

CSG SYSTEMS INTERNATIONAL INC

Form 424B3

May 11, 2005

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Filed pursuant to Rule 424(b)(3)

File No. 333-117427

**PROSPECTUS**

**\$230,000,000**

**2.50% Senior Subordinated Convertible Contingent Debt Securities<sup>SM</sup>  
(CODES<sup>SM</sup>) due 2024**

**and**

**Common Stock Issuable Upon Conversion of the CODES**

CSG Systems International, Inc. issued \$230 million principal amount of the 2.50% Senior Subordinated Convertible Contingent Debt Securities<sup>SM</sup> (CODES<sup>SM</sup>) due 2024 pursuant to the registration exemption provided under Rule 144A in June 2004. This prospectus will be used by selling securityholders to resell their CODES and the common stock issuable upon conversion of the CODES. We will not receive any of the proceeds from the resale of these securities.

The CODES are convertible, at the option of holders of CODES, initially at a conversion rate of 37.3552 shares of common stock per \$1,000 principal amount, which is equivalent to an initial conversion price of approximately \$26.77 per share, subject to adjustments described elsewhere in this prospectus, in the following circumstances:

during any fiscal quarter, if the market price of our common stock measured over a specified number of trading days in a specified period is above 130% of the conversion price per share on the last day of such preceding fiscal quarter; subject to certain exceptions, during the five-business-day period following any 10-consecutive-trading-day period in which the average of the trading prices (as described below under Description of the CODES Conversion Rights Conversion Upon Satisfaction of CODES Price Condition ) per \$1,000 principal amount of CODES, as determined following a request from a holder to make a determination, for that 10-trading-day period was less than 98% of the average conversion value for the CODES during that period; if the CODES have been called for redemption; or upon the occurrence of specified corporate transactions.

On December 15, 2004, we irrevocably elected, by notice to the trustee and the holders of the CODES, to satisfy in cash 100% of the principal amount of the CODES converted after that date. After that date, we still may satisfy our conversion obligation to the extent it exceeds the principal amount in cash or common stock or a combination of cash and common stock.

The CODES bear interest at a rate of 2.50% per year. Interest on the CODES is payable on June 15 and December 15 of each year, beginning on December 15, 2004. Beginning with the six-month interest period commencing on June 15, 2011, we will pay additional contingent interest during a six-month period if the average trading price of the CODES during 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 CODES. The CODES will mature on June 15, 2024.

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Each holder of CODES may require us, subject to certain conditions, to repurchase for cash all or any portion of that holder's CODES on June 15, 2011, June 15, 2016 and June 15, 2021 at a repurchase price equal to 100% of the principal amount of such CODES plus accrued and unpaid interest (including contingent interest and additional amounts, if any). In addition, upon a change of control, in certain circumstances, each holder may require us to repurchase for cash all or any portion of that holder's CODES at that same purchase price.

The CODES may be redeemed at our option on or after June 20, 2011 for cash as a whole at any time, or from time to time in part, at a repurchase price equal to 100% of the principal amount of such CODES plus accrued and unpaid interest (including contingent interest and additional amounts, if any).

The CODES are our general unsecured obligations and are subordinated to all our existing and future senior indebtedness. The CODES are structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of our existing and future subsidiaries.

The CODES are not listed on any securities exchange or automated quotation system. Our common stock is listed on the Nasdaq National Market under the symbol CSGS. The last reported price of our common stock on May 10, 2005 was \$17.82 per share.

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**Investing in these securities involves certain risks. See Risk Factors beginning on page 3.**

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**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**The date of this prospectus is May 10, 2005**

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You should rely only on the information contained in or incorporated by reference in this prospectus or to which we have referred you. We have not authorized anyone to provide you with different information. We are not, and the selling securityholders are not, making an offer to sell these securities in any state where the offer or sale is not permitted. You should not assume that the information contained in or incorporated by reference in this prospectus is accurate as of any date other than the date on the front of this prospectus. The terms CSG Systems, we, us, and our refer to CSG Systems International, Inc. and its subsidiaries, except where the context otherwise requires or as otherwise indicated.

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This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or the SEC, using a shelf registration or continuous offering process. Under this shelf process, selling securityholders may from time to time sell the securities described in this prospectus in one or more offerings.

Each time a selling securityholder sells securities, the selling securityholders are required to provide you with a prospectus containing specific information about the selling securityholder. You should read this prospectus together with the additional information described under the heading Where You Can Find More Information.

The registration statement containing this prospectus, including the exhibits to the registration statement, provides additional information about us and the securities offered under this prospectus. The registration statement, including the exhibits, can be read on the SEC web site or at the SEC office mentioned under the heading Where You Can Find More Information.

This prospectus contains summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by such reference. Copies of certain documents referred to herein will be made available to prospective investors upon request to us.

