility through a combination of private and commercially-provided networks. The Company also contracts with FDC for computer floor space on which the Company maintains certain open systems hardware, used primarily to support ACP related products and internal administrative systems. In June 2005, the Company extended its contract with FDC for these services through June 2010. The contract was previously scheduled to expire in June 2008. Under the agreement, the Company is charged a fixed fee plus a variable fee based on usage and/or actual costs. The total amount paid under the FDC service agreement for the years ended December 31, 2005, 2004, and 2003 was $43.0 million, $39.4 million, and $37.2 million, respectively. The Company believes it could obtain data processing and related computer services from alternative sources, if necessary.

Severance\Retirement Benefits. During the second quarter of 2004, the Company's President and Chief Operating Officer ended his employment with the Company. As of December 31, 2005, the Company had $0.8 million of accrued employee compensation on its Consolidated Balance Sheets related to this departure, all of which is expected to be paid in 2006.

In December 2004, the Company announced its Chairman of the Board of Directors (the "Chairman") and then Chief Executive Officer ("CEO") would retire on June 30, 2005. In consideration for certain changes to the Chairman and CEO's employment agreement and for post-termination consulting services to be provided, the Company agreed to pay the Chairman and CEO a total of $9.6 million, $5.6 million which was paid in January 2006, $2.0 million which will be paid on July 1, 2006, and $2.0 million which will be paid on January 2, 2007. As of December 31, 2005, the Company has recorded expense of $9.4 million related to his retirement package, of which $8.9 million is included in expense in 2005 and $0.5 million was recorded as expense in 2004. The remainder of the $0.2 million of expense will be recorded in 2006.

During the fourth quarter of 2005, the Company recorded restructuring charges related to involuntary employee terminations associated with the Company's continuing operations' restructuring activities (see Note 8). Primarily all of the $1.9 million of accrued liabilities remaining as of December 31, 2005 related to the restructuring activities are expected to be paid in 2006.

Product Warranties. The Company generally warrants that its products and services will conform to published specifications, or to specifications provided in an individual client arrangement, as applicable. The typical warranty period is 90 days from delivery of the product or service. The typical remedy for breach of warranty is to correct or replace any defective deliverable, and if not possible or practical, the Company will accept the return of the defective deliverable and refund the amount paid to the Company under the client arrangement that is allocable to the defective deliverable. Historically, the Company has incurred minimal warranty costs, and as a result, does not maintain a warranty reserve.

Product Indemnifications. The Company's software arrangements generally include a product indemnification provision that will indemnify and defend a client in actions brought against the client that claim the Company's products infringe upon a copyright, trade secret, or valid patent. Historically, the Company has not incurred any significant costs related to product indemnification claims, and as a result, does not maintain a reserve for such exposure.

Claims for Company Non-performance. The Company's arrangements with its clients typically cap the Company's liability for breach to a specified amount of the direct damages incurred by the client resulting from the breach. From time-to-time, the Company's arrangements may also include provisions for possible liquidated damages or other financial remedies for non-performance by the Company, or in the case of certain of the Company's out-sourced customer care and billing solutions, provisions for damages related to service level performance requirements. The service level performance requirements typically relate to system availability and timeliness of service delivery. As of December 31, 2005, the Company believes it had adequate reserves, based on its historical experience, to cover any reasonably anticipated exposure as a result of the Company's nonperformance for any past or current arrangements with its clients. The amount of the reserve maintained for this purpose is not material.

Indemnifications Related to Sold Businesses. In conjunction with the sale of the GSS and plaNet businesses, the Company provided certain indemnifications to the buyers of these businesses which are considered routine in nature (such as employee, tax, or litigation matters that occurred while these businesses were under the Company's ownership). Under the provisions of these indemnification agreements, payment by the Company is conditioned on the other party making a claim pursuant to the procedures in the indemnification agreements, and the Company is typically allowed to challenge the other party's claims. In addition, certain of the Company's obligations under these indemnification agreements are limited in terms of time and/or amounts, and in some cases, the Company may have recourse against a third party if it is required to make certain indemnification payments.

Following the guidelines of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others—An Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34", the Company estimated the fair value of these indemnifications at $2.8 million as of the closing dates for the sale of the GSS and plaNet businesses. It is not possible to predict the maximum potential amount of future payments the Company may be required to make under these indemnification agreements due to the conditional nature of the Company's obligations and the unique facts and circumstances associated with each indemnification provision. The Company believes that if it were to be required to make payments in excess of the indemnification liabilities it has recorded, the resulting loss would not have a material effect on the Company's financial condition or results of operations. If any amounts required to be paid by the Company would differ from the amounts initially recorded as indemnification liabilities as of the closing dates the sale of the GSS and plaNet businesses, the difference would be reflected in the discontinued operations section of the Company's Consolidated Statements of Operations.

Indemnifications Related to Officers and the Board of Directors. The Company has agreed to indemnify certain of its officers and members of its Board of Directors if they are named or threatened to be named as a party to any proceeding by reason of the fact that they acted in such capacity. The Company maintains directors' and officers' (D&O) insurance coverage to protect against such losses. The Company has not historically incurred any losses related to these types of indemnifications, and is not aware of any pending or threatened actions or claims against any officer or member of its Board of Directors. As a result, the Company does not have any liabilities related to such indemnifications as of December 31, 2005. In addition, as a result of the insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is not significant.

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, the Company is not presently a party to any material pending or threatened legal proceedings.

13. Stockholders' Equity

Stock Repurchase Program . The Board of Directors has authorized the Company's management to purchase up to 20 million shares of its common stock from time-to-time as market and business conditions warrant (the "Stock Repurchase Program"). In April 2005, the Company established a formal plan with a financial institution that complies with the provisions of Rule 10b5-1 under the Securities Exchange Act of 1934 (the "Rule 10b5-1 Plan") to repurchase shares of the Company's common stock on the open market. Any shares repurchased under the Rule 10b5-1 Plan are counted towards the 20 million share limit authorized under the Stock Repurchase Program. The Rule 10b5-1 Plan supplements any stock repurchases the Company may decide to purchase under the existing terms of its Stock Repurchase Program. In effect, the Rule 10b5-1 Plan facilitates achieving stock buyback objectives more readily by permitting the execution of trades during periods that would otherwise be prohibited by internal trading policies. The maximum quarterly repurchase limitation established by the Company under the Rule 10b5-1 Plan is $15 million.

As of December 31, 2005, a summary of the shares repurchased under the Stock Repurchase Program is as follows (in thousands, except per share amounts):

	2005	2004	2003	1999-2002	Total
Shares repurchased	3,808	2,983	—	6,339	13,130
Total amount paid	$72,968	$52,897	—	$199,710	$325,575
Weighted-average price per share	$ 19.16	$ 17.73	—	$ 31.51	$ 24.80

The shares repurchased under the Stock Repurchase Program are being held as treasury shares. As of December 31, 2005, the total remaining number of shares available for repurchase under the Stock Repurchase Program totaled 6.9 million shares.

In addition to the above mentioned stock repurchases, during 2005, 2004, and 2003, the Company repurchased and then cancelled approximately 394,000 shares, 174,000 shares and 13,000 shares for $8.3 million, $3.0 million and $0.2 million, respectively, of common stock from its executive officers and employees in connection with minimum tax withholding requirements resulting from the vesting of restricted stock under the Company's stock incentive plans.

14. Equity Compensation Plans

The discussions below for the Company's equity compensation plans include both continuing and discontinued operations.

Stock Incentive Plans

Background. Beginning in 2002, the Company implemented changes in its stock-based compensation programs designed to continue to attract and retain employees. As discussed in more detail below, in 2003, the Company allowed employees to exchange stock options, with exercise prices significantly above the Company's then-current stock price, for restricted stock awards. In addition, in 2003, the Company began primarily granting restricted stock awards instead of stock options to employees. Restricted stock awards offer employees the opportunity to earn shares of the Company's common stock over time, rather than stock options in which employees earn the right to purchase shares of Company common stock at a set price over time. Restricted stock awards are generally granted at no cost to the recipient. Because of the greater intrinsic value of the restricted stock at the grant date when compared to stock options, the number of equity awards granted under this compensation methodology is less than the number of equity awards granted when the primary equity awards were stock options.

Summary of Stock Incentive Plans . As of December 31, 2005 the Company has four stock incentive plans, as summarized below:

Plan	Shares Reserved For Issuance	Shares Available For Issuance
1996 Plan (1)	—	—
1997 Director Plan (2)	450,000	49,233
2005 Plan (1)	12,400,000	12,214,000
Total stockholder approved	12,850,000	12,263,233
2001 Plan (3)	3,000,000	566,496
Total	15,850,000	12,829,729

(1) The 2005 Stock Incentive Plan (the "2005 Plan") was adopted upon stockholder approval. The 2005 Plan replaces one of the Company's previously existing stock incentive plans, the 1996 Stock Incentive Plan (the "1996 Plan"). No further

grants may be made under the 1996 Plan, but any stock awards which are outstanding under the 1996 Plan will remain in effect in accordance with their respective terms. The shares available under the 2005 Plan have been reserved for issuance to officers and other key employees of the Company and its subsidiaries and to non-employee directors of the Company in the form of stock options, stock appreciation rights, performance unit awards, restricted stock awards, or stock bonus awards. Shares granted under the 2005 Plan in the form of a performance unit award, restricted stock award or stock bonus award are counted toward the aggregate number of shares of common stock available for issuance under the 2005 Plan as two shares for every one share granted or issued in payment of such award.

(2) The Stock Option Plan for Non-Employee Directors (the "1997 Director Plan") was adopted upon stockholder approval. The shares available under the 1997 Director Plan have been reserved for issuance to non-employee directors of the Company in the form of stock options.

(3) The 2001 Stock Incentive Plan (the "2001 Plan") was adopted without stockholder approval. The shares available under the 2001 Plan 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. Shares available under the 2001 Plan may be granted to key employees of the Company or its subsidiaries who are not: (i) officers or directors of the Company; (ii) "covered employees" of the Company for purposes of Section 162(m) of the Internal Revenue Code; or (iii) persons subject to Section 16 of the Securities Exchange Act of 1934.

January 2003 Restricted Stock Grant . In January 2003, the Company granted 480,000 shares of restricted stock at no cost to a key member of management, with 270,833 shares related to the stock options cancelled in August 2002. The Company issued 480,000 shares of treasury stock to fulfill the restricted stock grants, as opposed to issuing the new shares. The difference between the carrying value of the shares of treasury stock issued of $14.9 million (weighted-average price per share of $31.11) and the amount of deferred and accrued employee compensation recorded of $3.7 million (price per share of $13.65), or $11.2 million, was recorded as a reduction to accumulated earnings.

Restricted Stock-for-Stock Option Exchange . In December 2003, the Company completed a tender offer to exchange certain outstanding stock options held by employees for restricted stock. The Company accepted for exchange and cancelled outstanding options to purchase 3,617,335 shares of common stock, and in exchange for such cancelled options, issued 1,214,119 shares of restricted stock. Senior executive officers of the Company and non-employee Directors were not eligible to participate in the exchange program. The Company accounted for the exchange as a stock option modification and restricted stock grant under the fair value method in accordance with SFAS 123. At the time of the exchange, the total deferred compensation related to the restricted stock granted was $29.5 million (weighted-average price of $24.30 per share), which represented the unamortized SFAS 123 deferred compensation related to the stock options, plus the fair value of the restricted stock in excess of the fair value of the stock options exchanged.

Change in Control Provisions in Equity Awards Impacted by the GSS Business Sale . Certain equity awards held by key members of the Company's management team included a change in control provision that was triggered upon the closing of the sale of the GSS Business (see Note 2). Such awards were held by the Company's management team in both the Company's continuing operations and in the plaNet and GSS businesses. The change in control provision resulted in accelerated vesting of approximately 218,000 shares of unvested stock options and approximately 391,000 shares of unvested restricted stock as of December 9, 2005, and thus, deferred stock-based compensation expense of $4.7 million related to the accelerated vesting of the equity awards was recorded as stock-based compensation expense in the fourth quarter of 2005. Of this amount, $3.8 million was included in restructuring charges and $0.9 million was included in discontinued operations.

Modifications to Stock Based Awards . In conjunction with the closing of the sale of the GSS Business, during the fourth quarter of 2005, the Company entered into separation agreements with two of its executive officers which included accelerated vesting provisions related to certain outstanding equity awards. Such provisions resulted in accelerated vesting of 85,000 shares of unvested restricted stock, and thus, deferred stock-based compensation expense of $1.2 million related to these awards was recorded as stock-based compensation expense in the fourth quarter of 2005. Of this amount, $0.4 million was included in restructuring charges and $0.8 million was included in discontinued operations.

Restricted Stock . The restricted stock shares typically vest annually over three to four years. Unvested restricted stock shares are typically forfeited and cancelled upon termination of employment with the Company. Certain shares of the restricted stock become fully vested upon a change in control of the Company and subsequent termination of employment, and certain shares have other acceleration of vesting provisions related to retirement or termination of the respective employee. There are no restrictions on these shares other than the passage of time (i.e., the shares are released upon calendar vesting with no further restrictions). The Company generally issues new shares (versus treasury shares) to fulfill restricted stock award grants.

A summary of the restricted stock awards under the Company's stock incentive plans, and changes during the years ending December 31, are as follows:

	Year Ended December 31,		
	2005	2004	2003
Unvested awards, beginning of year	1,340,114	2,154,923	444,582
Awards granted	905,000	10,000	1,904,119
Awards forfeited/cancelled	(270,416)	(269,165)	(133)
Awards vested	(1,135,810)	(555,644)	(193,645)
Unvested awards, end of year	838,888	1,340,114	2,154,923
Weighted-average fair value per share on date of grant	$ 17.70	$ 17.60	$ 20.31

In January 2006, the Company granted 561,500 shares of restricted stock at no cost to key members of management at a market value on the date of grant of $22.12 per share. These awards are not reflected in the above table. The shares vest over four years. Certain shares of the restricted stock become fully vested upon a change in control of the Company and subsequent termination of employment, and certain shares have acceleration of vesting provisions related to retirement.

Stock Options. Stock options are typically granted with an exercise price equal to the fair value of the Company's common stock as of the date of the grant. Stock options granted under the plans typically vest over four years and have a maximum term of ten years. A summary of the stock options issued under the Company's stock incentive plans, and changes during the years ending December 31, are as follows:

	Year Ended December 31,					
	2005		2004		2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	2,027,658	$ 18.13	3,029,128	$ 17.33	6,539,059	$ 29.04
Granted	31,650	17.53	—	—	613,850	10.09
Exercised	(368,862)	11.33	(559,984)	10.26	(40,850)	8.69
Forfeited/cancelled	(234,483)	20.42	(441,486)	22.65	(4,082,931)	35.08
Outstanding, end of year	1,455,963	$ 19.47	2,027,658	$ 18.13	3,029,128	$ 17.33
Options exercisable at year end	1,360,879	$ 19.88	1,161,698	$ 21.44	1,390,705	$ 20.55
Weighted-average fair value of options granted during the year		$ 9.73		N/A		$ 5.60

CSG SYSTEMS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes information about the Company's outstanding stock options as of December 31, 2005:

	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
$ 7.81 - $ 9.63	209,025	6.5	$ 9.04	208,151	$ 9.04
$ 9.69 - $11.06	59,185	3.3	10.03	46,185	9.95
$11.53 - $11.53	221,250	6.7	11.53	216,250	11.53
$11.68 - $13.10	299,562	6.9	12.69	233,728	12.68
$13.65 - $21.00	269,234	2.9	19.54	264,046	19.63
$21.13 - $35.88	210,918	4.2	27.06	205,730	26.86
$37.00 - $59.50	186,789	4.6	45.75	186,789	45.75
$ 7.81 - $59.50	1,455,963	5.2	$ 19.47	1,360,879	$ 19.88

All stock options awarded in 2005 were granted to GSS Business employees and were subsequently forfeited in 2005 upon the closing of the sale of the GSS Business as the GSS Business employees were considered terminated. The fair value of the stock option awards granted by the Company in 2003 were estimated on the date of grant using the Black-Scholes option-pricing model, with the following weighted-average assumptions, respectively: risk-free interest rates of 2.8%; dividend yield of zero percent; expected life of 5.5 years; and volatility of 60.0%.

1996 Employee Stock Purchase Plan

As of December 31, 2005, the Company had an employee stock purchase plan whereby 958,043 shares of the Company's common stock have been reserved for sale to its employees through payroll deductions. The price for shares purchased under the plan is 85% of market value on the last day of the purchase period. During the years ended December 31, 2005, 2004, and 2003, 68,813, 84,036, and 129,995 shares, respectively, were purchased under the plan for $1.1 million ($13.85 to $20.43 per share), $1.2 million ($11.90 to $17.60 per share), and $1.3 million ($7.37 to $13.22 per share), respectively. As of December 31, 2005, 423,086 shares remain eligible for purchase under the plan.

Stock-Based Compensation Expense

The Company recorded stock-based compensation expense as follows (in thousands):

	Year Ended December 31,		
	2005	2004	2003
Continuing operations	$17,047	$10,620	$4,997
Discontinued operations	3,311	4,266	562
Total stock-based compensation	$20,358	$14,886	$5,559

Deferred employee compensation related to the Company's stock-based awards accounted for under APB 25 as of December 31, 2005 and 2004, as reflected in the accompanying Consolidated Balance Sheets is zero and $1.3 million, respectively. Deferred employee compensation related to stock-based awards accounted for under SFAS 123 as of December 31, 2005 and 2004 was $12.3 million and $20.9 million, respectively. These amounts are not reflected in the Company's accompanying Consolidated Balance Sheets. The Company generally recognizes deferred employee compensation for its stock-based awards on a straight-line basis over the vesting period of the underlying award.

CSG SYSTEMS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

15. Unaudited Quarterly Financial Data

	Quarter Ended			
	March 31	June 30	September 30	December 31
	(in thousands, except per share amounts)			
2005:				
Total revenues (1)	$93,176	$96,850	$ 94,092	$ 93,199
Operating income (2)(3)	20,950	24,750	24,235	6,498
Income from continuing operations before income taxes (2)(3)	19,377	23,818	23,143	6,623
Income tax provision	(6,975)	(8,574)	(8,331)	(2,339)
Income from continuing operations (2)(3)	12,402	15,244	14,812	4,284
Discontinued operations, net of tax (4)(5)	(3,821)	(6,697)	(1,310)	18,315
Net income	8,581	8,547	13,502	22,599
Basic earnings (loss) per common share:				
Income from continuing operations	$ 0.25	$ 0.32	$ 0.32	$ 0.09
Discontinued operations, net of tax	(0.08)	(0.14)	(0.03)	0.39
Net income	$ 0.17	$ 0.18	$ 0.29	$ 0.48
Diluted earnings (loss) per common share:				
Income from continuing operations	$ 0.25	$ 0.31	$ 0.31	$ 0.09
Discontinued operations, net of tax	(0.08)	(0.14)	(0.03)	0.38
Net income	$ 0.17	$ 0.17	$ 0.28	$ 0.47
2004:				
Total revenues (6)	$87,332	$86,793	$ 86,646	$ 90,630
Operating income (6)	25,813	25,230	22,635	22,795
Income from continuing operations before income taxes (6)(7)	22,256	16,032	20,904	21,123
Income tax provision	(8,123)	(5,852)	(7,631)	(7,711)
Income from continuing operations (6)(7)	14,133	10,180	13,273	13,412
Discontinued operations, net of tax (8)	(3,300)	(2,424)	3,060	(1,150)
Net income	10,833	7,756	16,333	12,262
Basic earnings (loss) per common share:				
Income from continuing operations	$ 0.27	$ 0.20	$ 0.27	$ 0.27
Discontinued operations, net of tax	(0.06)	(0.05)	0.06	(0.02)
Net income	$ 0.21	$ 0.15	$ 0.33	$ 0.25
Diluted earnings (loss) per common share:				
Income from continuing operations	$ 0.27	$ 0.20	$ 0.26	$ 0.26
Discontinued operations, net of tax	(0.06)	(0.05)	0.06	(0.02)
Net income	$ 0.21	$ 0.15	$ 0.32	$ 0.24

(1) The second quarter of 2005 revenues included one-time, non-recurring revenues of $2.3 million related to contract termination and client bankruptcy settlements.