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**FORWARD-LOOKING STATEMENTS**

Certain information contained in this prospectus or incorporated in this prospectus by reference includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements relate to, without limitation, our future financial condition, economic performance, plans and objectives for future operations and projections of revenue and other financial items. In addition, we and our representatives may from time to time make written or oral forward-looking statements, including statements contained in filings with the Securities and Exchange Commission and in our reports to shareholders. Forward-looking statements generally can be identified by the use of words such as may, will, should, expect, believe, anticipate, estimate, continue or comparable terminology. Forward-looking statements involve certain risks and uncertainties, many of which are beyond our ability to control or predict with accuracy and some of which we might not even anticipate. These risks and uncertainties may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied in the forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are based upon reasonable assumptions at the time made, we can give no assurance that our expectations will be achieved. In addition, these forward-looking statements are qualified in their entirety by the cautionary statements and the Risk Factors that appear elsewhere in this prospectus or in information incorporated by reference herein. Important factors that may affect our expectations include, among other things:

the economic state of the global telecommunications industry, including the cable television and satellite industries;

the loss of a significant client, significant contract or the loss or material reduction in significant business from a client;

changes in demand for our primary products and services;

changes in technology in our industry and in the industries we serve;

consolidation of the global telecommunications industry;

difficulties in completing complex implementation projects;

the availability and security of the computer systems and telecommunications networks (including the Internet) on which our products and services depend;

changes in competitive condition in our industry;

changes in the political, social and economic conditions in the countries in which we operate;

the consequences of potential terrorist activities and the responses of the United States and other countries to such activities; and

other factors beyond our control.

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You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof or in the case of statements incorporated by reference, on the date of the document incorporated by reference. Except to the extent required by applicable law or regulation, we undertake no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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**RISK FACTORS**

*Before investing in our CODES or common stock, you should carefully consider the following risk factors as well as other information contained or incorporated by reference in this prospectus.*

**Risks Relating to Our Business**

*We derive a significant portion of our revenues from Comcast and Echostar, and the loss of their business would materially adversely affect our financial condition and results of operations.*

We generate approximately one-third of our total consolidated revenues from our two largest clients, Comcast and Echostar. 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. We expect to continue to generate a significant percentage of our future revenues from Comcast and Echostar. Concentration of a large percentage of total revenues with a limited number of clients imposes certain risks to our business. Our financial condition and results of operations (including possible impairment, or significant acceleration of the amortization of the Comcast client contracts intangible asset) could be materially adversely affected by:

Comcast's or Echostar's termination of or failure to renew their contracts with us, in whole or in part for any reason; or

a significant reduction in the number of Comcast or Echostar customers processed on our system.

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 2005 and 2006, which we currently expect to exceed based on the current number of customers on our system. Under the terms of the Comcast Contract, which does not include exclusivity for us, Comcast could remove one or more regions from or significantly reduce the number of customers on our system without automatically incurring a financial penalty. We have been working, particularly since the arbitration ruling with Comcast in October 2003, towards creating a favorable relationship with Comcast and the different Comcast regions we service. However, there can be no assurance that we can achieve or maintain that relationship with Comcast or that Comcast will not move customers for any particular region to a competitor's system.

We renewed our contract with Echostar in the first quarter of 2004. However, such contract expires in 2006. Although we are currently working with Echostar for a further renewal of the contract, there can be no assurance that such contract will be renewed on terms satisfactory to us, or at all.

*Our Broadband Division, which accounts for a substantial portion of our revenues, is dependent on the U.S. cable television and satellite industries.*

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The Broadband Division generates its revenues by providing products and services to the U.S. and Canadian cable television and satellite industries. Although our dependence on these industries has been lessened by earning additional revenues outside the U.S. as a result of the Kenan Business acquisition in early 2002, revenues from the U.S. cable television and satellite industries are still expected to provide a large percentage of our, and substantially all of the Broadband Division's, total revenues in the foreseeable future. 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, 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 telecommunications 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.

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*Variability of our quarterly revenues and our failure to meet revenue and earnings expectations would negatively affect the market price for our common stock and the CODES.*

Variability in quarterly revenues and operating results are inherent characteristics of the software and professional services industries. Common causes of a failure to meet revenue and operating expectations in these industries include, among others:

the inability to close and/or recognize revenue on one or more material software transactions that may have been anticipated by management in any particular period;

the inability to timely renew one or more material software maintenance agreements, or renewing such agreements at lower rates than anticipated; and

the inability to timely and successfully complete an implementation project and meet client expectations, due to factors discussed in greater detail below.

We expect software license, software maintenance services, and professional services revenues to become an increasingly larger percentage of our total revenues in the future. Consequently, as our total revenues grow, so too does the risk associated with meeting financial expectations for revenues derived from our software licenses, software maintenance services, and professional services offerings. As a result, there is a proportionately increased likelihood that we may fail to meet revenue and earnings expectations of the analyst community. Should we fail to meet analyst expectations, by even a relatively small amount, it would most likely have a disproportionately negative impact upon the market price for our common stock and the CODES.