(2) The fourth quarter of 2005 results of operations included restructuring charges of $14.5 million. See Note 8.

(3) Beginning with the first quarter through the fourth quarter of 2005, the quarterly results of operations included expense for retirement benefits for our former CEO of $4.2 million, $4.3 million, $0.2 million, and $0.2 million (total of $8.9 million). See Note 12.

(4) The second quarter of 2005 discontinued operations included restructuring charges of $6.1 million related primarily to the abandonment of a facility and the realignment of certain management and sales personnel in the GSS Business.

(5) The fourth quarter of 2005 discontinued operations included the net pretax gain on disposals of $10.9 million. See Note 2.

(6) The second quarter of 2004 includes the impact of the sale of the Adelphia pre-bankruptcy receivables. Of the total $3.5 million benefit, $1.3 million was recognized as processing revenues and $2.2 million as a reduction of bad debt expense. See Note 10.

(7) In June 2004, the Company wrote-off $6.6 million of unamortized deferred financing costs attributable to the termination of the 2002 Credit Facility. See Note 7.

(8) The third quarter of 2004 discontinued operations was positively impacted by a reduction in the 2004 effective income tax rate as a result of the completion and resolution of certain tax matters in foreign jurisdictions.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b), our management, including the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), conducted an evaluation as of the end of the period covered by this report of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e). Based on that evaluation, the CEO and CFO concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) Management’s Annual Report on Internal Control over Financial Reporting

As required by Rule 13a-15(d), our management, including the CEO and CFO, also conducted an evaluation of our internal control over financial reporting, as defined by Rule 13a-15(f). Management’s Report on Internal Control over Financial Reporting is located at the front of Part II, Item 8 of this report and is incorporated by reference.

(c) Attestation Report of the Independent Registered Public Accounting Firm

Our independent registered public accounting firm issued an attestation report on management’s assessment and the effectiveness of our internal control over financial reporting as of December 31, 2005. KPMG LLP’s report is located immediately following Management’s Report on Internal Control over Financial Reporting at the front of Part II, Item 8 of this report and is incorporated by reference.

(d) Changes in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting that occurred during the fourth quarter of 2005 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Entry into a Material Definitive Agreement (as required by Section 1.01 of Form 8-K). In November 2005, the following events occurred:

- As a result of the expected sale of the GSS Business, the total revenue and proforma pretax income targets under the Performance Bonus Plan for 2005 were modified to take into account the financial impact of the sale of the GSS Business. The previous targets contemplated consolidated revenues and proforma pretax income that included the GSS Business for all of 2005, and thus, modifications were required in order to consider the impact of the sale.

- The Board of Directors approved the following annual base salaries and target bonus percentages for 2006 for the following executive officers:
  - Mr. Edward C. Nafus, Chief Executive Officer and President: base salary of $600,000 and target bonus percentage of 100% of base salary.
  - Mr. Peter E. Kalan, Executive Vice President and Chief Financial Officer: base salary of $425,000 and target bonus percentage of 75% of base salary.
  - Mr. Robert M. (“Mike”) Scott, Executive Vice President: base salary of $325,000 and target bonus percentage of 75% of base salary.
- We amended our non-qualified deferred compensation plan. The amendments were made in order to meet the requirements of Section 409A of the Internal Revenue Code of 1986, as amended.

PART III

Item 10. Directors and Executive Officers of the Registrant

See the Proxy Statement for our 2006 Annual Meeting of Stockholders, from which information regarding directors is incorporated herein by reference. Information regarding our executive officers will be omitted from such proxy statement and is furnished in a separate item captioned "Executive Officers of the Registrant" included in Part I of this Form 10-K.

Item 11. Executive Compensation

See the Proxy Statement for our 2006 Annual Meeting of Stockholders, from which information in response to this Item is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

See the Proxy Statement for our 2006 Annual Meeting of Stockholders, from which information required by this Item is incorporated herein by reference, with the exception of the equity compensation plan information which is presented in Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities", and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

See the Proxy Statement for our 2006 Annual Meeting of Stockholders, from which information in response to this Item is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

See the Proxy Statement for our 2006 Annual Meeting of Stockholders, from which information in response to this Item is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(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 Consolidated Financial Statements on page 46.

(2) Financial Statement Schedules:

None. Any information required in the Financial Statement Schedules is provided in sufficient detail in our Consolidated Financial Statements and notes thereto.

(3) Exhibits

Exhibits are listed in the Exhibit Index on page 86.

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

(b) Exhibits

The Exhibits filed or incorporated by reference herewith are as specified in the Exhibit Index.

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.

By: /s/ EDWARD C. NAFUS
Edward C. Nafus
Chief Executive Officer
(Principal Executive Officer)

Date: March 14, 2006

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/ BERNARD W. REZNICEK **Bernard W. Reznicek**	Chairman of the Board of Directors	March 14, 2006
/s/ EDWARD C. NAFUS **Edward C. Nafus**	Director and Chief Executive Officer (Principal Executive Officer)	March 14, 2006
/s/ PETER E. KALAN **Peter E. Kalan**	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 14, 2006
/s/ RANDY R. WIESE **Randy R. Wiese**	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	March 14, 2006
/s/ DONALD B. REED **Donald B. Reed**	Director	March 14, 2006
/s/ JANICE I. OBUCHOWSKI **Janice I. Obuchowski**	Director	March 14, 2006
/s/ JAMES A. UNRUH **James A. Unruh**	Director	March 14, 2006
/s/ DONALD V. SMITH **Donald V. Smith**	Director	March 14, 2006
/s/ FRANK V. SICA **Frank V. Sica**	Director	March 14, 2006

EXHIBIT INDEX

Exhibit Number	Description
2.28(9)	Asset Purchase Agreement by and between Lucent Technologies Inc., as Seller, and CSG Systems International, Inc., as Buyer, dated as of December 31, 2001
2.29(9)	Intellectual Property Agreement by and among Lucent Technologies Inc., Lucent Technologies GRL Corporation, Lucent Technologies Ireland Holding Limited and CSG Systems International, Inc., CSG Software Inc., CSG Technology Limited, effective as of February 28, 2002
2.30(9)	Software and Services Master Supply Agreement (North America) by and among Lucent Technologies Inc. and CSG Systems International, Inc. and CSG Software, Inc., dated as of February 28, 2002
2.31(9)	Software and Services Master Supply Agreement (International) by and among Lucent Technologies Inc. and CSG System International, Inc. and CSG Software, Inc., dated as of February 28, 2002
2.40(33)	Securities Purchase Agreement by and among, Comverse, Inc. as Purchaser, CSG Software, Inc., CSG Americas Holdings, Inc., CSG Netherlands BV, CSG Technology Limited, the Companies to be Acquired, and CSG Systems International, Inc. and CSG Netherlands CV, Acting Through its General Partner, CSG International Holdings, LLC, as Sellers, dated October 6, 2005
2.40A(33)	Amendment to Securities Purchase Agreement, dated December 9, 2005
3.01(1)	Restated Certificate of Incorporation of the Company
3.02(27)	Revised Bylaws of CSG Systems International, Inc.
3.03(2)	Certificate of Amendment of Restated Certificate of Incorporation of CSG Systems International, Inc.
4.01(1)	Form of Common Stock Certificate
4.10(16)	Indenture dated as of June 2, 2004 between the Registrant and Deutsche Bank Trust Company Americas relating to the CODES
4.20(16)	Registration Rights Agreement dated as of June 2, 2004 between the Registrant and Lehman Brothers Inc.
10.01(1)	CSG Systems International, Inc. 1995 Incentive Stock Plan
10.02(17)	CSG Employee Stock Purchase Plan
10.03(6)	CSG Systems International, Inc. 1996 Stock Incentive Plan
10.04(28)	CSG Systems International, Inc. 2005 Stock Incentive Plan
10.14(3)	Employment Agreement with Neal C. Hansen, dated November 17, 1998
10.14A(5)	First Amendment to Employment Agreement with Neal C. Hansen, dated June 30, 2000
10.14B (10)	Second Amendment to Employment Agreement with Neal C. Hansen, dated April 29, 2002
10.14C (11)	Third Amendment to Employment Agreement with Neal C. Hansen, dated August 30, 2002
10.14D (12)	Fourth Amendment to Employment Agreement with Neal C. Hansen, dated November 15, 2002
10.14E (20)	Fifth Amendment to Employment Agreement with Neal C. Hansen, dated December 20, 2004
10.14F (23)	Sixth Amendment to Employment Agreement with Neal C. Hansen, dated March 8, 2005
10.14G (30)	Seventh Amendment to Employment Agreement with Neal C. Hansen, dated June 7, 2005
10.15(8)	Form of Indemnification Agreement between CSG Systems International, Inc. and Directors and Executive Officers

Exhibit Number	Description
10.20*(15)	CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC dated March 17, 2004
10.20A*(18)	First Amendment to the CSG Master Subscriber Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.20B*(21)	Second Amendment to the CSG Master Subscriber Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.20C*(25)	Fourth Amendment to the CSG Master Subscriber Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.20D*(32)	Fifth Amendment to the CSG Master Subscriber Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
10.21*(15)	CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and EchoStar Satellite Corporation, dated April 1, 1999 and First, Second, Third, Fourth, Sixth, Eighth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth, Eighteenth, Nineteenth, Twentieth, Twenty-First, Twenty-Second, Twenty-Third, Twenty-Sixth, Twenty-Seventh, Twenty-Eighth, Twenty-Ninth, Thirtieth, Thirty-First, Thirty-Third, and Thirty-Fifth Amendments
10.21A*(17)	Thirty-Sixth and Thirty-Seventh Amendments to CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and EchoStar Satellite Corporation
10.21B*(18)	Thirty-Second and Thirty-Eighth Amendment to CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and EchoStar Satellite Corporation
10.21C*(21)	Thirty-Ninth Amendment to CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and EchoStar Satellite Corporation
10.22*	CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and EchoStar Satellite L.L.C. effective November 1, 2005
10.30(18)	$100,000,000 Credit Agreement among CSG Systems International, Inc., as Borrower, the Lenders from Time to Time Parties Hereto, Wells Fargo Bank, National Association, as Administrative Agent, Keybank National Association, as Syndication Agent, and Wells Fargo Bank, National Association and Keybank National Association as Co-Lead Arrangers and Co-Book Runners, dated as of September 21, 2004
10.39(4)	CSG Systems, Inc. Wealth Accumulation Plan, as amended November 16, 1999
10.40*(14)	Third Amended and Restated Services Agreement between First Data Technologies, Inc. and CSG Systems, Inc. dated August 1, 2003
10.40A*(32)	First Amendment to Third Amended and Restated Services Agreement between First Data Technologies, Inc. and CSG Systems, Inc. dated June 28, 2005
10.44(7)	CSG Systems International, Inc. Stock Option Plan for Non-Employee Directors
10.45(19)	Employment Agreement with John Bonde, dated December 18, 2004
10.45A(26)	First Amendment to Employment Agreement with John Bonde, dated April 11, 2005
10.46(3)	Employment Agreement with Edward Nafus, dated November 17, 1998
10.46A(22)	First Amendment to Employment Agreement with Edward C. Nafus, dated January 11, 2005
10.46B(23)	Second Amendment to Employment Agreement with Edward C. Nafus, dated March 8, 2005
10.48(6)	Employment Agreement with Peter Kalan, dated January 18, 2001
10.50(10)	CSG Systems International, Inc. 2001 Stock Incentive Plan

Exhibit Number	Description
10.51(11)	Stock Option Cancellation Agreement with Neal C. Hansen, dated August 30, 2002
10.52(11)	Stock Option Cancellation Agreement with Peter E. Kalan, dated August 30, 2002
10.53(11)	Stock Option Cancellation Agreement with Edward C. Nafus, dated August 30, 2002
10.56(11)	Restricted Stock Award Agreement with Neal C. Hansen, dated August 30, 2002
10.57(11)	Restricted Stock Award Agreement with Peter E. Kalan, dated August 22, 2002
10.57A (22)	First Amendment to Restricted Stock Award Agreement with Peter E. Kalan, dated January 11, 2005
10.58(11)	Restricted Stock Award Agreement with Peter E. Kalan, dated August 30, 2002
10.58A (22)	First Amendment to Restricted Stock Award Agreement with Peter E. Kalan, dated January 11, 2005
10.59(11)	Restricted Stock Award Agreement with Edward C. Nafus, dated August 30, 2002
10.59A (22)	First Amendment to Restricted Stock Award Agreement with Edward C. Nafus, dated January 11, 2005
10.62(13)	Restricted Stock Award Agreement with Neal C. Hansen, dated January 2, 2003
10.63(13)	Restricted Stock Award Agreement with Neal C. Hansen, dated January 2, 2003
10.64(22)	Restricted Stock Award Agreement with Peter E. Kalan, dated January 11, 2005
10.65(22)	Restricted Stock Award Agreement with Edward C. Nafus, dated January 11, 2005
10.66(22)	Amendment of Stock Option Agreement with Edward C. Nafus, dated January 11, 2005
10.67(22)	Amendment of Stock Option Agreement with Edward C. Nafus, dated January 11, 2005
10.68(24)	Restricted Stock Award with Robert M. Scott, dated March 25, 2005
10.69(24)	Restricted Stock Award with Alan Michels, dated March 25, 2005
10.70(31)	Employment Agreement with Robert M. Scott, dated June 6, 2005
10.71(29)	Employment Agreement with Alan Michels, dated June 1, 2005
10.72(32)	Restricted Stock Award Agreement with Edward C. Nafus, dated June 30, 2005
10.73(32)	Restricted Stock Award Agreement with John Bonde, dated June 30, 2005
10.74(33)	Separation Agreement and Release with Mr. Alan Michels, dated December 9, 2005
10.75(34)	Separation Agreement and Release with Mr. John “Hank” Bonde, dated December 21, 2005
10.80(18)	Forms of Agreement for Equity Compensation
10.80A (32)	Forms of Agreement for Equity Compensation
12.10	Statement regarding computation of Ratio of Earnings to Fixed Charges
21.01	Subsidiaries of the Company
23.01	Consent of KPMG LLP
31.01	Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.02	Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.01	Certification pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(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 Quarterly Report on Form 10-Q for the period ended June 30, 1997.

(3) Incorporated by reference to the exhibit of the same number to the Registrant's Annual Report on Form 10-K, as amended for the year ended December 31, 1998.
(4) Incorporated by reference to the exhibit of the same number to the Registrant's Annual Report on Form 10-K, as amended, for the year ended December 31, 1999.
(5) 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, 2000.
(6) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2001.
(7) 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, 2001.
(8) Incorporated by reference to the exhibit of the same number to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001.
(9) Incorporated by reference to the exhibit of the same number to the Registrant's Current Report on Form 8-K for the event dated March 14, 2002.
(10) 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, 2002.
(11) 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, 2002.
(12) Incorporated by reference to the exhibit of the same number to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002.
(13) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2003.
(14) 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, 2003.
(15) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2004.
(16) Incorporated by reference to the exhibit of the same number to the Registrant's Registration Statement No. 333-117427 on Form S-3.
(17) 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, 2004.
(18) 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, 2004.
(19) Incorporated by reference to the exhibit of the same number to the Registrant's Current Report on Form 8-K for the event dated December 18, 2004.
(20) Incorporated by reference to the exhibit of the same number to the Registrant's Current Report on Form 8-K for the event dated December 20, 2004.
(21) Incorporated by reference to the exhibit of the same number to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004.
(22) Incorporated by reference to the exhibit of the same number to the Registrant's Current Report on Form 8-K for the event dated January 11, 2005.
(23) Incorporated by reference to the exhibit of the same number to the Registrant's Current Report on Form 8-K for the event dated March 6, 2005.
(24) Incorporated by reference to the exhibit of the same number to the Registrant's Current Report on Form 8-K for the event dated March 25, 2005.
(25) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2005.
(26) Incorporated by reference to the exhibit of the same number to the Registrant's Current Report on Form 8-K/A (Amendment No. 1) for the event dated March 6, 2005, filed on April 13, 2005.
(27) Incorporated by reference to the exhibit of the same number to the Registrant's Current Report on Form 8-K for the event dated May 26, 2005.
(28) Incorporated by reference to the exhibit of the same number to the Registrant's Current Report on Form 8-K for the event dated May 27, 2005.

(29) Incorporated by reference to the exhibit of the same number to the Registrant’s Current Report on Form 8-K/A (Amendment No. 1) for the event dated December 9, 2004, filed on June 6, 2005.
(30) Incorporated by reference to the exhibit of the same number to the Registrant’s Current Report on Form 8-K for the event dated June 7, 2005.
(31) Incorporated by reference to the exhibit of the same number to the Registrant’s Current Report on Form 8-K/A (Amendment No. 2) for the event dated March 6, 2005, filed on June 8, 2005.
(32) 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, 2005.
(33) Incorporated by reference to the exhibit of the same number to the Registrant’s Current Report on Form 8-K for the event dated December 9, 2005.
(34) Incorporated by reference to the exhibit of the same number to the Registrant’s Current Report on Form 8-K/A (Amendment No. 1) for the event dated December 9, 2005, filed on December 27, 2005.

* Portions of the exhibit have been omitted pursuant to an application for confidential treatment, and the omitted portions have been filed separately with the Commission.

Exhibit 10.22

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 have been marked with (***).

CSG MASTER SUBSCRIBER MANAGEMENT SYSTEM AGREEMENT

This CSG MASTER SUBSCRIBER MANAGEMENT SYSTEM AGREEMENT (the "Agreement") is entered into between CSG Systems, Inc., a Delaware corporation with offices at 7887 E. Belleview Avenue, Suite 1000, Englewood, Colorado 80111 ("CSG"), and EchoStar Satellite L.L.C., a Colorado limited liability company with offices at 9601 S. Meridian Blvd, Englewood, Colorado, 80112 ("Customer") and shall be effective on November 1, 2005 (the "Effective Date"). CSG and Customer agree as follows:

WHEREAS, CSG and Customer are parties to a CSG Master Subscriber Management System Agreement entered into on April 1, 1999 ("Prior Agreement"), and upon execution of this Agreement desire to supercede the terms and conditions of the Prior Agreement with the terms and conditions of this Agreement.

WHEREAS, Customer desires to obtain from CSG, and CSG desires to provide to Customer, the Services set forth below, which, along with any other CSG services subsequently provided by CSG to Customer under this Agreement, are collectively referred to herein as the "Services," and which are defined in Schedule A , including its Exhibits, attached hereto and incorporated herein.

WHEREAS, Customer desires to obtain from CSG, and CSG desires to grant to Customer, a license to use the products set forth below, which, along with any other CSG products subsequently licensed by CSG to Customer under this Agreement, are collectively referred to herein as the "Products," and which are defined in Schedule B , including its Exhibits, attached hereto and incorporated herein.

NOW THEREFORE, in consideration of the mutual promises and covenants contained herein, CSG and Customer agree as follows:

1. **FEES AND EXPENSES .** The Products and Services will be provided for the fees set forth in Schedule F . Customer shall also reimburse CSG for reasonable out-of-pocket expenses ("Reimbursable Expenses"), including travel and travel-related expenses, that are consistent with CSG's standard travel reimbursement policies ****** ** ***** ********* ***** ******** *** ********* ** ****** $*,***.**, ***** *** ***** ****** ********'* ***** ******* *******, and are incurred by CSG in connection with CSG's performance of its obligations hereunder.

2. **INVOICES .** Customer shall pay Undisputed (defined below) amounts due hereunder within ***** (**) ******** **** after the date of invoice therefore. Notwithstanding anything to the contrary in this Agreement, CSG understands and agrees that any and all Undisputed payments, damages and liabilities due and payable to Customer by CSG under this Agreement or otherwise are subject to set-off by Customer against any and all Undisputed payments, damages and liabilities due and payable to CSG under this Agreement or otherwise. The parties further agree that any and all Undisputed payments, damages or liabilities due and payable to CSG by Customer under this Agreement are subject to set-off by CSG against any Undisputed payments, damages or liabilities due and payable to Customer under this Agreement. For purposes of this Agreement, "Undisputed" shall mean not disputed by either party in writing and in good faith. Any amount that is Undisputed that is not paid when due shall thereafter bear interest until paid at a rate equal to the lesser of *** *** *** **** ******* (**/*%) per month or the maximum rate allowed by applicable law.