*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 international operations. There can be no assurance that we will be able to compete successfully with our existing competitors or with new competitors.

*Our inability to timely and successfully complete a complex implementation project and meet client expectations could have a material adverse effect on our financial condition and results of operations.*

Our GSS Division provides a variety of implementation services in conjunction with its software arrangements. The nature of the efforts required to complete the implementations can range from relatively short and noncomplex projects to long and complex projects. These implementation projects typically range from six to twelve months in length, but can be longer or shorter depending upon the specifics of the project. The length and complexity of an individual project is dependent upon many factors including, but not limited to, the following:

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the level of software customization, if any, required in the implementation;

the complexity of the client's business, and the client's intended use of our products and services to address their business needs;

whether the project includes multiple software product implementations or services;

the extent of efforts required to integrate our products with the client's other computer systems and business processes;

the amount and type of data that is required to be converted from the client's old application system to the newly implemented system;

the geographic location of the implementation project;

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whether the arrangement includes additional vendors participating in the overall project, including, but not limited to, prime and subcontractor relationships with our company; and

the responsibility we have assumed for the overall project completion. For example, from time to time we may assume a prime contractor (or prime integrator) role in a project in addition to our software implementation responsibilities. Prime contractor roles are inherently more difficult and/or complex as we take on the additional responsibility of managing other vendors as part of the project.

Lengthy and/or complex projects carry a greater degree of business risk than those projects that are short and/or noncomplex in nature. Our inability to timely and successfully complete a project and meet client expectations could have a material adverse effect on our financial condition and results of operations by impacting:

the amount and timing of revenue recognition. We generally account for our software implementation projects using the percentage-of-completion, or POC, method of accounting, and account for our fixed-price, long-term professional services projects using the proportional performance method, which results in revenue recognition that is generally consistent with the POC method of accounting. We apply various judgments and estimates in following these accounting methods, the primary one being the determination of the estimated effort required to complete a project. Significant increases between quarters in the total estimated effort required to complete a project accounted for in this manner can result in a reduction in anticipated quarterly revenues, and possibly, the reversal of previously recognized revenue;

the overall profitability of a project. Many of our projects are priced on a fixed-fee basis or the amount of fees that can be billed on a time-and-materials basis is capped. As a result, unexpected costs and/or delays can result in the projects being less profitable than originally anticipated or even unprofitable (i.e., a loss contract). In addition, our products may be considered mission critical customer management systems by our clients. As a result, an arrangement may include penalties and/or potential damages for our failure to perform under the agreed-upon terms of the arrangement; and/or

the timing of invoicing and/or collection of arrangement fees. Our ability to invoice and collect arrangement fees may be dependent upon our meeting certain contractual milestones, or may be dependent on the overall project status in certain situations in which we act as a subcontractor to another vendor on a project. As a result, the status of and/or delays in a project can impact the timing of invoicing and collection of our arrangement fees.

*Our business is dependent upon the economic condition of the global telecommunications industry.*

Since the vast majority of our clients operate within the global telecommunications industry, the economic state of this industry directly impacts our business. During the time period from early 2001 through 2003, the economic state of the global telecommunications industry deteriorated, resulting primarily from a general global economic downturn, network and plant overcapacity, and mounting debt combined with limited availability of capital. This downward trend continued into 2004, however to a much lesser degree than previous years. During this time frame, many companies operating within this industry publicly reported decreased revenues and earnings, and several companies filed for bankruptcy protection. Most telecommunications companies reduced their operating costs and capital expenditures to cope with the market condition during these times. This resulted in a decrease in spending on business support and operation support systems aimed at helping service providers manage the increasing complexity and cost of managing the interaction between communications companies and their customers, which resulted in a decrease in demand for our customer care and billing products and services.

As of the end of 2004, we believe the market has stabilized. In addition, we believe the improved operating results and financial condition of many service providers are beginning to provide signs of economic improvement within this industry sector. However, the public reports are mixed as to whether the recovery is real



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and whether the recovery is sustainable. If a turnaround in market conditions occurs, it will likely be slow, and a full, sustained recovery, if it occurs at all, may take several years. Since a significant amount of our GSS Division's business comes from international sources within this industry sector, the pace at which the market recovers presents a significant risk to our ability to timely collect our accounts receivable, maintain profitability, and grow this segment of our business.

*Our international operations subject us to additional risks.*

We currently conduct a significant amount of our business outside the United States. We are subject to certain risks associated with operating internationally including:

difficulties with product development meeting local requirements;

fluctuations in foreign currency exchange rates for which a natural or purchased hedge does not exist or is ineffective;

longer collection cycles for client billings or accounts receivable, as well as heightened client collection risks, especially in countries with highly inflationary economies and/or with restrictions on the movement of cash out of the country;

compliance with laws and regulations related to the collection, use, and disclosure of certain personal information relating to clients customers, such as privacy laws, that are more strict than those currently in force in the United States;

reduced protection for intellectual property rights in some countries;

inability to recover value added taxes and/or goods and services taxes in foreign jurisdictions; and

a potential adverse impact to our overall effective income tax rate resulting from, among other things:

operations in foreign countries with higher tax rates than the United States;

the inability to utilize certain foreign tax credits; and

the inability to utilize some or all of losses generated in one or more foreign countries.

*Substantial impairment of the GSS Division's goodwill and other intangible assets in the future may be possible.*

As discussed in notes 6 and 8 to the unaudited condensed consolidated financial statements included in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 and incorporated by reference in this prospectus, in the first quarter of 2005, we reorganized certain

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components of our operating segments as a result of changes in our management and internal reporting structure. The reorganization consisted primarily of moving plaNet Consulting ( plaNet ) from the GSS Division to the Broadband Division. In conjunction with the change in reporting structure for our operating segments, we also changed the components of our reporting units for purposes of our goodwill impairment assessments. Previously, the plaNet component was aggregated with the GSS Division and considered one reporting unit under the GSS Division. As a result of this reorganization, the plaNet component is now aggregated with the Broadband Division and considered one reporting unit under the Broadband Division as these components are considered to have similar economic characteristics. As a result, as of March 31, 2005, there was approximately \$18 million in net intangible assets (primarily software) and approximately \$198 million of goodwill that was attributed to the GSS Division.

As of March 31, 2005, the GSS Division included the assets from the Kenan Business and Davinci acquisitions. Key drivers of the value assigned to these acquisitions are the global telecommunications industry client base and the software assets acquired. To date, the GSS Division has not achieved the financial performance that we had originally anticipated due to many factors, including the economic downturn experienced within the global telecommunications industry since we acquired these assets. Our current business

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plan anticipates substantial revenue and earnings growth for the GSS Division over the next several years. We will continue to monitor the carrying value of the GSS Division's goodwill and other long-lived intangible assets as we execute on our business plan to achieve this revenue and earnings growth. We expect to perform the next GSS Division goodwill impairment test (our annual required test) in the third quarter of 2005, unless events occur which would require an analysis earlier than that date. If we fail to execute to our business plan (due to market conditions or other business reasons), and as a result, we materially revise our GSS Division financial projections, it is reasonably possible that a review for impairment of the GSS Division's goodwill and/or related long-lived intangible assets in the future may indicate that these assets are impaired, and the amount of impairment could be substantial.

*Client bankruptcies could adversely affect our business, and any accounting reserves we have established may not be sufficient.*

The economic state of the telecommunications industry increases the risk of our clients filing for bankruptcy protection. Indeed, certain of our clients have filed for bankruptcy protection, with Adelphia Communications' 2002 bankruptcy filing representing the largest one for us. 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 are 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 and various facility abandonments. 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 the utilization of our workforce and current operating facilities. As a result, there is a reasonable possibility that we may incur additional material restructuring charges in the future.

*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 continued market acceptance of our current products, including ACP and CSG Kenan FX, 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. As a result, substantial research and development 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 depending upon



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the specific product, may also be responsible for operations of the product. There is an inherent risk in the successful implementation and operations of these products as the technological complexities increase. There can be no assurance:

of continued market acceptance of our current products;

that we will be successful in the timely development of product enhancements or new products that respond to technological advances or changing client needs; or

that we will be successful in supporting the implementation and/or operations of product enhancements or new products.

See Our inability to timely and successfully complete a complex implementation project and meet client expectations could have a material adverse effect on our financial condition and results of operations for additional risks related to implementation projects.

*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 have been generated from our core service bureau processing product, CCS (to include an enhancement to CCS called Advanced Convergent Platform, or ACP), and related services. These products and services are expected to provide a large percentage of our, and most of the Broadband Division's, total revenues in the foreseeable future.

Historically, a substantial percentage of the GSS Division's revenues have been generated from its core customer care and billing system product, CSG Kenan FX (formerly CSG Kenan/BP), and associated software maintenance services and professional services. CSG Kenan FX software licenses and related software maintenance services and professional services are expected to provide a large percentage of the GSS Division's total revenues in the foreseeable future.

Any reduction in demand for CCS (to include ACP) and/or CSG Kenan FX and related services discussed above could have a material adverse effect on our financial condition and results of operations, including possible impairments to related goodwill and other intangible assets.

*The consolidation of the global telecommunications industry may have a material adverse effect on our results of operations.*

The global telecommunications industry is undergoing significant ownership changes at an accelerated pace. One facet of these changes is that telecommunications 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. In addition, consolidation in the global telecommunications industry may put at risk our ability to leverage our existing relationships. 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.



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In addition, it is widely anticipated that telecommunication 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.

*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 research and development and technical support. Competition for qualified personnel at times can be intense, particularly in the areas of research and development, 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.

*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.