3. **TAXES .** All undisputed amounts payable by Customer to CSG under this Agreement do not include any applicable use, sales, property or other taxes that may be assessable in connection with this Agreement. Customer will pay any taxes in addition to the amount due and payable. If Customer pays any such tax directly to the appropriate taxing authority, Customer shall furnish CSG with the official receipt of such payment. Notwithstanding the foregoing, Customer shall not, however, be liable for any franchise tax, net worth tax, or any other taxes based on, or measured by, CSG's net income

4. **ADJUSTMENT TO FEES .** ****** ** ********* *** ***** ** ******** *, *** ***** *** ******** *** ** *** **** ********* ** **** *********.

5. **SHIPMENT.** Unless otherwise mutually agreed to by the parties, CSG will use commercially reasonable efforts to make software available for electronic download by Customer with the use of an access code provided by CSG. . Customer's license to the Products and any third party software commences upon Customer's receipt of access to the Products/third part software. Upon timely notice by Customer to CSG, CSG will immediately replace, at CSG's expense, any Products that are lost or damaged while in route to, or when received by, Customer. At no additional cost or expense to Customer, CSG will comply with Customer's request for method of delivery of Products (including third party software), whether via disc, tape, electronic download by Customer with the use of an access code provided by CSG, or other medium, so long as such format is available to CSG using commercially reasonable efforts

6. **EQUIPMENT PURCHASE.**

(a) Customer is fully responsible for obtaining and installing all computer hardware, software, peripherals and necessary communications facilities, including, but not limited to servers, power supply, workstations, printers, concentrators, communications equipment and routers (the "Required Equipment") that are necessary at Customer's place of business in order for Customer to utilize the Services and the Products. Customer shall bear responsibility for the Required Equipment, including, but not limited to, the costs of procuring, installing, operating and maintaining such Required Equipment. At Customer's request and subject to the terms and conditions of Schedule B , CSG will consult with, assist and advise Customer regarding Customer's discharge of its responsibilities with respect to the Required Equipment, and CSG may obtain for Customer, upon customers written request, any Required Equipment at CSG's then-current prices and on terms and conditions set forth in a separately executed purchase agreement.

(b) If necessary for Customer to receive the Products and/or Services, CSG may provide, at Customer's option and expense, the required data communications line from CSG's data processing center to each of Customer's system site locations (the "System Sites," which Customer may amend from time to time), as appropriate. Customer shall pay all fees and charges in connection with the installation and use of and peripheral equipment related to the data communications line in accordance with the fees set forth in Schedule F .

7 . **PRODUCTS WARRANTIES AND REMEDIES.**

(a) Limited Warranty . Except as otherwise provided herein (in Sections that include, but are not necessarily limited to, Sections 7, 8, and 9), CSG warrants that, upon and continuing after delivery for a period of ninety (90) calendar days (the "Warranty Period") the Products, and any Deliverables provided by CSG under Exhibit A-2, will conform to CSG's published specifications in effect on the date of delivery or the specifications set forth in the applicable Statement of Work, and the Products and Deliverables will perform in a certified "Designated Environment" (as defined in Section 11) as described in the accompanying Documentation. CSG also warrants that the Services (including, but not limited to, the Technical Services as described in Exhibit A-2) will be performed in accordance with customary industry standards, and in a professional and workmanlike manner. Any third party software provided by CSG under this Agreement set forth in Exhibit B-1(b), shall be provided AS IS, except if/and to the extent that the licensor of any third party software expressly provides a warranty to CSG for the benefit of CSG's end- user customers, except for enhancements, modifications or changes to such third party software by CSG. CSG represents and Customer acknowledges that (i) the Products and any such third party software may not satisfy all of Customer's requirements and (ii) the use of the Products and such third party software may not be uninterrupted or error-free. Customer further acknowledges that the fees and other charges contemplated under this Agreement are based on the limited warranty, disclaimers and limitation of liability specified in this Agreement (including, but not limited to this Section and Sections 8, 15, 16 and 17).

(b) Year 2000 Warranty . CSG warrants to Customer that, during the term of this Agreement and at no additional cost to Customer, the Products and Services will be Year 2000 Compliant. "Year 2000 Compliant" means that, when used in accordance with CSG's specifications (including, but not limited to, the specifications set forth in the Designated Environment), the Products and Service will be able to accurately process date and date related data prior to, during and subsequent to the year 2000, including, but not limited to, leap years, and will not cause any material errors in data processing related to the turn of the century. CSG further warrants that it has not knowingly inserted, or knowingly allowed to be inserted, and will all commercial efforts to prevent insertion into the Products and Services, and/or the medium in which the Products and Services and other materials are provided to Customer by CSG, any program, code, information or command, including viruses, bombs, worms, backdoors or Trojan horses: (i) that are designed to cause the Products or Services, or any of Customer's software or hardware to malfunction, self-destruct or deny services, (ii) that are designed to cause damage to or degrade performance of any computer, network, or any information, program or data contained therein, or (iii) that are designed to enable unauthorized access to any of Customer's software or hardware.

(c) Remedies . In case of breach of warranty (under Section 7) or any other duty related to the quality of the Products, Deliverables or Services, CSG or its representative will, subject to the confidentiality provisions of this Agreement, promptly correct or replace any defective Product or Deliverable or re-perform the defective service, or if not practicable, CSG will accept the return of the defective Product or Deliverable and refund to Customer (i) the amount actually paid to CSG allocable to the defective Product or Deliverable, and (ii) a pro rata share of the maintenance fees that Customer actually paid to CSG for the period that such Product or Deliverable was not usable. Any claim for a breach of the warranty provided under this Section 7 (of which Customer has actual knowledge or should reasonably be aware) shall be submitted to CSG within ninety (90) calendar days of the event giving rise to the claim. Unless otherwise stated herein, Customer acknowledges that this Subsection 7(c) sets forth Customer's exclusive remedy, and CSG's exclusive liability, for any breach of warranty or other duty related to the quality of the Products, Deliverables or Services. THE REMEDIES SET FORTH IN THIS PARAGRAPH ARE SUBJECT TO THE LIMITATION OF LIABILITY SET FORTH BELOW IN SECTION 17.

8. THIRD PARTY SOFTWARE. CSG represents and Customer acknowledges that the Products may incorporate certain third party software and documentation and that Customer's rights and obligations with respect thereto are subject to any license terms that might accompany such third party software (the "Third Party Rights"). The fees, if any, for any such incorporated and other third party software are set forth in Schedule F . Customer will execute any reasonable additional documents that such vendors may require to enable CSG to deliver the incorporated and other third party software to Customer. CSG makes no warranty and provides no indemnity with respect to any such third party software, except if/and to the extent that the licensor of any third party software expressly provides a warranty or indemnity to CSG's end-user customers. Maintenance and support of third party software is provided by the licensor of those products. Although CSG may assist with front-line support, CSG will have no liability with respect thereto and Customer must look solely to the licensor, except for modifications or changes to such incorporated and other third party software made by CSG. Unless otherwise stated herein, the fees for incorporated third party software are the responsibility of CSG.

9. THIRD PARTY LICENSES. CSG may provide Customer with Products, third party software and Services subject to patent or copyright licenses that third parties, including Ronald A. Katz Technology Licensing, L.P., have granted to CSG (the "Third Party Licenses"). CSG represents and Customer acknowledges that Customer receives no express or implied license under the Third Party Licenses other than the right to use the Products, any third party software and Services, as provided by CSG, in the video, high speed data and direct broadcast satellite industries. Any modification of or addition to the Products, third party software or Services or combination with other software, hardware or services not made, provided or authorized in writing by CSG is not licensed under the Third Party Rights, expressly or impliedly, and may subject Customer and any third party supplier or service provider to an infringement claim. Neither Customer nor any third party will have any express or implied rights under the Third Party Licenses with respect to (i) any software, hardware or services provided by Customer not provided by CSG or (ii) any product or service provided by Customer other than through the authorized use of the Products, third party software or Services as provided by CSG.

10. MAINTENANCE AND SUPPORT.

(a) Standard Support Services . Following expiration of the Warranty Period throughout the term of this Agreement as set forth in Section 18, CSG will provide Customer support and maintenance of the then-current version of each licensed Product which shall include any and all Updates (defined below), excluding any customization ("Support Services") in accordance with the terms set forth in Schedule I . Included in the Support Services is support of the then-current version of the licensed Products via CSG's Product Support Center, Account Management, publication updates, and the fixes and updates that CSG makes generally available as part of its maintenance and support packages (the "Updates"). *** ******** ** **** *********, *** "****-******* *******" ******** *** *** ******** ** *** ******** ********. If Customer is not utilizing the Products in a certified Designated Environment or Customer has added third party applications, unless such applications have been approved by CSG, Customer will be responsible for making all necessary modifications to such third party applications to ensure they function properly with the Updates. Custom software modifications are not included in Support Services as Updates, but are covered as Technical Services under Exhibit A-2. The Support Services do not include maintenance and support of any customization or any other third party software. The maintenance and support for any customization will be provided pursuant to the terms, conditions and fees set forth in a separately executed Statement of Work. The maintenance and support for third party products is provided by the licensor of those products.

Although CSG may assist in this maintenance and support with front-line support, CSG will have no liability with respect thereto and Customer must look solely to the licensor. To the extent that CSG makes available for general release products providing functionality previously existing in a product licensed by Customer from CSG, CSG will make such functionality available to Customer at no additional charge or expense.

(b) Limitation. Updates or Enhancements (as defined in Schedule B) to any Product will not include any upgrade or new version of the CSG Products that CSG decides, in its sole discretion, to make generally available as a separately priced item. CSG will not be required to (i) develop and release Updates or Enhancements (ii) customize the Updates or Enhancements to satisfy Customer's particular requests or (iii) obtain Updates or Enhancements to any third party product. If an Update or Enhancement replaces a prior version of a Product, Customer shall, at its option, destroy or promptly return to CSG such prior version and all archival copies upon installing the Update or Enhancement.

11. DESIGNATED ENVIRONMENT. "Designated Environment" means the combination of the other computer programs and hardware equipment that CSG specifies for use with the Products as set forth on CSG's customer extranet website which can be accessed by Customer upon request, or otherwise approved by CSG in writing for Customer's use with the Products at the System Sites. Customer may use the Products only in the Designated Environment and will be solely responsible for upgrading the Designated Environment to the specifications that CSG may provide from time to time. CSG covenants and agrees to use commercially reasonable efforts to provide Customer at ***** ****** (**) ****** prior notice to any changes to the hardware and software that Customer may be required to maintain in order to use or access the Products or Services solely relating to the (a) operating system, or (b) CSG's Products or Services which are under the exclusive control of CSG. If Customer fails to do so or otherwise uses the Products outside the certified Designated Environment, CSG will have no obligation to continue maintaining and supporting the Products. *************** *** ******** ******** **** ** ******** ******** *** ******** ** * ************* ***********, *** ********* *** ****** **** ** **** *** ************ ********** ******* ** ******* **** ******** *** ******** ** **** ** *** ************/******** ******* ********* ** ******* ******* ******* ******* *** ******** ************ **** *** ***** **** ** ********* ***** **** ********* *** *** ******* ******** ******** ** ********** **** **** ********. As a condition to and upon execution of this Agreement, CSG shall certify the Designated Environment prior to the commencement of either party's obligations under this Agreement, including CSG's obligations to maintain and support the Products, which certification shall be consistent with the terms of this Agreement and not unreasonably withheld. Any other use or transfer of the Products will require CSG's prior approval, which may be subject to additional charges. CSG will not have any responsibility or liability in connection with malfunctions or any damage resulting from any modification to the Products not authorized by CSG or any use of the Products in connection with software or hardware not included in a certified Designated Environment.

12. RESERVED.

13. INDEMNITY.

(a) CSG Rights. CSG represents and warrants that: (i) CSG owns or otherwise has the right to license all U.S. patents, copyrights, trade secrets and other proprietary rights in or to the Products, Services, Deliverables and/or third party software; (ii) the Products, Services and Deliverables do not infringe a U.S. patent, trademark, copyright, trade secret or any other proprietary right owned by a third party; and (iii) CSG possesses the legal right and authority to execute this Agreement and (iv) the execution of this Agreement will not violate any other material agreement or obligation by which CSG may be bound.

(b) Indemnity. Except as set forth in Section 8, if an action is brought against Customer claiming that the Products infringe a United States patent, copyright, trademark, trade secret or other proprietary right owned by a third person, CSG will defend Customer at CSG's expense and pay any losses, claims, liabilities, damages and costs (including attorney's fees) finally awarded to a third party and against Customer in the infringement action, but only if (i) Customer notifies CSG promptly upon learning that the claim might be asserted, (ii) CSG has sole control over the defense of the claim and any negotiation for its settlement or compromise and (iii) Customer reasonably cooperates with CSG at CSG's expense in defending such claim.

(c) Additional Remedy. If a claim described in Section 13(b) may be or has been asserted, Customer will permit CSG, at CSG's option and expense, to (i) procure the right to continue using the Product, (ii) replace or modify the Product to eliminate the infringement while providing functionally equivalent performance or (iii) accept the return of the

Product and refund to Customer the amount of the fees actually paid to CSG and allocable for such Product, less amortization based on a 5-year straight-line amortization schedule and a pro rata share of any maintenance fees that Customer actually paid to CSG for the period that such Product was not usable.

(d) Limitation . CSG shall have no indemnity obligation to Customer under this Section if the infringement claim results from (i) a correction or modification of the Product not provided by CSG or without CSG's knowledge and consent, (ii) the failure by Customer to promptly install an Update or Enhancement provided by CSG or (iii) the combination of the Product with other items not provided by CSG, and which may not be reasonably anticipated by CSG to be used by Customer or purchased by Customer pursuant to Section 6 herein.

14. RESERVED.

15. RESERVED.

16. EXCLUSION OF CERTAIN WARRANTIES. EXCEPT AS EXPRESSLY PROVIDED IN THIS AGREEMENT, ALL WARRANTIES, CONDITIONS, REPRESENTATIONS, INDEMNITIES AND GUARANTEES WITH RESPECT TO THE PRODUCTS, ANY THIRD PARTY SOFTWARE, AND THE SERVICES, WHETHER EXPRESS OR IMPLIED, ARISING BY LAW, CUSTOM, PRIOR ORAL OR WRITTEN STATEMENTS BY CSG, ITS AGENTS OR OTHERWISE (INCLUDING, BUT NOT LIMITED TO ANY WARRANTY OF MERCHANTABILITY, SATISFACTION, OR FITNESS FOR PARTICULAR PURPOSE) ARE HEREBY OVERRIDDEN, EXCLUDED AND DISCLAIMED. CUSTOMER ACKNOWLEDGES AND AGREES THAT THE PRODUCTS AND SERVICES BEING PROVIDED ARE NOT WARRANTED TO BE ERROR-FREE BUT CSG REPRESENTS THAT IT WILL USE REASONABLE COMMERICAL EFFORTS TO CORRECT SUCH ERRORS.

17. NO CONSEQUENTIAL DAMAGES/LIMITATION OF LIABILITY. UNDER NO CIRCUMSTANCES WILL EITHER PARTY OR ITS RELATED PERSONS BE LIABLE TO THE OTHER PARTY, THEIR RESPECTIVE LICENSORS AND VENDORS BE LIABLE FOR ANY DAMAGES OTHER THAN DIRECT DAMAGES, SUCH AS CONSEQUENTIAL, INDIRECT, SPECIAL, PUNITIVE OR INCIDENTAL DAMAGES OR LOST PROFITS (EXCEPT FOR PROFITS LOST DUE SOLELY TO ACTS BY CSG DIRECTLY RESULTING IN THE UNAUTHORIZED DISCLOSURE OF CUSTOMER'S CUSTOMER LISTS), WHETHER FORESEEABLE OR UNFORESEEABLE, BASED ON THE OTHER PARTY'S CLAIMS OR THOSE OF ITS CUSTOMERS (INCLUDING, BUT NOT LIMITED TO, CLAIMS FOR LOSS OF DATA, GOODWILL, USE OF MONEY OR USE OF THE PRODUCTS, DELIVERABLES, OR SERVICES, THIRD PARTY SOFTWARE, RESULTING REPORTS, THEIR ACCURACY OR THEIR INTERPRETATION, INTERRUPTION IN USE OR AVAILABILITY OF DATA, STOPPAGE OF OTHER WORK OR IMPAIRMENT OF OTHER ASSETS), ARISING OUT OF BREACH OR FAILURE OF EXPRESS OR IMPLIED WARRANTY, BREACH OF CONTRACT, MISREPRESENTATION, NEGLIGENCE, STRICT LIABILITY IN TORT OR OTHERWISE. IN NO EVENT WILL THE AGGREGATE LIABILITY WHICH EITHER PARTY, ITS LICENSORS OR ITS VENDORS MAY INCUR IN ANY ACTION OR PROCEEDING EXCEED THE AMOUNT ACTUALLY PAID BY CUSTOMER ALLOCABLE TO THE SPECIFIC PRODUCT OR SERVICE INVOLVED THAT DIRECTLY CAUSED THE DAMAGE. DESPITE THE FOREGOING EXCLUSION AND LIMITATION, THIS SECTION WILL NOT APPLY TO THE EXTENT THAT APPLICABLE LAW SPECIFICALLY REQUIRES LIABILITY. NOR WILL THIS SECTION BE CONSTRUED OR APPLIED SO AS TO LIMIT OR REDUCE CUSTOMER'S FINANCIAL OBLIGATIONS HEREUNDER; OR AS TO LIMIT OR REDUCE CUSTOMER'S LIABILITY IN CONNECTION WITH INTENTIONAL OR GROSSLY NEGLIGENT ACTS WITH RESPECT TO THE PRODUCTS, SERVICES, DELIVERABLES OR THIRD PARTY SOFTWARE; OR TO LIMIT OR REDUCE CSG'S INDEMNIFICATION OBLIGATIONS UNDER SECTION 13.

18. TERM. This Agreement shall remain in effect until ******** **, **** (*** "******* ****") unless earlier terminated pursuant to Section 19. The term of any specific license for the Products and the term for any specific Services to be provided shall be set forth in the Schedules attached hereto and shall be effective from the date set forth therein and continue as provided for therein, unless terminated pursuant to Section 19 of this Agreement.

(a) ***** ********* ******. ***** ** ********** ** *** ******* ****, ******** ***** **** *** ****** ** ****** *** **** ** *** ********* ******* ** *** **** *** ***** ** ******** * *** ****** *** ********** **** ******* ******** **, ****, ** *** *** (*) ********** ***** ******* ******** **, **** **** ******* ****** ** *** ** **** **, ****. *** *****, ****** ******** ** *** **, **** ** **** ******.

** Confidential Treatment requested and the Redacted Material has been separately filed with the Commission.

(b) ****** ********* ******. ** *** ***** ******** *** ********* *** ****** ** ****** *** ********* ******* ******** **, ****, ******** *** ****** *** ** ********** *** (*) **** **** ******* ******** **, **** ******* ** *** **** *** ***** ** ******** * **** ******* ****** ** ***** **** **** **, ****. *** ***** ****** ******** ** *** **, **** ** **** ******.

(c) ** *** ***** ******** **** *** ****** *** ** *** ****** ** ****** ** ********** **** ************* (*) ** (*) *****, *** ******* ***** ** **** ****** ****** (**) ******** **** ** ********'* ********(*) ** ****** *** ** ******* *** **** ** *** *********.

19. TERMINATION. This Agreement or any one or more of the Schedules attached hereto may be terminated for cause in its entirety or as it pertains to a particular Product or Service, as follows:

(a) If either party materially or repeatedly breaches any material term or condition of this Agreement, except for Customer's obligation to pay fees, and fails either to substantially cure such breach within thirty (30) calendar days after receiving written notice specifying the breach or, for those breaches which cannot reasonably be cured within thirty (30) calendar days, promptly commence curing such breach and thereafter proceed with all due diligence to substantially cure such breach, then the party not in breach may, by giving written notice to the breaching party, terminate this Agreement, in its entirety or as it pertains to a particular Product or Service, as of a date specified in such notice of termination. All of the obligations of the parties contained in this Agreement, except for Customer's obligation to pay Undisputed fees, shall be deemed to have been performed in an acceptable manner unless the party not in breach provides the breaching party with written notice as stated above within sixty (60) calendar days of the event giving rise to the breach; provided the party not in breach, knows or should have known about such breach.