Because of the global markets we service, we have clients using our products in many countries. As a result, we continually assess whether there is any risk to our intellectual property rights in many countries throughout the world. Should these risks be improperly assessed or if for any reason should our right to develop, produce and distribute our products anywhere in the world 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 telecommunications 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 telecommunications 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

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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.

## **Risks Relating to the CODES and the Common Stock into which the CODES are Convertible**

*Servicing the CODES will require a significant amount of cash, and our ability to generate sufficient cash depends on many factors, some of which are beyond our control.*

Our ability to make payments on the CODES, our existing obligations and debt we may incur in the future depends on our ability to generate cash. Our ability to do so is, to some extent, subject to economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Our business may not generate sufficient cash from operations, or we may not have future access to sufficient capital, to enable us to pay our debt, including the CODES, or to fund other liquidity needs. If we fail to generate sufficient cash from operations in the future to service our debt, we could be required to:

seek additional financing in the debt or equity markets;

refinance or restructure all or a portion of our debt, including the CODES;

sell selected assets; or

reduce or delay planned expenditures.

Taking these measures may not enable us to service our debt. In addition, any such financing, refinancing or sale of assets might not be available on economically favorable terms, if at all. Any inability to generate sufficient cash or raise capital on favorable terms could have a material adverse effect on our financial condition and on our ability to make payments on the CODES.

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*We may incur additional debt ranking senior to, or pari passu with, the CODES.*

As of March 31, 2005, we had no senior indebtedness outstanding. The indenture governing the CODES does not contain any financial or operating covenants that would limit us or our subsidiaries from incurring additional debt or other liabilities (including additional senior debt), pledging assets to secure such debt or liabilities, paying dividends, issuing securities or repurchasing securities issued by us or any of our subsidiaries. We may incur additional debt in the future.

Any increase in our leverage could have significant negative consequences, including:

increasing our vulnerability to competitive pressures and any adverse economic and industry conditions;

limiting our ability to obtain additional financings;

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limiting our ability to make acquisitions;

requiring the dedication of substantial portion of our cash flow from operations to service our indebtedness, thereby reducing the amount of our cash flow available for other purposes, including capital expenditures;

limiting our flexibility in planning for, or reacting to, changes in our business and the industries in which we compete;

adversely affecting our ability to pay our obligations under the CODES; and

placing us at a possible competitive disadvantage with less leveraged competitors and competitors that may have better access to capital resources.

Our ability to satisfy our future obligations, including debt service on the CODES, depends on our future operating performance and on economic, financial, competitive and other factors beyond our control. Our business may not generate sufficient cash flow to meet these obligations or to successfully execute our business strategy. If we are unable to service our debt and fund our business, we may be forced to reduce or delay capital expenditures, seek additional financing or equity capital, restructure or refinance our debt or sell assets. We cannot assure you that we would be able to obtain additional financing or refinance existing debt or sell assets on terms acceptable to us or at all.

*Your right to receive payments under the CODES is junior to our senior debt and certain future borrowings.*

The CODES are subordinated unsecured obligations of CSG and will be junior to any senior debt and all of our future borrowings other than our trade payables and any future debt that expressly provides that it ranks *pari passu* with, or is subordinated in right of payment to, the CODES. As of March 31, 2005, we had no senior indebtedness outstanding. We may incur substantial additional liabilities in the future.

As a result of the subordination of the CODES, upon any distribution to our creditors in a bankruptcy, liquidation, reorganization or similar proceeding relating to us or our property, the holders of our senior debt will be entitled to be paid in full in cash before any payment may be made with respect to the CODES. Because the indenture for the CODES requires that amounts otherwise payable to holders of the CODES in such a proceeding be paid to holders of senior debt instead, holders of the CODES may receive less, ratably, than holders of trade payables, as well as holders of senior debt, in any such proceeding.

*Your right to receive payments under the CODES is structurally subordinated to the existing and future liabilities of our subsidiaries.*

Our subsidiaries have not guaranteed the CODES and the CODES are not secured by any assets of our subsidiaries. Accordingly, the CODES are structurally subordinated to all existing and future liabilities of our subsidiaries. Those liabilities may include indebtedness, trade payables, guarantees (including existing guarantees of our senior secured credit facility) and lease obligations. In the event of a bankruptcy, liquidation or reorganization of any of our subsidiaries, creditors of our subsidiaries will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to us. In addition, even if we were a creditor of any of our subsidiaries, our rights as a creditor would be subordinate to any security interest in the assets of our subsidiaries and any indebtedness of our subsidiaries senior to that held by us. Our subsidiaries have no obligation to pay any amounts due on the CODES or to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. As of March 31, 2005, the aggregate liabilities of our subsidiaries, excluding intercompany obligations, were approximately \$162.3 million. Our subsidiaries may incur substantial additional liabilities in the

future.