(b) If Customer fails to pay when due any Undisputed amounts owed hereunder *** ***** ** *** ********* ****** $***,***.** within thirty (30) calendar days of receiving written notice thereof, CSG may, by giving written notice thereof to Customer, terminate this Agreement or at CSG's option, CSG may terminate this Agreement as it pertains to any particular Product or Service, as of a date specified in such notice of termination.

(c) In the event that either party hereto becomes or is declared insolvent or bankrupt, is the subject of any proceedings related to its liquidation, insolvency or for the appointment of a receiver or similar officer for it, makes an assignment for the benefit of all or substantially all of its creditors, or enters into an agreement for the composition, extension or readjustment of all or substantially all of its obligations, then the other party hereto may, by giving written notice thereof to such party, terminate this Agreement as of the date specified in such notice of termination.

(d) If Customer materially breaches any material term or condition of Section 3 of Schedule B and fails to cure such default within thirty (30) calendar days of receiving written notice specifying the default, CSG may, at CSG's option, terminate this Agreement in its entirety or only as it pertains to a particular Product or Service, upon 30 calendar days advance written notice and without judicial or administrative resolution. The foregoing sentence shall only apply, however, with respect to intentional or willful acts by Customer.

Upon the termination of the Agreement or any portion hereof for any reason, all rights granted to Customer under this Agreement with respect to the terminated Product or Service will cease, and Customer will promptly (i) remove all the Products from the Designated Environment and all of Customer's other computer systems, storage media and other files; (ii) at Customer's option either destroy or return to CSG the Products and all copies thereof; (iii) deliver to CSG an affidavit which certifies that Customer has complied with these termination obligations; and (iv) pay to CSG all Undisputed fees that are due pursuant to this Agreement, including, without limitation, the fees otherwise due and payable by Customer (including the Discontinuance Fee), as set forth in Schedule F. In addition the receiving party shall destroy all of Confidential Information of the disclosing party at the disclosing party's request.

20. TERMINATION ASSISTANCE. Upon expiration or earlier termination of this Agreement by either party for any reason, and provided that Customer has paid CSG any and all Undisputed fees and expenses due hereunder as of the date of termination or expiration, CSG will provide Customer reasonable termination assistance for up to *** ******* ****** (***) ******** **** relating to the transition to another vendor. This termination assistance will be provided to Customer at CSG's rates that are set forth in Schedule F.

21. CONFIDENTIALITY.

(a) Definition . Customer and CSG may reveal to each other information relating to each other's business, the Products, Services and any third party software provided hereunder, which is confidential (the "Confidential Information"), and Customer acknowledges that confidentiality restrictions are imposed by CSG's licensors or vendors. Confidential Information shall include, without limitation, all of Customer's and CSG's trade secrets, and all know-how, design, invention, plan or process and Customer's data and information relating to Customer's and CSG's respective business operations, services, products, research and development, CSG's vendors' or licensors' information and products, Customer's Customer Lists and all other information that is marked "confidential" or "proprietary" prior to or upon disclosure, or which, if disclosed orally, is identified by the disclosing party at the time as being confidential or proprietary and is confirmed by the disclosing party as being Confidential Information in writing within thirty (30) calendar days after its initial disclosure.

(b) Restrictions . Each party shall use its commercially reasonable efforts to maintain the confidentiality of such Confidential Information and not show or otherwise disclose such Confidential Information to any third parties, including, but not limited to, independent contractors and consultants, without the prior written consent of the disclosing party. CSG shall protect Customer's Customer Lists with the same level of care as it utilizes to protect its own customer lists and shall not reveal any customer list information to any third party without the express prior written consent of Customer, which Customer may withhold in its absolute discretion. Each party shall use the Confidential Information solely for purposes of performing its obligations under this Agreement. Each party shall indemnify the other for any loss or damage the other party may sustain as a result of the wrongful use or disclosure by such party (or any employee, agent, licensee, contractor, assignee or delegate of the other party) of its Confidential Information. Both parties recognize that Customer's Customer Lists represent valuable information of Customer and breach of the obligations of confidentiality will result in substantial likelihood of irreparable harm and injury to Customer for which monetary damages would be an inadequate remedy, and which damages would be difficult to measure. Accordingly, CSG agrees that Customer shall have the right, in addition to any other remedies available, to obtain immediate injunctive relief, as well as other equitable relief allowed by a court of competent jurisdiction. The first sentence of Section 17 sets forth those sole circumstances under which CSG may be liable in connection with the unauthorized disclosure of Customer's Customer Lists. Neither party will allow the removal or defacement of any confidentiality or proprietary notice placed on the other party's documentation or products. The placement of copyright notices on these items will not constitute publication or otherwise impair their confidential nature.

(c) Disclosure . Neither party shall have any obligation to maintain the confidentiality of any Confidential Information which: (i) is or becomes publicly available by other than unauthorized disclosure by the receiving party; (ii) is independently developed by the receiving party; or (iii) is received from a third party who has lawfully obtained such Confidential Information without a confidentiality restriction. If required by any court of competent jurisdiction or other governmental authority, the receiving party may disclose to such authority, data, information or materials involving or pertaining to Confidential Information to the extent required by such order or authority, provided that the receiving party shall first have used its commercially reasonable efforts to obtain a protective order or other protection reasonably satisfactory to the disclosing party sufficient to maintain the confidentiality of such data, information or materials. If an unauthorized use or disclosure of Confidential Information occurs, the parties will take all steps which may be available to recover the documentation and/or products and to prevent their subsequent unauthorized use or dissemination.

(d) Limited Access . Each party shall limit the use and access of Confidential Information to such party's bona fide employees, agents and third party vendors, including independent auditors and required governmental agencies, who have a need to know such information for purposes of conducting the receiving party's business and who agree to comply with the use and non-disclosure restrictions applicable to the products and documentation under this Agreement. If requested, the receiving party shall cause such individuals to execute appropriate confidentiality agreements in favor of the disclosing party. Each party shall notify all employees and agents who have access to Confidential Information or to whom disclosure is made that the Confidential Information is the confidential, proprietary property of the disclosing party and shall instruct such employees and agents to maintain the Confidential Information in confidence.

22. SURVIVAL. Termination or expiration of this Agreement shall not impair either party's then accrued rights, obligations, liabilities or remedies. Notwithstanding any other provisions of this Agreement to the contrary, the terms and conditions of those Sections that would logically survive the termination or expiration of this Agreement shall survive.

23. PREFERRED PROVIDER. ****** ** ********** ********** *** ***** ** **** **********, ********* ***** ** ********** ** ********** *** *** ******* ** ******* ****** ** ********** ** ******* *** *********, ********* ** *** ***** ********** **** *** ** ******** ******, *** *** *** *** **** **** ****. ***** **** ********** ** ** ******, ********* ****** **** *** ***** ** ********’* ******* ******** ** *********** ******* ******** *** ********* (********* ***** *** **** ********) (************ ******** ** ** “******* ********”). ******* ******** ***** **** *** ***** **** *** *********** ** ***** *** ********* ***** ** ******* ******* ******** **** * ***** ***** ******. ** *** ****** ********, ********* ***** ****** *** ** *** ***** ***** ****** *****(*) *** *** ***** **** * *********** ****** ** **** ** ** ********* ****** **** ** *** ******* ** ******* **** * ******** ** ****** *****. **, ****** *** **** ** **** **********, ******** *********, ** ******** ** ********* ******** ******** ***** *** ********** ******* ******** ** * ***** ***** ******, ******** ***** *** ** ******** ** ******* **** ********** ** ***’* ******* ********

24. NATURE OF RELATIONSHIP . In performing hereunder, both parties are acting as independent contractors and neither party undertakes to perform any obligation of the other, whether regulatory or contractual, or to assume any responsibility for the other’s business or operations. Customer understands and agrees that CSG may perform similar services for third parties and license same or similar products to third parties. Nothing in this Agreement shall be deemed to constitute a partnership or joint venture between CSG and Customer. Neither party shall hold itself out as having any authority to enter into any contract or create any obligation or liability on behalf of or binding upon the other party.

25. OWNERSHIP. Unless explicitly stated to the contrary in this Agreement, all trademarks, service marks, patents, copyrights, trade secrets and other proprietary rights in or related to the Products, the Deliverables (as defined under Schedule B), the incorporated third party software or any third party software delivered by CSG (collectively the “Software Products”) are and will remain the exclusive property of CSG or its licensors, whether or not specifically recognized or perfected under applicable law. Customer will not take any action that jeopardizes CSG’s or its licensor’s proprietary rights or acquire any right in the Software Products, except the limited use or other rights specified herein. Except as otherwise agreed upon in writing between CSG and Customer, CSG or its licensor will own all rights in any copy, translation, modification, adaptation or derivation of the Software Products, including any improvement or development thereof. Customer will obtain, at CSG’s reasonable request, the execution of any instrument that may be appropriate to assign these rights to CSG or its designee or perfect these rights in CSG’s or its licensor’s name.

26. AUDIT. During the term of this Agreement and for twelve (12) months after its termination or expiration for any reason, upon not less than thirty (30) calendar days prior written notice to CSG, and during normal business hours, Customer may conduct an audit of CSG’s records regarding Reimbursable Expenses and all other payments made by Customer to CSG to verify that Customer has paid the correct amounts during the preceding eighteen (18) month period. Any such audit will be at Customer’s expense and shall be conducted by an independent auditor who shall execute a confidentiality agreement with CSG (in form acceptable to CSG), and shall be conducted in accordance with generally accepted accounting principles. Should such an audit reveal that CSG overbilled Customer and Customer overpaid CSG an amount equal to or greater than five percent (5%) of the correct amount due during the period covered by the audit, CSG shall reimburse Customer for all reasonable costs incurred by Customer in performing the audit, and shall credit Customer’s account with CSG by an amount equal to the amount overbilled and overpaid. If, at the time of such audit, Customer has a zero (0) balance owed to CSG, CSG shall pay Customer for the amount overbilled and overpaid. The remedy for overpayment as set forth in this Section 26 shall represent CSG’s sole and exclusive liability and Customer’s sole and exclusive remedy in connection with any claim that CSG has overbilled and Customer has overpaid any amount under the Agreement.

27. INSPECTION. During the term of this Agreement and for twelve (12) months after its termination or expiration for any reason, CSG or its representative may, upon reasonable prior notice to Customer and during normal business hours, inspect the files, computer processors, equipment and facilities of Customer which are relevant to this Agreement during business hours to verify Customer’s compliance with this Agreement. While conducting such inspection, CSG or its representative will be entitled to copy any item that Customer possesses and which are or may be in violation of this Agreement. Any item that is copied pursuant to the previous sentence shall be subject to the confidentiality restrictions set forth in Section 21.

28. FORCE MAJEURE. Neither party will be liable for any failure or delay in performing an obligation under this Agreement that is due to causes beyond its reasonable control, including, but not limited to, fire, explosion, epidemics, earthquake, lightening, failures or fluctuations in electrical power or telecommunications equipment, accidents, floods, acts of God, the elements, war, civil disturbances, acts of civil or military authorities or the public enemy, acts of terrorism, fuel or energy shortages, acts or omissions of any common carrier, strikes, labor disputes, regulatory restrictions, restraining orders or decrees of any court, changes in law or regulation or other acts of governmental, transportation stoppages or slowdowns or the inability to procure parts or materials. These causes will not excuse Customer from paying accrued Undisputed amounts due to CSG through any available lawful means acceptable to CSG.

29. **ASSIGNMENT.** Neither party may assign, delegate or otherwise transfer this Agreement or any of its rights or obligations hereunder without the other party's prior approval, which approval will not be unreasonably withheld or delayed. Any attempt to do so without such approval will be void. Subject to the limitations contained herein, CSG may assign this Agreement, upon notice to Customer, to a related or unrelated person in connection with a transfer of all or substantially all of its stock or assets to a third party, and Customer hereby consents to such assignment in advance. *******, ******** ***, **** ****** ** ***, ****** **** ********* ** ** ********* ** ******** ** ** ****** **** (*) ************ ** *** **** ** *** *** ********* ********** ** ******* *********; *** (**) ********* ******* ** *******, ** **** ********** ** ***, ** ****** *** ** ********'* *********** *********. *************** *** *********, **** ********* ***** *** ** ******** ** *** ** * ********** ** ********, ******* ********'* ******* ******* *******, ***** ******** ***** *** ** ************* ******** ** *******. ********** ** ******** ***** ** ******* **: (*) ******** *************** ***********, ******* ************** ******* *******, ***, ******* ***** ************** **********, ***, **** ****** *****, ***., ******** ***, *********** ******* ***********: ** *** ******* *****; (**) ****** ***********, **** ***** ***********, ******* ***********, *** **************, ***., ** ***** **************; ** (***) * ******** ***** *********, ******, ******* ** *********** ** *** *********. ** *** ***** *** ********* *** ** ************* *** ** *** ***** ** ****** ** * ********** ** ********, ******** ***** **** *** ******, ****** ****** (**) ******** **** ** **** ******** ** ******* *** ****** ** *********** *** **** ***********, ******** ***** ******* *** *********** ********** *** ***** ** ******* ** ** **** *********.

30. **NOTICES.** Any notice or approval required or permitted under this Agreement will be in writing and will be sent by fax, courier or registered mail, postage prepaid, to the address specified below or to any other address that may be designated by prior written notice. Any notice or approval delivered by fax (with answer back) will be deemed to have been received the day it is sent. Any notice or approval sent by courier will be deemed received one day after its date of posting. Any notice or approval sent by mail will be deemed to have been received on the 5th business day after its date of posting.

If to Customer:
EchoStar Satellite L.L.C.
9601 S. Meridian Blvd.
Englewood, CO 80112
: (***) ***-* ***: (***) ***-****
****: **. ****** **********
****** **** *********

****: **. ******* *****
********* **** *********,

and a copy to:
***** *********, ******* *******
***** ******, ***
**** *. ******** ****.
*********, ** *****

If to CSG:
CSG Systems, Inc.
7887 East Belleview, Suite 1000
Englewood, CO 80111
: (***) ***-* ***: (***) ***-****
****: ********* **** * **** ** ******* *******

31. **LEGAL ACTIONS.** This Agreement shall be governed and construed in accordance with the laws of the State of Colorado, without reference to its conflicts of law rules. Exclusive jurisdiction for all disputes under, or relating to this Agreement, shall be in the county, state or federal courts located within the State of Colorado.

32. **MISCELLANEOUS.** Any waiver or modification of this Agreement will not be effective unless executed in writing and signed by both parties. This Agreement will bind Customer's and CSG's successors-in-interest. If any provision of this

Agreement is held to be unenforceable, in whole or in part, such holding will not affect the validity of the other provisions of this Agreement. This Agreement, together with the Schedules, Exhibits and attachments hereto which are hereby incorporated into this Agreement by this reference, constitutes the complete and entire statement of all conditions and representations of the agreement between CSG and Customer with respect to its subject matter and supersedes all prior writings or understandings.

33. PERFORMANCE STANDARDS. While this Agreement is in effect, CSG shall comply with the performance standards (and any remedies associated therewith) as set forth in Schedule G .

34. TERMINATION OF PRIOR AGREEMENT. Upon the Effective Date of this Agreement, the Prior Agreement shall immediately terminate, except for any Undisputed amounts owed under such Prior Agreement (“Outstanding Fees”) and any statements of work or letters of agreement previously executed pursuant to the Prior Agreement but not yet completed or otherwise terminated, or under which any amount is owing by Customer to CSG (collectively, the “Outstanding SOWs”), shall become Statements of Work as defined in this Agreement and shall be completed in accordance with the terms of such Statements of Work. Any Outstanding Fees will be invoiced by CSG (to the extent such fees have not been invoiced) and shall be paid by Customer pursuant to the terms of this Agreement. In addition, any Outstanding SOW’s shall be invoiced by CSG, and shall be paid by Customer in accordance with the terms of the Outstanding SOW’s (if and to the extent such terms conflict with the terms of this Agreement). A list of all Outstanding SOW’s, as of the Effective Date, are set forth in Schedule J .

THIS AGREEMENT IS NOT EFFECTIVE UNTIL SIGNED ON BEHALF OF BOTH PARTIES.

IN WITNESS WHEREOF, the parties have executed this Agreement the day and year last signed below (“Effective Date”).

CSG Systems, Inc. (“CSG”)		**EchoStar Satellite L.L.C. (“Customer”)**	
By:	/s/ Edward C. Natus	**By:**	/s/ Michael Neuman
Name:	Edward C. Natus	**Name:**	Michael Neuman
Title:	Pres. & CEO	**Title:**	President/ COO

SCHEDULE A

Services

1. **Services.** Pursuant to the terms and conditions of the Agreement (including, but not limited to, the attached Exhibits), CSG agrees to provide to Customer, and Customer agrees to purchase from CSG, the Services set forth below, at the System Sites.

2. **Reliance on Information.** In providing any Services, CSG shall be entitled to rely upon and act in accordance with any instructions, guidelines, data or information provided to CSG by Customer, which Customer designates in writing to CSG to provide such instructions, guidelines or information, and shall incur no liability in doing so. Customer shall indemnify, defend and hold CSG, its third party vendors, directors, officers and employees harmless from any and all third party claims, losses, actions, suits, proceedings or judgments, including, without limitation, costs and reasonable attorneys' fees, incurred by or assessed against such parties resulting, in whole or in part from (i) except for CSG's gross negligence or unlawful misconduct, any action or failure to act by CSG in reliance on any instruction, approval, election, decision, action, inaction, omission or nonperformance by Customer, its officers, directors, shareholders, employees and agents relating to the Services, or (ii) any information or data provided to CSG by Customer in connection with the Services.

Service
CCS Services
Technical Services
Print & Mail Services
Credit Verification Services
Card Account Update (sponsored by Visa)
One Time and Recurring Credit Card Authorization Services
Electronic Payment Services (Paybill Advantage)

Additional Services
Account Hierarchies
CSG SmartLink ®
CSG Workforce ® Fleet Management Downstream Interface
ODE Interface
Integrated Operations Testing Environment
Address Change Service (Postal Endorsement)
CSG Customer Loyalty

** Confidential Treatment requested and the Redacted Material has been separately filed with the Commission.

EXHIBIT A-1

CCS Services

1. **CCS Services (for video and high speed data)** . Customer will purchase from CSG the billing services for Customer’s subscriber accounts using CSG’s billing system, including, at Customer’s option, CSG’s Advanced Convergent Platform (“CCS”). The CCS Services will provide Customer with an on-line terminal facility (not the terminals themselves), service bureau access to CCS processing software, adequate computer time and other mechanical data processing services as more specifically described in the user documents: the User Guide, User Data File Manual, User Training Manual, Conversion Manual, Operations Guide, and Customer Bulletins issued by CSG (the “Documentation”). Customer’s personnel shall enter payments and non-monetary changes on terminal(s) located at Customer’s offices, or provide CSG payment information on magnetic tape or electronic record in CSG’s format. CSG and Customer acknowledge and agree that the Documentation describing the CCS Services is subject to ongoing review and modification.

2. **Implementation/Conversion Services and Fees.** CSG shall provide services as described in Schedule D in connection with Customer’s implementation of the Products (the “Implementation Services”).

3. **Deconversion Services and Fees.** If Customer sells, transfers, assigns or disposes of any of the assets of or any ownership or management interest in any System Site (the “Disposed Site(s)”), Customer agrees to pay CSG the per set deconversion tape fee and the fees for processing and deconverting subscribers, including on-line access fees, as set forth in Schedule F , which amounts shall be due and payable thirty (30) calendar days prior to the intended deconversion of any such Disposed Site(s) from the CCS Services. CSG shall be under no obligation or liability to provide any deconversion tapes or records until all amounts due hereunder, and as otherwise provided in the Agreement, shall have been paid in full.

4. **Optional and Ancillary Services.** At Customer’s request, CSG shall provide optional and ancillary services, including but not limited to any described in Schedule F at those prices identified herein, or if no prices are identified then those prices agreed upon by Customer and CSG, or as may otherwise be set forth in Schedule F , and where applicable on the terms and conditions set forth in separately executed Schedules to the Agreement.

5. **Customer Information .** Any original documents, data and files provided to CSG hereunder by Customer (“Customer Data”) are and shall remain Customer’s property, and upon termination of this Agreement for any reason or deconversion of any System Site, such Customer Data shall be returned to Customer by CSG, subject to the payment of CSG’s then-current rates for processing and delivering the Customer Data, any applicable deconversion fees required under Section 4 hereof and all unpaid charges for services and equipment, if any, including late charges incurred by Customer. Customer Data will not be utilized by CSG for any purpose other than those purposes related to rendering the services to Customer under the Agreement. Data to be returned to Customer includes: Subscriber Master File (including Work Orders, Converters and General Ledger), Computer-Produced Reports (reflecting activity during period of 90 calendar days immediately prior to termination), House Master File, and any other related data or files held by CSG on behalf of Customer.

6. **Cycle E.** , *** ***** ******* ******** **** ******* ****** ****** ** * ********* ******* ** *** *** ********** ******** (“***** *”). *** *** ******** ***** **** ***** * ************* ***** ******* *** **** *************, ** ******** ** *** ******** *** ********, ** ******** ** ** ******** ** ******** ** ***, ** **** *, **** ** **:** *.*. (***). *** ****** ** ******* ******** **** * ********* ********** *********** (“***** * ********** ***********”). *** ***** * ********** *********** ***** ******* *** (*) ******* ********* (“****”), *** (*) **** *********** (** ******** ****** ** ******* *** *******), *** (*) ******* ® ********** ***********, *** (*) ****** ************** ******** *********** *** ******* ************ **** *********** (“******”).

7. **Annual Support Hours** . For the fees set forth in Schedule F , CSG shall make available to Customer, for each of the calendar years beginning on January 1, 2006 ***** ******** (**,***) hours of Technical Services each year ** ********** **** *** *********** ********** *** ******* *********** ** *** ******** *** ******** ** ******** ** ***** * (“Annual Support Hours”). For the calendar year of 2005, CSG shall make available to Customer ******* ******** **** ******* (**,***) Annual Support Hours. The Annual Support Hours are subject to the following terms and conditions:

** Confidential Treatment requested and the Redacted Material has been separately filed with the Commission.

(a) *** ***** ******** ** *** ** ******** ** (*) ******* **********, (**) ******** ** ******** ************, (***) *********** *** ***********, (**) ****** *******, (*) ****** ***********, (**) ****** *************, (***) ******* **********, (****) ********** *******, *** (**) ****** **********, **** ** ******* ******* *** ****** ******* ***** *********.

(b) *** ******* ****** ** ***** **** ******** *** ******* ** *** ********** ******* ** * ******** **** ***** ** *** ****** ** *** ***** ****** ******* ***** (“********* *****”). *** ******** ** **** ******* *(*), “********* ******* *****” ***** **** *** ****** ** ***** **** ******** *** ******* ** *** ********** ******* ***** ******** *** ******* **** **** *** ******** ******* ***/** ******** **** *** ********** ******* ** ********** **** **** ******* *(*). ** *** ***** **** ******** **** *** ******* *** ********* ******* ***** ****** *** ********** *******, ******** ***** ** ******* ** ***** **** ********** ***** **** *** ********** ********. *******, *** ****** ** ***** ******* **** ******** ** **** ******* ***** *** ****** **% ** *** ********* ******* ***** ********* ** *** **** ******* *******. *************, ******** *** ****** ** ** ****** **** ******* (**%) ** *** ********* ******* ***** ********* ** *** ********** ******* *** ***** ***** ***** ** *** **** ******* *******, ******** ******** *** *** ******* **** *** ***** **** ******** *******. *** ***** ********* ** ********, *** ************ ** ***, **** ****** *** ********* ******* *****, ***** ** ******** ** *** *** **** ***** *** ***** ** ******** *.

(c) *** ****** ** ***** **** ********* ** *** *** *** *** *********** ******** (“********* *****”) ***** ** *****, ****** ********* ****** ** ** **** *******. ******** ***** **** *** ****** ** ******** ** ******** *** ****** ** ********* *****, ******** **** ******** ******** *** **** *** ******* *** ****** (***) ******** **** ***** ******* ****** ** **** ******** ** ********. ************** *** *********, (*) *** ******** ** *** ****** ** ***** ***** ** ** **** **** **% ** *** ***** ********* *********; *** (*) ** ** ***** *** **** ******** ****** ** *** ********* ***** ******* ***** *,*** *****. ** * ******** ** *** ********* ***** ******* ** ******** *** ********* *** ** *** ******* ****** ******* ***** ** * ******** ****, ******** ***** ** ******** ** * ****** *** *** ****** ****** ******* ***** ** *** ****** **** *** ***** ** ******** *. *** ******** ** *** ****** ** ********* ***** ***** ** ******** ****** ** ** **** ******* *** ***** ** ******** ** ******** ** *** **** *** ***** ** ******** *.

(d) ************ ******** *** **********.

(e) The parties agree that the senior representatives from Customer’s IT Department and CSG’s EchoStar SBU shall meet on a quarterly basis to review and update Customer’s maintenance and support requirements in ******** ** ***** * for the upcoming three (3) quarters.

(f) The fees for Annual Support Hours are set forth in Schedule F .

8. Enhanced Support Services. The following support services shall be performed by CSG’s EchoStar SBU and shall be charged against the Annual Support Hours:

- Functional Enhancement, Business Analysis and Requirements Analysis
- New Functionality Testing
- System Configuration
- Operational Maintenance
- Trouble Ticket Management
- Enhanced Message Link (EML) Messaging and ZAS Management
- Macro Development and Management
- Vantage and Vantage Plus Analysis and Management
- Management of Custom Development Projects
- FMS WFM Management
- Management of MIS Level Profiles
- Ownership and Management of CSG Configuration Tool

Customer acknowledges that CSG shall not be responsible for the following activities and that Customer shall maintain the following responsibilities:

- Priority Management, Release Approval, ASH Approval
- Invoice Analysis
- Management of Taxing via Tax department
- Spanish Translations for CSG configuration team
- Commitment to change of ownership and complete production use of the CSG Configuration Tool

9. **MIPS Calculation.** ******** ****** ** *** *** *** *** **** ******** ** ******** *** ********, **** ** ********** **** *** **** *** ***** ** ******** *. ** *** ****** ***** (** **) *** ** **** ******** ***** (********* ** ******** **, ****), *** **** ****** ******** ** ******* ** *** **** ******** *** *** ********* *** ******* *** ****** (***) ******** ****. *** **** ******** ** ******** ** *** ***** ******* * ***** ****** ** **** ***** **: (*) *** **** **** (******* *****); (*) *** ****** ** ********** **** ******** ** *** *** ****** *********** ***/** ******** ********; *** (*) *** ****** ** **** ********* ** ********. "**** ****" ***** **** ******** (**) **** *** *** ******* ******** (***,***) ****** *********** *** *****. *** ******* ***** **** *** **** **** *** ** ********* ** ********* ** ******* *** **** ********* *** ********'* *** ** ***'* ******** *** ******** ***** *** ******** ****** ** ********. *** ******* **** ****** *** **** **** ** **** ** *** ********** **** ******** ** ********** **** (*)-(*) ***** ** ********* ** ******* *** ********* ******* (****** ********* ** *********) ** *** ******** ****. ** *** ***** ******** ****** ** ******** ********** **** ** ********** **** ********* (*) *****, ******** ***** *** *** *** *** ***** ** ******** * ** *** *********.

EXHIBIT A-2

Technical Services

1. **General.** Customer hereby hires CSG, and CSG hereby agrees, to provide Customer with the design, development and/or other consulting services described in a Statement of Work, as defined in Section 2 (collectively, the "Technical Services") as its independent contractor.

2. **Technical Services.**

(a) Statements of Work . CSG and Customer will execute a Statement of Work for each design, development and/or other consulting project that Customer wants CSG to undertake. CSG and Customer acknowledge that all Statements of Work will form an integral part of this Agreement.

(b) Location and Access . CSG may perform the Technical Services at Customer's premises, CSG's premises or such other premises that Customer and CSG may deem appropriate. Customer will permit CSG to have reasonable access to Customer's premises, personnel and computer equipment for the purposes of performing the Technical Services at Customer's premises.

(c) Insurance . CSG will be solely responsible for obtaining and maintaining appropriate insurance coverage for its activities under this Exhibit A-2, including, but not limited to, comprehensive general liability (bodily injury and property damage) insurance and professional liability insurance.

3. **Fees and Expenses.** Customer will pay CSG any Project Fees set forth in a Statement of Work, as well as any Reimbursable Expenses incurred in connection with Technical Services performed by CSG, in accordance with the terms and conditions of the Agreement.

4. **Intellectual Property .** All patents, copyrights, trade secrets or other proprietary rights in or to the work product that CSG may create for Customer under this Exhibit A-2 (the "Deliverables"), including, but not limited to, any ideas, concepts, inventions or techniques that CSG may use, conceive or first reduce to practice in connection with the Technical Services, are and will be the exclusive property of CSG, except as, and to the extent otherwise, specified in the applicable Statement of Work. During and after the term of this Agreement, CSG and Customer will execute the instruments that may be appropriate or necessary to give full legal effect to this Section 4.

5. **Delivery of Items.** Upon the expiration or termination of this Agreement for any reason, Customer will promptly pay CSG the Project Fees and Reimbursable Expenses that may be due and outstanding for the Technical Services and Deliverables that CSG has performed, following which CSG and Customer will deliver to the other all notebooks, documentation and other items that contain, in whole or in part, any Confidential Information that either party disclosed to the other in performance of the Technical Services.

6. **DBS Product and Service Developments.** If, during the term of this Agreement, Customer requires development assistance in connection with functionality requirements in, among other things, the direct broadcast satellite industry that Customer determines are important to its business operations, CSG agrees that it shall assist Customer, taking into account all of CSG's reasonable and practicable business considerations with respect to an agreement involving the provision of any such development assistance. Such assistance performed by CSG would be performed on a time and materials basis, at the rates set forth in Schedule F and CSG shall use all commercially reasonable efforts to complete such efforts on an expeditious basis.

7. **Non-Solicitation.** During the term of this Agreement and for twelve (12) months after its termination, neither Customer nor CSG will, without the other party's prior approval, solicit or hire any employee of the other party (or its related persons) who has been directly involved in either party's performance under this Agreement.

EXHIBIT A-3

Print and Mail Services

1. **Services .** CSG will provide to Customer, and Customer will purchase from CSG, Customer's requirements for the printing and mailing of monthly statements to Customer's subscribers where CSG maintains the primary customer account records. Such services to be performed by CSG are referred to as the "Print and Mail Services."

2. **Postage .** CSG shall purchase the postage required to mail statements to Customer's subscribers ("Subscriber Statements"), notification letters generated by CSG, past due notices and other materials mailed by CSG on behalf of Customer. Customer shall pay CSG for all postage expenses incurred in the performance of the Print and Mail Services in accordance with Schedule F .

3. **Customer Letters.** CSG shall provide Customer Letters in accordance with the fees set forth in Schedule F .

4. **Ancillary Services .** At Customer's request, CSG shall provide the ancillary services described in Schedule F attached hereto (the "Ancillary Services") for the fees set forth in Schedule F .

5. **Enhanced Statement Presentation Services .** CSG shall develop a customized billing statement (the "ESP Statement") for Customer's subscribers utilizing CSG's enhanced statement presentation ("ESP") services. Customer agrees that CSG's ESP services shall be CSG's sole method of printing and mailing Subscriber Statements. The ESP Statements may include CSG's or Customer's intellectual property. "Customer's Intellectual Property" means the trademarks, service marks, other indicia of origin, copyrighted material and art work owned or licensed by Customer that CSG may use in connection with designing, producing and mailing ESP Statements and performing its other obligations pursuant to this Agreement. "CSG's Intellectual Property" means trademarks, service marks, other indicia of origin, copyrighted material and art work owned or licensed by CSG and maintained in CSG's public library, where CSG maintains the primary Customer account records, that may be used in connection with designing, producing and mailing ESP Statements.

   (a) Development and Production of ESP Statements . CSG will perform the design, development and programming services related to design and use of the ESP Statements (the "Work"), which will contain Customer's and CSG's Intellectual Property and include the Development Fee to be paid by Customer. CSG will create the work product deliverables (the "Work Product") set forth in a separately executed and mutually agreed upon ESP Work Order (the "Work Order") or Statement of Work. Except with respect to Customer's Intellectual Property, Customer agrees that the Work and Work Product shall be the sole and exclusive property of CSG. Customer shall have no proprietary interest in the Work Product or in CSG's billing and management information software and technology and agrees that the Work Product is not a work specially ordered and commissioned for use as a contribution to a collective work and is not a work made for hire pursuant to United States copyright law. After CSG has completed the Work and the Work Product, CSG will produce ESP Statements for Customer.

   (b) Supplies . CSG will suggest and Customer will select the type and quality of the paper stock, carrier envelopes and remittance envelopes for the ESP Statements (the "Supplies"). CSG shall purchase Customer's requirements of Supplies necessary for production and mailing of the ESP Statements. CSG shall charge Customer the rates set forth in Schedule F for purchase of Supplies.

   (c) Right of Customer's Intellectual Property . Customer provides to CSG a non-exclusive right to use all of Customer's Intellectual Property necessary to design, produce and mail the ESP Statements, directly or indirectly for the term of this Agreement. Customer represents and warrants that it owns or has licensed all of Customer's Intellectual Property and has full power and authority to grant CSG the license set forth herein and that CSG's use of Customer's Intellectual Property on ESP Statements will not constitute a misuse or infringement of Customer's Intellectual Property or an infringement of the rights of any third party. Customer will use best efforts to maintain its rights to use and license Customer's Intellectual Property and will immediately advise CSG of the loss of Customer's right to use any of Customer's Intellectual Property, of all copyright and other notices that must be used in connection with Customer's Intellectual Property, and of any restrictions on use of Customer's Intellectual Property relevant to CSG's activities hereunder.

(d) Indemnification Relating to ESP Statements . Customer shall indemnify, defend and hold CSG harmless from any direct claims, demands, liabilities, losses, damages, judgments or settlements, including all reasonable costs and expenses related thereto (including attorneys' fees), directly or indirectly resulting from Customer's breach of any representation or warranty under this Section 5, and the Work Product, except for those arising out of CSG Intellectual Property.

6. Per Cycle Minimum . Customer must have a minimum of four (4) cycles per month but no more than thirty (30) cycles per month.

7. Deposit. As of the Effective Date of this Agreement CSG holds a security deposit equal to the estimated amount of disbursements for *** (*) ***** as reasonably determined by CSG based upon the projected volume of applicable services to be performed monthly by CSG (the "Deposit") for the payment of expenses described in Section 2 of this Exhibit A-3 (the "Disbursements"). **** ******* ***** ** ********* ** ** ********* ****** ** ************* *** ***** (**) ******** **** ** ***** ************ **** * ***** (*) ***** ****** ********* **** *** *******, **** *******. ** *** ***** ******** ***** ** ****** **** *** ******* ***** *** ***** ** ******* * *** ***** *********** ******* ******, *** ***** **** *** ***** ** ******** *** ******* ** ** ********* ****** ** ************* ***** ** ********'* ****** ******* *******. *** *******, ** ********'* ****** ******* ******* ** ****** (**) ******** **** **** *** **** ** ******* *** ***** (*) *********** ******* ******,, *** ***** **** *** ***** ** ******** *** ******* ** ** ********* ****** ** ************* ***** ** ****** (**) ******** ****. *** ***** **** *** ***** ** ******** ** ******** **** ********* ******* ***** ******** ******** **** *** ******* ***** *** ***** ** ******* * *** ***** (*) *********** ******* ******. *************** *** *****, *** ******* *********** **** ** *** ***** *** ******* ***** *** ***** ** ******* * *** ******* ** ** **** **** ***** (**) ******** ****, *** ***** ****** *** ******* ** ******* *** ******* ******* ****.

At the end of each calendar quarter, if Customer incurs Disbursements greater than the Deposit for any billing month, Customer shall, within sixty (60) calendar days of receipt of a request from CSG to increase the Deposit, pay CSG the additional amount to be added to the Deposit. CSG will return to Customer a portion of the Deposit if the Disbursements incurred by Customer on a monthly basis are less than the Deposit for three (3) consecutive billing months. Any portion of the Deposit that remains after the payment of all Undisputed amounts due to CSG following the termination or expiration of this Agreement will be returned to Customer. Customer shall not be entitled to receive interest on the Deposit while any Deposits are maintained by CSG.

EXHIBIT A-4

Financial Services

1. **Services.** For the fees set forth in Schedule F , Customer shall receive the following Financial Services: Credit Verification Services, Paybill Advantage, One Time and Recurring Credit Card Authorization Services, and Card Account Updates.
2. **Compliance with Laws.** Both parties will comply in all material respects with all federal, state and local laws and regulations pertaining to consumer credit information (including, without limitation, the Fair Credit Reporting Act, 15 USC, §1681, et seq.), electronic processing and any other financial activity related to the Services, provided by CSG under this Exhibit A-4. In the event of clear evidence of fraudulent activity by either party, all Services under this Exhibit A-4 will be discontinued immediately.
3. **Records.** CSG shall maintain records of the transactions it performs under this Exhibit A-4 for a minimum of forty-five (45) days, but shall not be liable for any damage, loss of data, delays and errors in connection with Services provided under this Exhibit A-4 that are beyond its reasonable control.

EXHIBIT A-4(a)

PAYBILL ADVANTAGE ®
ELECTRONIC PAYMENT SERVICES AGREEMENT

1. **ELECTRONIC PAYMENT SERVICES.** CSG will provide to Customer, and Customer will purchase from CSG the data processing services, including reasonable backup security for Customer's data, to support electronic bill paying services as set forth in Section 2 below (the "Basic Services") for all of Customer's subscriber accounts that elect to utilize Customer's electronic bill payment services (the "Subscribers").

2. **BASIC SERVICES.**

(a) **Consumer Debits.** Each Subscriber will have the option to preauthorize a debit to either their checking account or savings account each month for a predetermined date of Customer's choosing. CSG or, if applicable, its third party ACH Originator will be responsible for the disbursement, remittance and settlement of all funds. CSG will create and submit a preauthorized payment disbursement file according to bank industry standards (National Automated Clearing House Association, "NACHA", or Electronic Data Interface, "EDI") containing a debit record for Subscribers who have preauthorized monthly debits to be made from checking or savings accounts on a day designated by Customer each month. The ACH Originator will submit to an automated clearing house data in the required form for the collection of the monthly payments from Subscribers bank accounts, which will be effected on the collection date, or if that date is not a banking day, the first banking day after such date. Each debit will be submitted so as to effect the payment on the designated date.

(b) **Credit of Remittances.** CSG will post to Subscriber's CCS account a payment transaction for each processing Subscriber on the Subscriber's collection day. For purposes of this subparagraph (b), a Subscriber's "collection day" shall mean: (i) for recurring EFT transactions, the day the Subscriber's payment transaction posts to CCS; and (ii) for one-time EFT transactions, the day that the ACH transaction (via a payment batch) is released by CSG to the originating bank.

(c) **Enrollment Process.** Customer is responsible for obtaining Subscriber enrollment information that authorizes his respective bank to post debit transactions to his respective bank checking account or savings account as required by NACHA. Customer will input Subscriber type of account, bank account number, payment method, and bank routing information into the CCS system. CSG will initiate an ACH prenote the day the form is processed or the day after the form is processed if the form is entered after the daily cutoff time. A daily report will be generated for the Customer each business day for which input is processed showing that a prenote has been initiated. If the prenote process produces an error, the CCS system will automatically update the Subscribers' payment status to reflect an error and add the error to a daily report. If the error was correctable by the receiving depository financial institution, the CCS system will automatically update the information on the CCS system. The first debit will be initiated on the appropriate date to effect the debit on the Customer's predetermined date.

(d) **Automatic Preauthorized Payments.** CSG and its third party ACH Originator shall provide automatic payment deduction which will occur monthly on a date predetermined by Customer. CSG will submit a file to the ACH Originator three (3) business days prior to the date the deduction is scheduled to take place. The Subscriber payment amount submitted to the ACH Originator will be the statement balance if the statement balance is less than the current balance or if the statement balance is greater than the current balance, then the current balance will be used. If the designated date for deduction falls on a weekend and/or holiday, the deduction will not occur until the next scheduled banking day.