*We may not have the ability to raise the funds necessary to repurchase the CODES as provided in the indenture.*

Holders have the right to require us to purchase for cash all or a portion of their CODES either following a change in control or on one of three specified repurchase dates. We will also be required to make cash payments

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on the CODES at their maturity. We expect to fund any such obligation using our available cash, cash generated from our operations or cash from other sources, including borrowings or sales of assets or equity. However, it is possible that we will not have sufficient funds at those times to make any required purchase of CODES, and that we will not be able to arrange financing to pay the repurchase price in cash. Our failure to repurchase the CODES would constitute an event of default under the indenture, which default might also constitute a default under the terms of our other debt.

In addition, any of our future debt agreements may restrict our ability to repurchase the CODES, or may require us to make similar repurchases or repayments of other debt simultaneous with a repurchase of the CODES. If the holders of the CODES exercise their right to require us to repurchase all or a substantial portion of the CODES on a repurchase date or in connection with a change in control, either the financial effect of that repurchase or the exercise of that right itself could cause a default under that other debt.

*The change in control purchase feature of the CODES may make more difficult or discourage a takeover proposal or a removal of incumbent management that would otherwise be beneficial to holders of our common stock.*

Your right to require us to repurchase the CODES upon the occurrence of a change in control could, in certain circumstances, make more difficult or discourage a potential takeover or a removal of incumbent management that would otherwise benefit the holders of our common stock because we (or our successor) may not have sufficient cash available to satisfy this repurchase obligation.

*The Indenture under which the CODES are issued does not contain restrictive covenants, and there is limited protection in the event of a change in control.*

The indenture under which the CODES are issued does not contain restrictive covenants that would protect you from several kinds of transactions that may adversely affect you. In particular, the indenture does not contain covenants that limit our ability or the ability of our subsidiaries to pay dividends or make distributions on or redeem our capital stock or limit our ability to incur additional indebtedness and, therefore, will not protect you in the event of a highly leveraged transaction or other similar transaction. In addition, the requirement that we offer to repurchase the CODES upon a change in control is limited to the transactions specified in the definition of a change in control under Description of the CODES Repurchase at Option of Holders Change in Control. Accordingly, we could enter into certain transactions, such as acquisitions, refinancings or a recapitalization, that could affect our capital structure and the value of our common stock but would not constitute a change in control.

*Because the CODES will be subject to the special Treasury regulations governing contingent payment debt instruments, the amount of interest required to be included in income by you will exceed the interest actually paid on the CODES and any gain and certain losses on the sale, purchase at your option, exchange, conversion or redemption will be treated as ordinary in character.*

For United States federal income tax purposes, the CODES are treated as indebtedness subject to the special Treasury regulations governing contingent payment debt instruments, which we refer to as the contingent debt regulations.

Pursuant to the contingent debt regulations, you will generally be required to accrue interest income at a constant rate of 9.09% per year (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 CODES. The amount of interest required to be included by you in

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income for each year generally will exceed the amount of interest paid on the CODES. Specifically, regardless of your method of accounting for U.S. federal income tax purposes, the amount of interest you will be required to include

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in income in a year will be in excess of the payments and accruals on the CODES for non-tax purposes (i.e., in excess of the stated, semi-annual regular interest payments and accruals and any contingent interest payments) in that year.

You will recognize gain or loss on the sale, purchase by us at your option, exchange, conversion or redemption of a CODES in an amount equal to the difference between the amount realized, including the fair market value of any of our common stock received, and your adjusted tax basis in the CODES. Any gain recognized on the sale, purchase by us at your option, exchange, conversion or redemption of a CODES will be treated as ordinary interest income; any loss will be ordinary loss to the extent of interest previously included in income, and thereafter will be treated as capital loss.

You may in certain situations be deemed to have received a distribution subject to U.S. federal income tax as a dividend in the event of a taxable dividend distribution to holders of common stock or in certain other situations requiring a conversion rate adjustment. For Non-U.S. Holders (as defined herein) this deemed distribution may be subject to U.S. federal withholding requirements.

A discussion of the United States federal income tax consequences of ownership of the CODES is contained in this registration statement under the heading **Material United States Federal Income Tax Considerations**. You are strongly urged to consult your tax advisor as to the federal, state, local or other tax consequences of acquiring, owning, and disposing of the CODES.

*No public trading market for the CODES exists.*

The CODES are a new issue of securities for which there is currently no public market. If the CODES are traded after their initial issuance, they may trade at a discount from their issue price plus accrued original issue discount, depending on prevailing interest rates, the market for similar securities, the price of our common stock, our performance and other factors. In addition, we do not know whether an active trading market will develop for the CODES. Certain of the initial purchasers have informed us that they intend to make a market in the CODES after this offering is complete. However, they may discontinue their market-making activities at any time. To the extent that an active trading market does not develop, the price at which you may be able to sell the CODES, if at all, may be less than the price you pay for them in this offering.

Although this shelf registration statement permits the resale of the CODES and the shares of common stock into which the CODES are convertible by the holders, this registration statement may not be available to holders at all times or for all purposes. If this registration statement does not remain effective, the liquidity and price of the CODES and the shares of common stock into which the CODES are convertible would be adversely affected. In addition, selling securityholders may be subject to liability under the Securities Act in connection with any material misstatements or omissions contained in this registration statement.