(e) **Settlement.** For recurring EFT transactions, the ACH Originator will credit Customer's bank account for the gross ACH collection on the same day as the debit to Subscriber's checking or savings account. For one-time EFT transactions, the ACH Originator will credit Customer's bank account for the gross ACH collection two (2) business days after CSG's debit date defined in CCS.

(f) **Settlement of Returns.** The ACH Originator will settle daily returns against Customer's bank account. Settlement with Customer will be done daily. Each day for which there are returns, the ACH Originator will initiate a debit to the Customer's specified account for the total amount of debits received by ACH Originator that day. First time NSF returns that will be re-deposited by ACH Originator will not be debited to the Customer's specified account. Customer is ultimately responsible to cover on a daily basis all return debits incurred by ACH originator and in the event collections have ceased, Customer shall be obligated to pay within ten (10) business days any unfunded return amounts not funded to cover all remaining return debits.

(g) **Record Keeping.** Customer is responsible for maintaining Subscriber authorization forms for a period of at least seven (7) years in accordance with any applicable government laws or regulations.

3. ADDITIONAL SERVICES. If Customer desires CSG to provide other services in addition to the Basic Services, the parties agree to negotiate in good faith with respect to the terms and conditions (including without limitation, pricing) on which such services shall be provided. Such services include, but are not limited to (i) special computer runs or reports, special accounting and information applications; and (ii) data processing and related forms and supplies and equipment other than those provided as standard pursuant to this Agreement (the "Additional Services"). The description of any such additional services, and any other terms and conditions related thereto, shall be set forth in an amendment to this Agreement signed and dated by both parties. Unless otherwise agreed in writing by the parties in such amendment any such additional services shall be subject to the terms of this Exhibit A-4(d).

4 . SUBSCRIBER AUTHORIZATION. Customer shall obtain from each Subscriber the proper documents authorizing automatic transfers to and from such Subscriber's savings account, checking account or bank card account, and provide a copy of the authorization to each Subscriber. Customer will provide only valid authorizations for processing.

5. SUBSCRIBER REPORTS. If Customer requests that CSG provide Customer information regarding Customer's Subscribers and related banking information and payment data, then Customer shall pay CSG's then current rates (if applicable) for processing such information.

6. COMPLIANCE WITH LAWS. Customer will comply in all material respects with all federal, state or local laws and regulations pertaining to electronic payment processing. In the event of clear evidence of significant fraudulent activity by Customer, the Basic Services and any Additional Services will be discontinued immediately and any funds on the way to Customer will be impounded immediately.

7. COLLECTION DATA. Customer shall update subscriber account balance information to provide necessary data for the Basic Services and any Additional Services and shall ensure through periodic checks and updates that the data is current and accurate at all times.

8. ACH ORIGINATOR. Customer acknowledges and agrees that this Exhibit A-4(d)is only between Customer and CSG and, that as a result, Customer gains no relationship with institutions used by CSG for ACH processing. CSG may contract with one or more financial institutions for ACH processing.

9. ONE-TIME PAYMENTS. All of the terms and conditions of this Exhibit A-4(a) and of the Agreement shall apply to Customer's use of the Service for one-time payments except as set forth below:

- CSG will not initiate ACH prenotes for one-time payments. ACH prenotes will only be initiated for recurring, monthly payments.
- With respect to one-time payments only, the Subscriber payment amount submitted to the ACH Originator will be determined by the Subscriber.
- With respect to one-time payments only, CSG will submit a file to the ACH Originator on the date the payment is entered into the CCS system. However, if the designated date for deduction falls on a weekend or holiday, the deduction will not occur until the next scheduled banking day.

EXHIBIT A-4(b)

One-Time Credit Card Processing

1. One-Time Credit Card Processing . CSG will provide to Customer, and Customer will purchase from CSG, those data processing services which allow subscribers to charge deposits, pre-payments, monthly services, installation fees and Pay Per View (PPV) orders via credit card (the " **One-Time Credit Card Processing** Service" or for this Exhibit only, the "Service"). Credit Card payments can be accepted online through CCS. This feature involves real-time credit card authorizations via an interface with a third party credit card processing system. Return messages from the credit card processor, including approved authorizations, declines, and errors, will be displayed online. CSG will create and transmit a nightly settlement file to the merchant banks' processing center. All settlement reporting is done by the merchant bank. "Approved" credit card payments will post to the subscriber's account the day it was entered, up to 9 p.m. central time. One-time credit card payments will be identified on daily and monthly production reports. The merchant processing fees will be billed directly to the Customer, per the agreement between the customer and the merchant bank.

2. Requirements. Allowable credit cards for the **One-Time Credit Card Processing** are MasterCard, VISA, Discover and American Express. Customer is responsible for establishing a merchant agreement with a CSG approved bank*. The merchant bank will assign all applicable merchant ID numbers. Customer must communicate their merchant ID information to CSG prior to using the Service. Online credit adjustments to a credit card can be performed for those Customers that use both Recurring and One-Time Credit Card Processing with a CSG Systems approved merchant bank.

3. Use of Credit Information. Customer and CSG agree that all information and data accessed through the **One-Time Credit Card Processing** Service is "Confidential Information" and as such shall kept strictly confidential in accordance with the Agreement.

4. Intellectual Property.

(a) **No License.** Customer will not acquire any patent rights, copyright interest, or other right, claim, or interest in the computer programs, forms, schedules, manuals, or other proprietary items utilized or provided by CSG in connection with the **One-Time Credit Card Processing** Service.

(b) **Restrictions on Use.** Customer will not use or permit its respective employees, agents and subcontractors to use the trademarks, service marks, logos, names, or any other proprietary designations of CSG except in compliance with the Agreement.

(c) **Ownership of Credit Data.** Customer acknowledges that all information (except for any Customer Data) contained in the consumer credit information database is and will continue to be the exclusive property of the appropriate merchant bank. Except for the uses specified in this Exhibit, nothing contained in this Exhibit shall be deemed to convey to Customer any right, title or interest in or to the consumer credit information database or any part thereof.

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* At this time, CSG approved banks include: Chase Merchant Services, Paymentech, First National Bank of Omaha, Old Kent Bank, Huntington National, Wells Fargo and First USA. Additional banks may be added by CSG at Customer's request for additional fees through a mutually agreed upon Statement of Work.

EXHIBIT A-4(c)

Recurring Credit Card Processing

1. Recurring Credit Card Processing. CSG will provide to Customer, and Customer will purchase from CSG, those data processing services which allow subscribers to have deposits, pre-payments, monthly services, installation fees and Pay Per View (PPV) orders automatically charged to their credit card on a monthly basis (the " **Recurring Credit Card Processing** Service" or for this Exhibit only, the "Service"). When Subscribers provide their credit card information to the Customer, a "pre" authorization is sent real time to a CSG approved merchant bank (see Section 2 below), to insure that the credit card information is accurate. Customer will determine when the recurring credit card payment will be performed, either on the subscriber's cycle date or a date between ten (10) and twenty five (25) business days after the cycle date. Customer can choose to automatically retry certain "decline" response codes from the credit card processor. CSG Systems will send a file of credit card payments in the appropriate format to the merchant bank's processor on a nightly basis and post the payment to the Subscriber's CSG account. The merchant bank is responsible for all settlement processing and reporting. Merchant processing fees will be billed directly to the Customer, per the agreement between the Customer and the merchant bank. Recurring credit card payments will be identified on daily and monthly production reports.

2. Requirements. Allowable credit cards for the **Recurring Credit Card Processing** are MasterCard, VISA, Discover, American Express and First National Bank. Customer is responsible for establishing a merchant agreement with a CSG approved merchant bank, currently either Chase Merchant Services or Paymentech. Additional merchant banks may be added by CSG at Customer's request for additional fees through a mutually agreed upon Statement of Work. The merchant bank will assign all applicable merchant ID numbers. Customer must communicate their merchant ID information to CSG prior to using the Service. Online credit adjustments to a credit card can be performed for those Customers that use both Recurring and One-Time Credit Card Processing with a CSG Systems approved merchant bank.

3. Use of Credit Information. Customer and CSG agree that all information and data accessed through the **Recurring Credit Card Processing** Service is "Confidential Information" and as such shall kept strictly confidential in accordance with the Agreement.

4. Intellectual Property.

(a) **No License.** Customer will not acquire any patent rights, copyright interest, or other right, claim, or interest in the computer programs, forms, schedules, manuals, or other proprietary items utilized or provided by CSG in connection with the **Recurring Credit Card Processing** Service.

(b) **Restrictions on Use.** Customer will not use or permit its respective employees, agents and subcontractors to use the trademarks, service marks, logos, names, or any other proprietary designations of CSG except in compliance with the Agreement.

(c) **Ownership of Credit Data.** Customer acknowledges that all information (except for any Customer Data) contained in the consumer credit information database is and will continue to be the exclusive property of the appropriate merchant bank. Except for the uses specified in this Exhibit, nothing contained in this Exhibit shall be deemed to convey to Customer any right, title or interest in or to the consumer credit information database or any part thereof.

EXHIBIT A-4(d)

Credit Verification Services

1. **Credit Verification Services.** CSG will provide to Customer, and Customer will purchase from CSG, Customer's requirements for those consumer credit information, scoring services or other data stored in CSG's vendors consumer credit reporting database, that are identified as Basic Services in Exhibit A-4(d)(i) (the "Credit Verification Services") for Customer's subscriber accounts that elect to utilize Customer's Credit Verification Services (the "Subscribers").

2. **Use of Credit Information .** Customer hereby agrees that it will request credit information received from CSG solely for said Customer's use in connection with (i) credit transactions between Customer and the consumers to whom the credit information relates, (ii) employment purposes, (iii) underwriting of insurance, (iv) collection activity, (v) government licensing, or for other "permissible purposes" as defined by the FCRA, and will neither request nor use any such information for any other purpose.

3. **Confidential Treatment.** Customer will take reasonable precautions to assure that consumer credit information will be held in strict confidence and disclosed only to those of its respective employees whose duties reasonably relate to the legitimate business purposes for which the information is requested or used to those to whom it may permissibly resell consumer reports hereunder.

4. **Intellectual Property.**

   (a) **No License.** Customer will not acquire any patent rights, copyright interest, or other right, claim, or interest in the computer programs, forms, schedules, manuals, or other proprietary items utilized or provided by CSG in connection with the Credit Verification Services.

   (b) **Restrictions on Use.** Customer will not use or permit its respective employees, agents and subcontractors to use the trademarks, service marks, logos, names, or any other proprietary designations of CSG's provider of the Credit Verification Services (the "Vendor") or its affiliates, whether registered or unregistered, without the Vendor's prior written consent.

   (c) **Ownership of Credit Data.** Customer acknowledges that all information contained in the consumer credit information database is and will continue to be the exclusive property of the Vendor. Except for the uses specified in this Agreement, nothing contained in this Exhibit A-4(d) shall be deemed to convey to Customer any right, title or interest in or to the consumer credit information database or any part thereof.

EXHIBIT A-4(d)(i)

Basic Services

Experian Interface:

Basic

ID Verification - a one-position character and corresponding description, indicating the comparison results of *Input Name and SSN* to the *Response Name and Address.* Values are as follows:

0 ID matches to data supplied.
1 ID matches (plus other names).
2 ID does not match to data supplied.
3 ID flagged as deceased person
4 ID has never been issued
5 No record found

Social Security Number - Most recent SSN on file.
Birth Date and Deceased Date - Displays if SSN is identified as deceased or non-issued.
Address Alert - An optional one - character field with values as follows:

Y Hit on Non-Residential Area.
N No Hit on Non-Residential Address.
X Not Requested - or - Address was Not Found.

Public Alert - one-position fields with descriptions which indicate:

Bankruptcy
Judgment
Tax Lien
Bankruptcy Dismissed or Discharged
Judgment Satisfied or Vacated
Tax lien Released

"Additional Names and Addresses Exist" Field.

This two-digit field displays the number of additional names and addresses found in the database for the input subscriber information.

If this value is "01" or greater, a maximum of six additional names and addresses can be viewed.

Enhanced

The following fields are included in the above fields to create the Enhanced Service:

Credit Score - a five position code (four positions are numeric and the fifth position is an alpha value of N (Negative), P (Positive)), followed by a sixty (60) position treatment description as Customer defined in the CCS user data file.

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* Not all fields are available on every record.

EXHIBIT A-4(e)

Card Account Update (also known as Visa's Relationship Manager Service)

1. **Card Account Update.** CSG will provide to Customer, and Customer will purchase from CSG, those data processing services, which automatically refresh VISA and MasterCard cardholder account numbers and expiration dates for merchants that use Chase Merchant Services for recurring credit card processing (the " **Card Account Update** Service").

2. **Requirements.** Customer may use Chase Merchant Services, or such other CSG approved merchant services, for recurring credit card processing in order to utilize the **Card Account Update** Service. Customer acknowledges that Customer and Chase Merchant Services must execute an Amendment to the Merchant Bankcard Processing Agreement entered into between Customer and Chase Merchant Services before Customer may use the Card Account Update Service. Customer also acknowledges that the **Card Account Update** Service must be used with either CCS or ACSR ® systems. In addition, Chase Merchant Services will register Customer with and be responsible for the applicable card association(s) for the card account update service.

3. **Use of Credit Information.** Customer agrees that it shall keep all information and data accessed through the **Card Account Update** Service strictly confidential. Customer hereby agrees that it will request credit information received from CSG solely for said Customer's use in connection with (i) credit transactions between Customer and the consumers to whom the credit information relates, (ii) employment purposes, (iii) underwriting of insurance, (iv) collection activity, and (v) government licensing, or for other "permissible purposes" as defined by the FCRA, and will neither request nor use any such information for any other purpose.

4. **Intellectual Property.**

   a. **No License.** Customer will not acquire any patent rights, copyright interest, or other right, claim, or interest in the computer programs, forms, schedules, manuals, or other proprietary items utilized or provided by CSG in connection with the **Card Account Update** Service.

   b. **Restrictions on Use.** Customer will not use or permit its respective employees, agents and subcontractors to use the trademarks, service marks, logos, names, or any other proprietary designations of VISA, Chase Merchant Services, MasterCard, or their respective affiliates, whether registered or unregistered, without the prior written consent of the applicable party.

   c. **Ownership of Credit Data.** Customer acknowledges that all information contained in the consumer credit information database is and will continue to be the exclusive property of CSG's provider of the **Card Account Update** Service. Except for the uses specified in this Agreement, nothing contained in this Exhibit shall be deemed to convey to Customer any right, title or interest in or to the consumer credit information database or any part thereof.

5. **Data Accuracy.** Customer acknowledges that the **Card Account Update** Service is only accurate to the extent a Card issuer participates in the service and that many Card issuers do not participate in the service. Furthermore, Customer Acknowledges that CSG is not responsible in any way for the accuracy or the completeness of data which may be accessed as part of this service. At this time, VISA and MasterCard are the only credit card types offering the service of tracking and reporting replacement credit card numbers and expiration dates.

6. **Termination.** Visa and or MasterCard may terminate Customer's participation in the **Card Account Update** Service, or terminate the service in its entirety, at any time. Chase Merchant Services' bankcard processing relationship with Customer, and thus the **Card Account Update** Service, may be terminated at any time pursuant to the terms and conditions set forth in Merchant Bankcard Processing Agreement entered into between Customer and Chase Merchant Services. CSG assumes no liability of any kind that arises out of the termination of Customer's participation in the **Card Account Update** Service by either Visa or Chase Merchant Services.

** Confidential Treatment requested and the Redacted Material has been separately filed with the Commission.

EXHIBIT A-5

Additional Services

CSG SmartLink*. CSG SmartLink is an XML interface that provides a mechanism for customers to use the open standards of the extensible Markup Language (XML) to communicate with core CSG’s CCS system. The XML technology allows a customer to build applications using these open standards. Message based XML is used for communicating upstream to and downstream from core CSG systems. The data communications method for the CSG SmartLink interface is TCP/IP. Customers can use either CSG’s External Integration Protocol (EIP) or HTTP to organize request and reply records on the TCP/IP data stream. CSG provides the customer with the CSG SmartLink Interface Specification and the XML document type definitions (DTDs) for each defined XML activity. XML requests sent by the customer must use the DTDs as supplied by CSG and validate successfully against those DTDs.

CSG Workforce Express Fleet Management Downstream Interface*. CSG Workforce Express Fleet Management Downstream Interface is an interface between Customer and CSG’s CCS system which allows selected work order data to flow from CCS to Customer as outlined in Section 3.2 of the Fleet Management System (FMS) Interface Specification, Version 1.0, Release Date: May 25, 2000. CSG’s use of the CSG Workforce Express Fleet Management Downstream Interface is restricted for the sole and exclusive purpose of interfacing with Customer’s Enterprise Application Integration (“EAI”) Bus. Any other use of the CSG’s Workforce Express Fleet Management Downstream Interface, including the data obtained thereby, is strictly prohibited. The CSG Workforce Express Fleet Management Downstream Interface must be certified in conjunction with Customer’s EAI Bus by CSG prior to the integration of the interface. All project management, certification, integration, workflow consulting and/or technical review services (including the applicable hourly fees as set forth in Section 1.3 of Schedule F) shall be set forth in a mutually agreed upon Statement of Work.

Account Hierarchies. Account Hierarchies provides customers with a basic hierarchical infrastructure where accounts can be linked together in a hierarchical manner to support multiple lines of business, as well as Business-to-Business accounts. Multiple groups will be created that connect subservient accounts across an entire business organization.

ODE Interface. Customer use the open data exchange (“ODE”) interface at no charge, so long as Customer uses the ODE interface for the sole purpose of interfacing with Customer’s Dish-Promo application. Customer shall use commercially reasonable efforts to migrate from the ODE interface to the CSG SmartLink interface within a mutually agreed upon timeframe.

Integrated Operations Testing Environment.

*** ******** ** **** *********, *** ********** ********** ******* *********** (“***”) ** * ******* ** ******* ********* ** ******** *** *** ******* ** *******, *********** *** *********** **** ***. *** *** **** ** ****** ** * **** **** ** ******** **** *** ********** **** *** **** ******* ** *** ********* *******:

- **** *** *********** ****** (“********** *******”) **** **** ** ***** ** ******-**** ******* (**%) ** ********** ****.
- *********** *** ****** ******* ****** (“****** *”) **** **** ** ***** ** *** ******* (**%) ** ********** ****.
- *********** *** ********* ****** ******* ****** (“****** *”) **** **** ** ***** ** *** ******* (**%) ** ********** ****.

(i) ******** *******, *** *** ****** ** ******* ** *** **** ******** ** ** **** *** ****, *********** *** ********** *********** (“*** **** ********”) *** ******* *, **** ******* ******** **, ****. ** *** ***** ******** ****** ** ******** *** ********, *** ******* ***** ********* ** **** ***** *** ******* **** ********* ** *******. *** ******* ***** ** ******** ********* *** *** **** ******** *** **** ******* **** ** ******* *** ******* *** ****** (***) ******** **** ***** ** *** ********* ** *** ********* ******** ****. *** *******, *** *** **** ******** *** **** ***** ** ********* ** ******* *, ****.

(ii) ******** *******, *** *** ****** ** ******* ****** ****** ******* ****** ******** (“*** **** ********”) ** *** ** *** ******* *, **** ******* ******** **, ****. ** *** ***** ******** ****** ** ******** *** **** ********, *** ******* ***** ********* ** **** ***** *** ******* **** ********* ** *******. *** ******* ***** ** ******** ********* *** *** **** ******** *** **** ******* **** ** ******* *** ******* *** ****** (***) ******** **** ***** ** *** ********* ** *** ********* ******** ****. *** *******, *** *** **** ******** *** **** ***** ** ********* ** ******* *, ****.

** Confidential Treatment requested and the Redacted Material has been separately filed with the Commission.

(iii) *** ********** ******* **** ** ********* ** *** ****** **** (**) ***** *** ***, ***** (*) **** *** **** ** ********** **** *** *********:

(a) *** ***** *** *** ***** ********* ***** ******* ****** ** *** ***** *****. ****_**** **** ******* ****** (“***”) *** **** ***** ****** **** **** ** ********* *** ********** ***** ********** ** ** ******* * ***** ** ******** ************* *********. *** **** *** ******* **** **** *** ****_**** ****** ** * ****** ***.