*Because the CODES are represented by global securities registered in the name of a depositary, you are not a holder under the indenture and your ability to transfer or pledge the CODES could be limited.*

The CODES are represented by one or more global securities registered in the name of Cede & Co., as nominee for The Depository Trust Company, or DTC. Except in the limited circumstances described in this prospectus, owners of beneficial interests in the global securities will not be entitled to receive physical delivery of CODES in certificated form and will not be considered holders of the CODES under the indenture for any purpose. Instead, owners must rely on the procedures of DTC and its participants to protect their interests under the indenture and to transfer their interests in the CODES. Your ability to pledge your interest in the CODES to persons or entities that do not participate in the DTC

system may also be adversely affected by the lack of a certificate.

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*Fluctuations in the value of our common stock, whether as a result of our operating results, market fluctuations, future sales of our capital stock or equity-linked securities or other factors, could adversely affect the trading price of our common stock and of the CODES.*

The price of our common stock on the Nasdaq National Market changes from time to time. We expect that the market price of our common stock will continue to fluctuate as a result of a variety of economic, financial, competitive, legislative, regulatory and other factors, many of which are beyond our control. Because the CODES are convertible into shares of our common stock, price fluctuations in our common stock could have a similar effect on the trading price of the CODES. Holders who have converted their CODES into shares of common stock will also be subject to the risk of such price fluctuations.

In addition, the terms of the CODES do not restrict us from issuing additional shares of common stock or shares of preferred stock, or securities convertible into shares of common stock or preferred stock, so long as the CODES are outstanding. Any such series of preferred stock could contain dividend rights, conversion rights, voting rights, terms of redemption or liquidation or other rights superior to those of holders of our common stock. Any such future sales could have an adverse effect on the trading price of our common stock or the CODES. See Description of Capital Stock.

*The contingent conversion feature of the CODES could result in your not being entitled to convert a CODES when our common stock is trading at a price above the effective conversion price of the CODES.*

The CODES are convertible into shares of our common stock only if specific conditions are met. If the specific conditions for conversion are not met, you will not be able to convert your CODES, even though our common stock may be trading at a price above the effective conversion price of the CODES. In such a circumstance, you may not be able to receive the value of the common stock into which the CODES would otherwise be convertible.

*A change in the accounting rules relating to how the CODES impact the computation of our diluted earnings per share may cause us to report significant dilution in our diluted earnings per share.*

Under the then-existing application of GAAP at the time of the original issuance of the CODES, the CODES would not be included within the computation of diluted earnings per share until the period in which one of the contingent conversion features had been met. However, in September 2004, the Emerging Issues Task Force, or EITF, of the Financial Accounting Standards Board, or FASB, reached a final consensus decision on Issue No. 04-8, The Effect of Contingently Convertible Instruments on Diluted Earnings per Share. In October 2004, the EITF's consensus decision was ratified by the FASB, and EITF 04-8 became effective during the fourth quarter of 2004. The EITF's consensus decision 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.

In December 2004, we made an irrevocable election, prior to the effectiveness of EITF 04-8, to settle in cash 100% of the principal amount of the CODES converted after the date of the election, which requires us to calculate dilution for the CODES using the treasury stock method in periods in which our average stock price exceeds the current effective conversion price of \$26.77 per share. See Description of CODES Settlement upon Conversion (3) Conversion after irrevocable election to pay in cash for further information on this election. Under the treasury stock method, we had no reduction in our previously reported diluted earnings per share in the second and third quarters of 2004, as our average stock price did not exceed the effective conversion price of \$26.77 per share during these periods. In addition, going forward, the CODES would impact our diluted earnings per share only in those periods in which our average stock price exceeds the current effective conversion price of \$26.77 per share.



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*If you hold CODES, you will not be entitled to any rights with respect to our common stock, but you will be subject to all changes made with respect to our common stock.*

If you hold CODES, you will not be entitled to any rights with respect to our common stock (including, without limitation, voting rights and rights to receive any dividends or other distributions on our common stock), but you will be subject to all changes affecting the common stock. You will have rights with respect to our common stock only if and when we deliver shares of common stock to you upon conversion of your CODES. For example, in the event that an amendment is proposed to our restated certificate of incorporation or by-laws requiring stockholder approval and the record date for determining the stockholders of record entitled to vote on the amendment occurs prior to delivery of the common stock to you, you will not be entitled to vote on the amendment, although you will nevertheless be subject to any changes in the powers, preferences or rights of our common stock.

*The conversion rate of the CODES may not be adjusted for all dilutive events that may occur.*

The conversion rate of the CODES is subject to adjustment for certain events including, but not limited to, the issuance of stock dividends on our common shares, certain distributions of assets, debt securities, capital stock or cash to shareholders and certain issuer tender or exchange offers as described under Description of the CODES Conversion Rate Adjustments. The conversion rate will not, however, be adjusted for other events that may occur, such as an issuance of shares of common stock for cash or a third-party tender offer, that may adversely affect the trading price of the CODES or the common shares.