(b) ********** ********** *** ****, *** *** **** *** ************ ********** ******* ** ******** ******** ****** *:** ** **.

(c) **** ******* **** ** **** ********* ** **** ** ******** *** ****** ***** ** *******.

(d) ********** ******* **** ****** ** ******* *** ********** ******* ** *** **** *** ********* ** ********** ***** ********* *** *******.

(e) ********, ********* *** *** ******* **, *** *******, ***, *** ***** **** ******** **** ** ********* **** ******** * ******* (** ******* ** ******** * ** *** *********). ******** * *** * ******* **** *** ** ****** *** **** ************.

(f) ****** ****** ** ***** ***_******** ******* ************ **** **** ** ** ********* ** * ******* **** **** ** ******** **** * ********** ****** ** ****** *** *** ** ******* *******.

(**) ****** * *** ****** * **** ** ********* ** *** ****** ******* ****** *:** ** ** *:** ** ** ** ********** **** *** *********:

(a) *** ***** *** *** ***** ********* ***** ******* ****** ** *** ***** *****. ****_**** **** ******* ****** (“***”) *** **** ***** ****** **** **** ** ********* *** ********** ***** ********** ** ** ******* * ***** ** ******** ************* *********. *** **** *** ******* **** **** *** ****_**** ****** ** * ****** ***.

(b) ********** ********** *** ****, *** *** **** *** ************ ********** ******* ** ******** ******** ****** *:** ** **.

(c) **** ******* **** ** **** ********* ** **** ** ******** *** ****** ***** ** *******.

(d) ****** * *** ****** * ************ *** ** ********* **** ***_********** ******** ******** ** *** ****. *** ***** **** ***** ******* ** ******* *** ******** *********** ******** ****** *** ****** * *** ****** * ************.

(e) ********, ********* *** *** ******* **, *** *******, ***, *** ***** **** ******** **** ** ********* **** ******** * ******* (** ******* ** ******** * ** *** *********). ******** * *** * ******* **** *** ** ****** *** **** ************.

(f) ****** ****** ** ***** ***_******** ******* ************ **** **** ** ** ********* ** * ******* **** **** ** ******** **** * ********** ****** ** ****** *** *** ** ******* *******.

(v) Any support requested by Customer that is not included in paragraphs (iii) or (iv) above shall be requested in writing and provided by CSG at the standard rate for the Annual Support Hours set forth in Schedule F .

Address Change Service (also known as Postal Endorsement) - An automated service used by the USPS to provide electronic address updates to its customers. Instead of receiving returned mail pieces to our site for address updates, the USPS will provide CSG with an address file, and CSG will automatically update the “bill to” information for your disconnected subscribers.

** Confidential Treatment requested and the Redacted Material has been separately filed with the Commission.

CSG Customer Loyalty - CSG Customer Loyalty is a suite of modules that consists of Customer Loyalty Discounting and Frequent Buyer Management described below.

Customer Loyalty Discounting - Customer Loyalty Discounting rewards subscribers who have had connected accounts for a considerable length of time, or who subscribe to specified services or premium channels. It can also reward subscribers for maintaining a good payment history. Application set-up criteria limit the subscribers who will qualify to participate – for example on the basis of specific service codes.

Frequent Buyer Management - Frequent Buyer Management allows subscribers to earn awards with point accumulation by ordering PPV events, subscribing to certain services, participating in campaigns, or making purchases with an affinity credit card.

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* CSG will support 3270 CCS transactions, SmartLink™ and the Workforce Express Fleet Management Downstream Interface during the term of this Agreement; provided, however, Customer agrees to work in good faith with CSG to convert to SmartLink™ and/or Workforce Express Fleet Management Downstream Interface all 3270 applications that CSG demonstrates to cause material adverse impact upon the response time, operation or performance of the CCS system, and where Customer concurs that such conversion would not cause material adverse impact upon the response time, operation or performance of Customer's system.

SCHEDULE B

Products

1. **License .** CSG grants Customer, and Customer accepts from CSG, a non-exclusive and non-transferable perpetual right to use the software products set forth in Exhibit B-1, as more fully described in Exhibit B-1(a) (the " Products") at the System Sites and number of workstations set forth in Exhibit B-1 (except with respect to the Expanded License Software defined in paragraph 4 below), in the Designated Environment, for the fees set forth in Schedule F , and subject to the terms and conditions of the Agreement.

2. **CSG Products.** "Products" includes (i) the machine-readable object code version of the Product software (collectively, the "Software"), whether embedded on disc, tape or other media; (ii) the published user manuals and documentation that CSG may make generally available for the Software (the "Documentation"), (iii) the fixes, updates, upgrades or new versions of the Software or Documentation that CSG may provide to Customer under this Schedule B (the "Enhancements"), and (v) any copy of the Software, Documentation or Enhancements. Except as noted in Section 31 herein, nothing in this Schedule B will entitle Customer to receive the source code of the Software or Enhancements, in whole or in part. "Expanded License Software shall include ****, **** ***, **** ***, *** ********* *******, *** *** ****** *******.

3. **Use.** Unless explicitly stated to the contrary herein, and in addition to the restrictions on use and/or terms and conditions set forth in Section 4 below, Customer may use the Products only in object code form, and only for Customer's own internal purposes and business operations with the Services for providing accounting and billing services to its subscribers or services related thereto. If third party products are provided to Customer as part of the Products, by opening the package containing the third party product or downloading it, Customer agrees to be bound by the terms of the third party's standard license. Customer will not use the Products to provide any such service to or on behalf of any third parties in a service bureau capacity and will not permit any other person to use the Products, whether on a time-sharing, remote job entry or other multiple user arrangement. Customer will not install the Software, Enhancements or Customization (as defined in Section 4 below) on a network or other multi-user computer system unless otherwise specified in the Exhibits to this Schedule, in which case the Designated Environment may be used to provide database or file services to other of Customer's computers across the network, up to the number of workstations specified in Exhibit B-1. Backup and recovery plans or backup and recovery software is not included with the Products. Any Customer documents, data and files are and shall remain Customer's property; and therefore, Customer is solely responsible for its own backup and recovery plan(s) for its data stored within the Designated Environment or utilized within the Products. Customer may make only one back-up archival copy of the Software, Enhancements or Customization for each System Site. Customer will reproduce all confidentiality and proprietary notices on each of these copies and maintain an accurate record of the location of each of these copies. Customer will not otherwise copy, translate, modify, adapt, decompile, disassemble or reverse engineer the Products, except as and to the extent expressly authorized by applicable law. Customer shall not publish any results of benchmark tests run on the Products.

4. **Product Specific Terms and Conditions.**

   (a) Expanded License. For the fees set forth in Schedule F , CSG hereby grants to Customer a perpetual, non-exclusive, royalty-free license to use the Expanded License Software (the "Expanded License"), subject to the terms and conditions set forth below:

      (i) ******** *** *** *** ******** ******* ******** ** ****** **** **** **** ** ************ **** *** ***** ** ****** ** ******** ** *** ****** ******, ** *** ********** ********** *** **** ******* ** ********* ** *** *********, *** **** *** ********'* *** ******** ******** ******** ** ********** **** *** *** ********;

      (ii) **** *** ********* ** **** *********, ******** *** **** ** ********* ****** ** ****** ** *** ********** ******** ******* ******** *** *** *** ***** **** ******** *******; ********, *******, **** ******** ***** ********* *** *************** *** *********** ******* ** *** **** ******;

      (iii) **** ******** ******* ** *** ************, ** ***** ** ** **** ******* ***'* ***** ******* *******;

      (iv) ****** ** ************ ******** ** ******* *.*(***) *****, ******** **** *** ***, ** ****** *** ***** ****** ** ***, *** ******** ******* ******** ** ******* *** ******* **, ** ****** **, ** *** *** ******* **, *** ***** ***** ***** **** ********'* ***********;

      (v) ****** ** ************ ******** ** ******* *.*(***) *****, ******** **** *** ***, ** ****** *** ***** ****** ** ***, *** ******** ******* ******** ** * ******* ****** ******** (*.*., ******* *** ** **** ********* ******* *** ******* ** ******** *** ******* ** *** ******** **** * ****** ** ****** ******** ********);

** Confidential Treatment requested and the Redacted Material has been separately filed with the Commission.

(vi) ******** ***** *** ********* ****, *********, ******, *****, *********, *********** ** ******* ******** *** ******** ******* ********;

(vii) *** ******** ******* ******* ***** **** ******* ** ********* ** *** ***** ***** ******** **** *** ** ******** ** ******* *** ********, ** ********** ** ******* *-*(*) ******** ******, *** ***** ******** ****** ** ** ****** *********** *** *********; ***

(viii) ******** ***** ** *********** *** ****** *** *** *** *** *** ************/******* ******** ******** ** *** ** ******** ** *** ******** ******** ******* ** **** ******* *.*. **** ******** ***** ** ******** ***** * ******** ********* ********* ** ****.

(b) Third Party Access. CSG acknowledges and agrees that Customer may desire to have third parties access and use copies of the Expanded License Software for the exclusive benefit of Customer, and CSG hereby consents to such third party access, provided that:

(i) **** ***** ***** ******** ** ********* **** *** ************* ******* ** **** ** ******* *-*(*) ** **** *********;

(ii) ******** ***** *** ********** ********* *********** **** **** ***** ******* ** ******* *** ************ ******** ****** ** *** ******** ******* ********;

(iii) **** ***** *******’ *** ** *** ******** ******* ******** ** ******** ** ********** **** *** *********** ********* ** *** *********;

(iv) ******** ***** ** *********** *** *** **** ** ********* ** **** ***** ******* **** ******* ** ***** *** ** *** ******** ******* ******** *** ***** ******, ********* *** **** ******** *** **** *** ******* *** *** *** ******, *****, ***********, ********, *********’ **** ** ******* *** *** ****** ** **** ***** ***** ** *** ***** ** *** ******** ******** ** *** ***** ** **** ******* *.*; ***

(v) ******** ***** ** *********** *** ****** *** *** *** *** *** ************/******* ******** ******** ** *** ** ******** ** *** ******** ******* ** ******* *.*. **** ******** ***** ** ******** ***** * ******** ********* ********* ** ****.

** Confidential Treatment requested and the Redacted Material has been separately filed with the Commission.

EXHIBIT B-1

CSG Products and Workstations

CSG Expanded License Software

ACSR
ACSR Module for HSD
ACSR AOI
CSG Statement Express
CSG Screen Express

CSG Products	Workstations
CSG Vantage	**
CSG Vantage Plus	**

EXHIBIT B-1(a)

CSG Product Description

Advanced Customer Service Representative (ACSR) . ACSR is a graphical user interface for CSG's CCS service bureau subscriber management system. ACSR significantly reduces training time and eliminates the need for CSRs to memorize transactions and codes. CSRs instead may access reference tools, help screens and subscriber data. ACSR ensures that accounts can be serviced by the same CSR and enables CSRs to communicate with one another through a self contained messaging system. ACSR is designed so that module based functionality such as CIT can be added as needed.

ACSR module for HSD or ACSR HSD . The ACSR module of HSD allows customers, through the graphical user interface, to access subscriber information on CCS as it relates to Customer's offering of high speed data services.

ACSR AOI. ACSR AOI is an application object interface that allows third party applications to be used in conjunction with ACSR.

CSG Screen Express. Integrated with CSG ACSR and the call center's ACD telephony switch, Screen Express provides incoming call/ACSR screen synchronization at the CSR workstation. In addition, Screen Express provides basic software-based operations of the CSR's physical telephone. Message Express is an add-on module to CSG Screen Express providing desktop readerboard functionality to the client application. The client can be used to display ACD statistical information, as well as, a desktop message center. Extended messages can be accessed using Universal Naming Convention (UNC) path information, including web browser integration.

CSG Statement Express. CSG Statement Express electronically stores, retrieves and prints an ESP statement exactly as it appears to subscribers, including customized statement messages and advertisements. Statements are available within forty-eight (48) hours of printing, making the images available to Customer Service Representatives before subscribers. CSG Statement Express works in either a stand-alone capacity or integrated with ACSR.

CSG Vantage. CSG Vantage is a database which enables customers to evaluate product and service performance, conduct customer analysis and lifetime values, and transform raw data into real-time reports and graphs.

CSG Vantage Plus. CSG Vantage Plus reporting tool provides a web front end for the RMS reporting system. CSG Vantage Plus allows much greater flexibility in retrieving and presenting the RMS report data. Additionally, Customer will be able to administer the number of users on the system as well as which reports each user has access to. With CSG Vantage Plus, Customer can view data in HTML format and download or export this data in CSV format. Attachment 1 provides the reports that shall be made available to Customer as of the Effective Date. Increasing the number of Reports in Attachment 1 will be subject to additional fees to be mutually agreed upon in writing.

** Confidential Treatment requested and the Redacted Material has been separately filed with the Commission.

Attachment 1 to Exhibit B-1(a)

Report #	Report Description
CPIM-112	Equipment Status Breakdown
CPMM-004	Total Service Code Statistics
CPMM-022	Service Code Penetration & Churn
CPMM-302	Basic Service Code Statistics
CPPM-010	Event Order Royalty / Usage Summary
CPRM-006	Royalty Accounting
CPSD-014	Monetary Entry List
CPSD-016	Lockbox Accepted
CPSD-018	Lockbox Rejected
CPSD-022	Monetary Tran Journal
CPSD-024	Report of Adjustments
CPSD-026	Non-Monetary Journal
CPSD-028	Un-posted Nonmon Items
CPSD-030	Un-posted Monetary Items
CPSD-036	Credit Card Billing Report
CPSD-044	Unrecovered Equipment – Daily
CPSD-080	Subscriber Exceptions (Part 1)
CPSD-082	Subscriber Exceptions (Part 2)
CPSD-084	Subscriber Exceptions (Part 3)
CPSD-086	Subscriber Exceptions (Part 4)
CPSD-100	Ledger Activity Report
CPSD-108	Subscriber Cash Refunds
CPSD-110	Daily Letters Report
CPSD-140	PPV Adjustment Research Report
CPSD-142	Adjustment Clearance Report
CPSD-144	Adjustment Exception Report
CPSD-146	Monetary Activity Summary
CPSD-148	Misc. Adjustment Research Report
CPSD-158	Mass Adjustment File/parameter Error Report
CPSD-180	Duplicate Tax ID Report
CPSD-266	Monetary Transfer Summary
CPSD-268	Account Transfer Activity
CPSD-310	Daily Payment Batch Recap
CPSD-312	Credit Card Declines Report
CPSD-314	Credit Card Resubmit Report
CPSD-324	Credit Card Payment Report
CPSD-332	EFT Activity Report
CPSD-334	CVI Processing Activity Report
CPSM-034	Potential Refunds
CPSM-212	Deleted Accounts
CPSM-214	Connected Delinquent Accounts
CPSM-216	Disconnected Delinquent Accounts
CPSM-232	Bulk Service Code Summary by Complex
CPSM-300	Accounts Receivable Journal

Report #	Report Description
CPSM-302	Monetary Monthly Transaction Activity
CPSM-304	Monthly Adjustment by Reason
CPSM-306	Payment Adjustment Composition Report
CPSM-308	Monthly Earned and Unearned Revenue
CPSM-310	Monthly Payment Batch Recap
CPSM-318	Financial Summary Report
CPSM-360	Sales Tax Register – State Recap
CPWD-008	Work Order Adds
CPWD-012	Work Orders Rejected
CPWD-014	Work Orders to be Scheduled
CPWD-016	Work Orders Aging
CPWD-020	Work Orders Cancelled
CPWD-042	Work Orders Completed
CPWD-044	Closed Work Order by Service Code Summary
CPWM-048	Trouble Call Response Time
CPWM-320	Work Order Response Time
CPHD-002	House Adds
CPID-080	Daily Non- Responding Converter
CPPD-006	Event Order Entry List
CPSD-122	Daily Memo Dump
CPSD	Daily Charge Off Activity Report
CPPD-004	Order File Updates
CPIM-016	Authorization Profiles
CPMM-022	Service Code Penetration & Churn
CPSD-360	Subscriber Message Audit Report
CPSD-380	USPS Address Change Service Exception
CPWD-026	Work Order Status
CPPE-002	Event File Updates
CPSD-224	Packs Sent Summary Report
CPSD-244	Packs Sent Detail Report
CPSD-226	Accepted Packs
CPSD-228	Accepted Packs
CPSD-230	Rejected Packs
CPSD-232	Rejected Packs
CPSD-062	Packs Sent By SPA Report
CPSD-064	Confirmation Transmission
CPSD-150	Resent EMI Records
CPSD-238	Unmatched EMI Records Research
CPSD-240	Unmatched Pack Records Research
CPSD-220	Matched Return Detail Error Report
CPSD-242	Rejected Pack Sequence Correction
CPSD-236	Aging Activity Report
CPSD-060	Internal Rejects
CPSD-406	Remove EMI Billing Records
CPSD-404	EMI Exceptions
CPSD-190	Account Transfer Additions
CPSM-500	Aged Off Account Transfer Records

Report #	Report Description
CPSD-076	SBC Midwest Duplicate Errors
CPSD-418	Dunning Group Assignment by Reason
CPSM -504	Dunning Group Movement

EXHIBIT B-1(b)

Third Party Software

1. ACSR
-Rumba 2000 v 7.0.b.
-Brixton software products, including, PU2.1.LU6.2, 3270 Client, and LU2.1

2. ACSR/HSD
-Same as ACSR

EXHIBIT B-1(c)

CONFIDENTIALITY AGREEMENT

THIS CONFIDENTIALITY AGREEMENT is made as of the ___day of ___________between **CSG SYSTEMS, INC. ,** a Delaware corporation with its principal offices at 7887 East Belleview Ave., Suite 1000, Englewood, CO 80111, U.S.A. ("CSG") and **[Name of Company]** , with its principal offices at [] ("Company").

RECITALS

CSG and Company intend to discuss certain matters regarding potential business relationships, including opportunities regarding CSG's software and systems (the "Products") in certain areas.

In these discussions, CSG and Company may disclose to the other confidential and proprietary information and trade secrets for evaluation of the Products and any potential business relationship (the "Evaluation Process").

As a result, CSG and Company agree on the following terms for disclosure and protection of their respective information.

1. **DEFINITION OF CONFIDENTIAL INFORMATION .** "Confidential Information" means information developed, acquired or licensed that is maintained as confidential information or trade secrets, including products planning information, marketing strategies, plans, finance, operations, customer relationships, customer profiles, sales estimates, business plans, internal performance results relating to past, present or future business activities, scientific or technical information, designs, processes, procedures, formulas, or improvements, confidential or proprietary concepts, documentation, reports, data, specifications, computer software, source code, object code, flow charts, databases, inventions, information, know-how, show-how and trade secrets, whether or not patentable or copyrightable, and all documents, inventions, substances, engineering and laboratory notebooks, drawings, diagrams, specifications, bills of material, equipment, prototypes and models, and any other tangible embodiment of the foregoing.

2. **IDENTIFICATION OF CONFIDENTIAL INFORMATION .** All information which is disclosed by the disclosing party to the receiving party and which is to be protected hereunder as Confidential Information of the disclosing party shall:

(a) if in writing or other tangible form, be labeled as proprietary and/or confidential, and

(b) if oral, be identified as proprietary and/or confidential at the time of disclosure and confirmed in writing by the disclosing party as confidential and/or proprietary within fifteen (15) calendar days of the date of disclosure.

3. **CONFIDENTIALITY.** CSG and Company agree, with respect to the other's Confidential Information, for a period of three (3) years from the date of disclosure:

(a) to take reasonable precautions necessary to safeguard confidentiality of that Confidential Information, including those the party takes to protect its own Confidential Information and those the other party reasonably requests from time to time;

(b) not to disclose that Confidential Information to any person or entity except its employees who have a need to know and require access in connection with the Evaluation Process;

(c) to require that such employees (i) agree to comply with the use and non-disclosure restrictions applicable to such Confidential Information under this Agreement and (ii) acknowledge the disclosing party's right to enforce these restrictions against the employee before disclosing that Confidential Information to any such employee; and

(d) not to remove or deface any notice of confidentiality on the Confidential Information. The placement of a copyright notice on any Confidential Information will not constitute publication or otherwise impair its confidential nature.

** Confidential Treatment requested and the Redacted Material has been separately filed with the Commission.

4. **USE.** Each party will use the Confidential Information of the other party exclusively to evaluate the Products and evaluate potential business relationships. The Company will not copy the Products without CSG's prior written permission, and CSG and Company will not copy any of the other's Confidential Information without the other's prior written permission.

5. **UNAUTHORIZED USE OR DISCLOSURE.** The unauthorized use or disclosure of either party's Confidential Information will cause the party irreparable harm, and any actual or threatened unauthorized use or disclosure will entitle the disclosing party to injunctive relief, without bond. If an unauthorized use or disclosure of either party's Confidential Information occurs, the recipient will immediately notify the disclosing party and take, at the recipient's expense, all steps which are reasonably necessary to recover the disclosing party's Confidential Information and to prevent its subsequent unauthorized use or dissemination, including availing itself of actions for seizure and injunctive relief. If the recipient fails to take these steps in a timely manner, the disclosing party may take them in its own or the recipient's name and at the recipient's expense.

6. **LIMITATION.** Neither party will have any confidentiality obligation with respect to any portion of Confidential Information that (i) the recipient independently knew or develops without using the disclosing party's Confidential Information, (ii) the recipient lawfully obtains from a third party under no obligation of confidentiality, (iii) becomes available to the public other than as a result of an act or omission of the recipient or any of its employees or (iv) is required to be disclosed in a judicial or administrative proceeding after all reasonable legal remedies for maintaining such information in confidence have been exhausted including, but not limited to, giving the disclosing party as much advance notice of the possibility of such disclosure as is practical so that the disclosing party may attempt to stop such disclosure or obtain a protective order concerning such disclosure.

7. **PRODUCTS.** The Company acknowledges that CSG or its licensors own the Products and all patents, copyrights, trade secrets, trademarks and other proprietary rights related to the Products, whether or not specifically recognized or protected under the laws of any country, and that this Agreement gives the Company no rights with respect to the Products or CSG's proprietary rights, except the limited rights specified in this Agreement. The Company will not take any action that jeopardizes CSG's or its licensors' proprietary rights or acquire any rights in the Products.

8. **DISCUSSIONS.** CSG and Company will act in good faith. This Agreement does not obligate CSG or Company to enter into any discussions, agreements or business relationships. Any agreement that will bind the parties not set forth in this Agreement must be in writing and signed by an authorized representative of both parties. Oral agreements, promises and representations made between the parties but not contained in such a written agreement will not be binding.

9. **RETURN OF CONFIDENTIAL INFORMATION.** CSG and Company will, on request by the other, (i) return the other party's Confidential Information and any tangible embodiment containing such Confidential Information, and (ii) deliver to the other party an affidavit which certifies that the party has complied with these termination obligations.

10. **INDEMNITY.** Each party will indemnify the other party against any damages, loss, liability or expense (including lawyer's fees) that such other party may incur as a result of any violation of its confidentiality obligations hereunder, due to any act or omission of such party, its employees, agents or consultants. This Section will not be construed to limit or exclude any other claims or remedies that either party may assert under this Agreement or by law.

11. **U.S. EXPORT CONTROLS.** The Company acknowledges that the Products and all related technical data are subject to controls under the U.S. Export Administration Regulations. The Company will not re-export or disclose the Products or any related technical data, or direct products thereof, to any country or person resident outside of the United States or Philippines (except to CSG and its employees), unless the Company obtains an appropriate authorization from CSG and the U.S. Department of Commerce.

12. **ASSIGNMENT.** Neither party may assign, delegate or otherwise transfer this Agreement or any of its rights or obligations hereunder without the other party's prior approval. Any attempt to do so without such approval will be void. Notwithstanding the foregoing, CSG may assign this Agreement, upon notice to Company, to a related or unrelated person in connection with a transfer of all or substantially of its stock or assets to a third party, and Company hereby consents to such assignment in advance.

** Confidential Treatment requested and the Redacted Material has been separately filed with the Commission.

13. GOVERNING LAW. This Agreement and performance thereunder shall be governed by the laws of the State of Colorado, U.S.A, excluding its conflicts of laws rules.

IN WITNESS WHEREOF , the parties have executed this Agreement as of the date first above written.

[COMPANY].	**CSG SYSTEMS, INC. (“CSG”)**
By: ______________________	By: ______________________
Name: ______________________	Name: ______________________
Title: ______________________	Title: ______________________
Date: ______________________	Date: ______________________

SCHEDULE C

Reserved

SCHEDULE D

Product Installation

1. **Installation .** The following Product installation services are provided for the fees set forth in Schedule F .

a) **ACSR**

(i) **Project Implementation Support (3-4 months duration)**
Assigned project manager and product consultant (shared resources)
Requirements definition and project planning meeting
Project plan and customer specifications document
Ongoing project coordination, status reporting and post project review

(ii) **Engineering**
Site survey (1 day - single location)
Network and single server sizing and configuration (single server)
Network requirements diagram and documentation

(iii) **Field Services**
Single server software installation, configuration and testing at CSG (5 business days)
Single server with one workstation - installation and pre-production check at customer site (2 business days)
Single IBM 4030 protocol converter installation

(iv) **Training and Documentation**
1 seat in ACSR/CCS Technical Overview class
1 seat in Financial Reporting & Accounting Practices class
1 seat in Video Service Provisioning (Addressability) class
CSG Documentation Library on CD-ROM includes ACSR documentation

b) **CSG Vantage**

(i) Initial load of the Vantage data base.
(ii) Unlimited phone support for installation of hardware and software that is certified by CSG Systems, Inc.
(iii) For non-certified environments, CSG Systems, Inc. will provide the necessary phone support to determine if the non-certified environment can or should be certified
(iv) If the environment is deemed certifiable, the costs associated with certifying the environment will be communicated to the customer.
(v) On-site assistance by CSG can be provided upon customer request.
(vi) Basic Vantage training at a regularly scheduled Omaha training class, as space permits; at as scheduled regional training class, as space permits; Basic Vantage training at a customer requested time and/or location is available on request.

(vii) **Product Documentation:**

(a) Training Documentation
- Tables and Data Definitions
- Systems Operations Procedures
- Database Comparisons
- Solutions Series

(b) Training guide
- In-Class Examples

(c) Standard Applications

(d) Software Installation Guide

The following services are not included in the above packages, and may be provided by CSG for additional fees:

Additional workstation installation

Printer installation
Network interface cards/devices
Circuit installation
Remote site engineering services
Definition and implementation of all billing and financial management parameters
Custom report design and development
Operational system requirements and implementation
Coordination of all vendor activities pertaining to telephony operational network and database management

c) CSG Screen Express and CSG Message Express:

Installation of CTI server
Configuration between CTI server and phone switch
Installation of client application, on-site, excluding Reimbursable Expenses
End-to-end testing
1 day on-site training

Installation and Start-up Services not included (Customer's responsibility and/or services available for additional fees):

Additional workstation installation
Printer installation
Network interface cards/devices
Remote site engineering services
Definition and implementation of all billing and financial management parameters
Custom report design and development
Operational systems requirements and implementation
Coordination of all vendor activities pertaining to telephony operational network and database management

d) CSG Statement Express:

Circuit Capacity

- Review and determine the Customer Communications statement storage and viewing parameters for the following:
  - retention period of statement image,
  - number of statement cycles,
  - current and projected number of physical ESP statement pages
  - average number of billing related calls per day and per hour
  - total number of workstations utilizing the application
  - total number of SPA's
  - estimated number of concurrent Statement Express users
- Evaluate circuit capacity requirements based upon above criteria
- Provide circuit upgrade requirements (if needed)
- Place order for circuit upgrade (if needed)

Product Installation

- Develop MVS statement extract process
- Build statement image database
- Test extract/statement image process
- Incorporate Statement Express into ANDS processing
- Send CDROM of workstation application software to site
- Verify connectivity to statement image data

Other

- Provide Statement Express Quick Reference Guide
- Access and validate proper statement display

SCHEDULE E

Reserved

** Confidential Treatment requested and the Redacted Material has been separately filed with the Commission.

SCHEDULE F

1. CSG BILLING SERVICES

1.1. CCS Services

1.1.1. Video and HSD

1.1.2. Ancillary Services for Video and HSD

1.2. Credit Verification

1.3. Technical Services

1.4. Additional Training and Documentation

1.5. Host Processing Capacity

2. CSG BILLING PRODUCTS

2.1. Expanded License Software

2.2. CSG Vantage Plus

3. CSG PRINT AND MAIL SERVICES

Guaranteed Fees

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Definition of an Active Subscriber

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Note: Any CSG Product licensed to Customer subsequent to the Effective Date of this Agreement shall be set forth in a separately executed mutually agreeable amendment for such Product. At the request of Customer, CSG may provide additional services for which fees are not specifically set forth in this Agreement. If CSG agrees to provide such additional services, then Customer shall pay CSG for such services at CSG’s then current rates or as mutually agreed upon.

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1.1. *** ********

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B. ********** ******* ********** ********* ***** (*** ****)	*** *******	*, $ ***.**	$ *, ***.**
C. **_********** ****	*** *******	* ****	* ****

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** Confidential Treatment requested and the Redacted Material has been separately filed with the Commission.

1.3. ********* ********

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** Confidential Treatment requested and the Redacted Material has been separately filed with the Commission.

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b.	*,***,*** – **,***,*** ******* **********	*******	$ *.**	$ *.***
c.	**,***,***—**,***,*** ******* **********	*******	$ *.**	$ *.***
d.	**,***,*** – **,***,*** ******* **********	*******	$ *.**	$ *.***
e.	**,***,*** – **,***,*** ******* **********	*******	$ *.**	$ *.***
f.	**,***,*** + ******* **********	*******	$ *.**	$ *.***
B.	********** ******** **** (*** ******* *-*, **** #*) (*** ******** ****, *** ****** *********)	*******	$ *.***	$ *.***
C.	********** ** **** (*** ******* ****, *** ****** *********) (*** ******* *-*, **** #*)	*******	$ *.****	$ *.****
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3.6.	***** ***** *** **** ********* ******* ****			
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** Confidential Treatment requested and the Redacted Material has been separately filed with the Commission.

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Bundled Products and Services

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** Confidential Treatment requested and the Redacted Material has been separately filed with the Commission.

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** Confidential Treatment requested and the Redacted Material has been separately filed with the Commission.

Exhibit F-2

Print and Mail Notes

1. ***** ******** **** *** ********** ******** ****** ********, ***** ***** **** **** **** *************, ********* ** *** ********* **** *** ******** ********** ******** (** ******* ** *** ********* ** ******** *, ******* *) (******** ******* **** *****: *** **********_******* **********, *** ***'* ********* ***** *** ******* ****** *****). ******* ** ********. *** *** ******** *** ********* ***** *** ********:

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SCHEDULE G

Performance Standards and Remedies

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** Confidential Treatment requested and the Redacted Material has been separately filed with the Commission.

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[1] Forty-eight (48) hours prior notice required for one (1) additional Friday per month

** Confidential Treatment requested and the Redacted Material has been separately filed with the Commission.

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** Confidential Treatment requested and the Redacted Material has been separately filed with the Commission.

Exhibit G-1

Performance Remedies

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SCHEDULE H

CSG Systems, Inc. Business Continuity/Disaster Recovery Plan

CSG maintains written business continuity plans (BCP) that describe a pre-planned sequence of events to ensure the continuation, recovery, and restoration of all business-critical business functions in the event of a business disaster. Business-critical functions (computer resources, networks, processes, and facilities) are those which, if not operating, would cause significant adverse impacts upon the services or products provided by CSG Systems, Inc. to its clients.

For BCP and disaster recovery purposes, CSG Systems, Inc. has categorized all business-critical functions into one of three critical recovery windows. These windows are referred to as Minimum Acceptable Recovery Configurations (MARC I, MARC II, MARC III), with each MARC being defined according to a specific period of time as follows:

- All MARC I business functions are required to be operational from a BCP standpoint within 48 hours after declaration of a business disaster.
- All MARC II business functions are required to be operational from a BCP standpoint between calendar day three and caelndar day seven after declaration of a business disaster.
- All MARC III business functions are required to be operational from a BCP standpoint between calendar day eight and calendar day thirty-one after declaration of a business disaster.

In the event of a declared disaster, affecting Customer data, CSG will provide Customer with BCP coverage as follows for the following products and services:

MARC I
CCS
Credit Card Authorization (One Time and Recurring) Services
Host & Distributed Interfaces
Electronic Payment Services (Paybill Advantage)
CSG Statement Express
Print and Mail Services

MARC II
ACSR Code Distribution

MARC III
Collection Services Interfaces
Credit Verification Services
CSG Vantage (NOTE: currently evaluating requirements)

CSG will maintain adequate BCP plans for each of the products and services listed above, and will test those plans an annual basis for accuracy and adequacy.

SCHEDULE I

Support Services

Support Services for the Products:

Every Customer problem is assigned a tracking number and a priority. The priority is set to correspond with the urgency of the problem. Problems are resolved according to their assigned priority. The terms and conditions set forth in this Schedule H shall also apply to any Deliverables with respect to which a Customer has purchased support and maintenance services from CSG. CSG will designate the priority level based upon the parties' initial assessment of the problem, and Customer shall provide CSG with adequate examples and details to assist with problem identification and shall describe the urgency of the problem when it is initially reported. The priority levels are described below: Priority levels may be adjusted by the the parties during the period of problem resolution, either upward or downward, by way of example and not limitation changes in problem identification, impact on other functions or delay in problem resolution by CSG.

CRITICAL (PRIORITY 1): Complete loss of functionality, system outage or down production system. A Customer cannot access the system, cannot perform any function due to the hardware being down, are experiencing network control or communication problems, or are unable to process. The Customer will receive immediate response and prioritized at the highest level. Once control has been regained, efforts are then made to determine the "root cause" of the problem. Considering the nature of the cause, the problem is adjusted to one of the other priorities and processed accordingly. While a Critical (Priority 1) problem exists, the Product Support Center shall provide around-the-clock support until such Customer's system/network/application is restored to operational status.

SERIOUS (PRIORITY 2): Partial loss of critical functionality, or loss of critical functionality. The Customer's production/processing system is not down but there is an impact within the system/network. If the problem persists, the control of the network may be lost and/or end-user impacts may become serious. The Product Support Center's goal is to ensure that control of the system is not jeopardized and to work with such Customer to gather information in order to resolve the issue. The Product Support Center shall allocate resources during normal business hours until a permanent solution is found.

OPERATIONAL (PRIORITY 3): Partial loss of non-critical functionality, or loss of critical functionality for which a work around exists. The problem is within the Customer's operations environment. The user is attempting to utilize a Product and is having difficulty completing the process. A user may be a CSR, Subscriber, or the Customer's operation staff running the system. CSG's Product Support Center goal is to respond on or before the next business day.

INCONVENIENCE OR INFORMATIONAL (PRIORITY 4): Inconvenience or loss of functionality for which a work-around solution exists, or information is requested. The problem is an operator inconvenience or the Customer has requested information. There is no serious impact to the end user of the system. The problem can be avoided by proper operator action, internal training by the Customer, or a work-around solution. There is no apparent danger of losing control of the system, network, application or data because of this type of problem. CSG's Product Support Center goal is to respond within three (3) business days.

** Confidential Treatment requested and the Redacted Material has been separately filed with the Commission.

SCHEDULE J

OUTSTANDING SOWs

Document Number	Name	Status	Execution Date
2060696	***_********_******* *****	Executed	8/11/04
2130544	***_********_********_******** ***_****	Executed	12/29/04
2204116	***_******** *** *** ****	Executed	7/29/05
2251900	***_********_******** *********** ******_***	Executed	9/22/05
2251829	***_********_******** *********** ******_*** ******	Executed	9/22/05
2263625	***_********_******** *********** ******_**** *******	Executed	11/11/05

Scott Goodyear
Vice President, EchoStar Strategic Business Unit

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 have been marked with (***).

December1, 2005

Ms. Jody Martin
SVP, Marketing
EchoStar Satellite, L.L.C
9601 S. Meridian Blvd
Englewood, CO 80112

Dear Jody:

The parties have agreed that the fees set forth in Schedule F, section 3.5 of the CSG Master Subscriber Management System Agreement between **EchoStar Satellite LLC** and **CSG Systems, Inc.** (collectively the "Parties") dated December 1, 2005, in relation to the items set forth below may be subject to change on an annual basis in accordance with Customer's overall marketing plan(s) and the volumes associated with such items.

This Letter confirms that the Parties have agreed to the following fees for 2006:

- ***-***** *********, *** *** ***** ********, ** ********'* ******** ***-***** ***** ***/** ******* ********(*):

********** ******	**** *******
• * – **,***,***:	$*.**** *** ********
• **,***,*** – **,***,***:	$*.**** *** ********
• **,***,*** – **,***,***:	$*.**** *** ********
• **,***,***+:	$*.**** *** ********

- *** ******* ****** ****

********** ******	**** *******
• * – **,***,***:	$*.**** *** ******
• **,***,*** +:	$*.**** *** ******

To acknowledge your approval of the above, please sign and return this letter to my attention. Thank you for your cooperation.

Regards,

/s/ Scott Goodyear

Scott Goodyear
Vice President, EchoStar Strategic Business Unit

ECHOSTAR SATELITE LLC ("CUSTOMER")

By:	/s/ Jody Martin	By:	/s/ Robert A. Strickland
Name:	Ms. Jody Martin	Name:	Mr. Robert Strickland
Title:	SVP, Marketing	Title:	SVP, CIO

EXHIBIT 12.10

CSG Systems International, Inc.

Ratio of Earnings to Fixed Charges
(in thousands, except ratios)

	Year Ended December 31, 2005
Income from continuing operations before income taxes	$ 72,961
Fixed Charges:	
Interest on long-term and short-term debt including amortization of debt expense	7,537
Interest element of rentals	3,718
Total fixed charges	11,255
Earnings before income taxes and fixed charges	$ 84,216
Ratio of earnings to fixed charges	7.48

EXHIBIT 21.01

CSG Systems International, Inc.

Subsidiaries of the Registrant
As of December 31, 2005

Subsidiary	**State or Country of Incorporation**
CSG Systems, Inc.	Delaware
CSG Services, Inc.	Delaware
CSG International Holdings LLC	Delaware

EXHIBIT 23.01

Consent of Independent Registered Public Accounting Firm

The Board of Directors
CSG Systems International, Inc.:

We consent to the incorporation by reference in the registration statements on Form S-8 (File Nos. 333-10315, 333-32951, 333-48451, 333-83715, 333-42202, 333-81656, 333-104206, 333-117928 and 333-125584) and Form S-3/A (File No. 333-117427) of CSG Systems International, Inc. of our reports dated March 13, 2006, with respect to the consolidated balance sheets of CSG Systems International, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2005, management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005 and the effectiveness of internal control over financial reporting as of December 31, 2005, which reports appear in the December 31, 2005 annual report on Form 10-K of CSG Systems International, Inc.

KPMG LLP

Denver, Colorado
March 13, 2006

EXHIBIT 31.01

CERTIFICATIONS PURSUANT TO
SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Edward C. Nafus, certify that:

1. I have reviewed this annual report on Form 10-K of CSG Systems International, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2006

/s/ Edward C. Nafus

Edward C. Nafus
Chief Executive Officer and President

EXHIBIT 31.02

CERTIFICATIONS PURSUANT TO
SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Peter E. Kalan, certify that:

1. I have reviewed this annual report on Form 10-K of CSG Systems International, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2006

/s/ PETER E. KALAN

Peter E. Kalan
Executive Vice President and Chief Financial Officer

EXHIBIT 32.01

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The certification set forth below is being submitted in connection with the Annual Report on Form 10-K (the “Report”) for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Edward C. Nafus, the Chief Executive Officer and Peter E. Kalan, the Chief Financial Officer of CSG Systems International Inc., each certifies that, to the best of his knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of CSG Systems International, Inc.

March 14, 2006

/s/ Edward C. Nafus

Edward C. Nafus
Chief Executive Officer and President

March 14, 2006

/s/ Peter E. Kalan

Peter E. Kalan
Executive Vice President and Chief Financial Officer