*Conversion of the CODES will dilute the ownership interest of existing stockholders.*

If we elect to settle a conversion of the CODES in shares of our common stock, the conversion of CODES into shares of our common stock will dilute the ownership interests of existing stockholders. Any sales in the public market of the common stock issuable upon conversion of the CODES could adversely affect prevailing market prices of our common stock. In addition, the existence of the CODES may encourage short selling by market participants due to this dilution or to facilitate trading strategies involving CODES and common stock.

*Certain provisions of Delaware law, our restated certificate of incorporation and by-laws could hinder, delay or prevent changes in control.*

Certain provisions of Delaware law, our restated certificate of incorporation and our by-laws have the effect of discouraging, delaying or preventing transactions that involve an actual or threatened change in control. These provisions include the following:

*Special Meetings.* According to our by-laws, special meetings of stockholders may be called only by our board of directors, the chairman of our board of directors or our president.

*Staggered Board.* Our board of directors is divided into three classes, each of whose members will serve for a term of three years, with the members of one class being elected each year.

*Removal of Directors.* Directors may be removed by the stockholders only for cause, and only by the affirmative vote of the holders of at least 75% of the voting power of all outstanding shares of our capital stock entitled to vote in an election of directors, voting as a single class.

*Advance Notice Provisions for Stockholder Nominations and Proposals.* Our restated certificate of incorporation and by-laws require advance written notice for stockholders to nominate persons for election as directors at, or to bring other business before, any meeting of stockholders. This provision limits the ability of stockholders to make nominations of persons for election as directors or to introduce other proposals unless we are notified in a timely manner prior to the meeting.

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*Preferred Stock.* Under our restated certificate of incorporation, our board of directors has authority to issue preferred stock from time to time in one or more series and to establish the terms, preferences and rights of any such series of preferred stock, all without approval of our stockholders.

*Delaware Business Combinations.* We are subject to Section 203 of the Delaware General Corporation Law which, subject to certain exceptions, restricts certain transactions and business combinations between a corporation and a stockholder owning 15% or more of the corporation's outstanding voting stock for a period of three years from the date the stockholder becomes a 15% stockholder. In addition to discouraging a third party from acquiring control of us, the foregoing provisions could impair the ability of existing stockholders to remove and replace our management and/or our board of directors.

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### THE COMPANY

We are a global leader in next-generation billing and customer care solutions for the cable television, direct broadcast satellite, advanced internet protocol, or IP, services, next-generation mobile, and fixed wireline markets. We were formed in October 1994 and acquired all of the outstanding stock of CSG Systems, Inc. (formerly Cable Services Group, Inc.) from First Data Corporation, or FDC, in November 1994. CSG Systems, Inc. had been a subsidiary or division of FDC from 1982 until its acquisition by us.

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 website is located at <http://www.csgsystems.com>. We have provided our website address as an inactive textual reference only and the information contained on our website is not a part of this prospectus. Our common stock is listed on the Nasdaq National Market under the symbol CSGS. We are a S&P Midcap 400 company.

### PURPOSE OF THE ISSUANCE OF THE CODES

We issued the CODES to improve our underlying capital structure. We believe the CODES provide the following primary benefits to our business:

- The CODES will reduce our debt service costs. Our previous credit facility, which was terminated concurrently with the initial issuance of the CODES, required periodic principal payments through February 2008. There are no scheduled principal payments for the CODES until their maturity in 2024, and, absent a change in control, the CODES are not subject to redemption at the option of the holders until 2011. In addition, because of the convertibility feature of the CODES (as described below under Description of the CODES Conversion Rights ) we were able to issue the CODES at a lower fixed interest rate than we would have otherwise paid on senior subordinated debt with a similar maturity. This will reduce the required interest payments.
- The issuance of the CODES allowed us to fully repay and terminate outstanding indebtedness under our then-existing credit facility, which was senior to the CODES with an earlier maturity date and had restrictive covenants, which limited our flexibility in operating our business. The CODES do not have similar restrictive covenants.
- As described below under Description of the CODES Conversion Rights, we have structured the CODES as contingent convertible securities, meaning that holders are only permitted to convert their CODES upon specified contingencies. Under the then-existing application of GAAP at the time of the original issuance of the CODES, the potential dilutive impact of issuing common stock upon conversion of the CODES would be excluded from the computation of diluted earnings per share until one of the specified contingencies to conversion had been met, and would be included in the computation of diluted earnings per share only for the periods in which the CODES would be convertible under one of the specified contingencies to conversion. However, changes to the relevant accounting rules have recently been made. See Risk Factors Risks Relating to the CODES and the Common Stock into which the CODES are Convertible A change in the accounting rules relating to how the CODES impact the computation of our diluted earnings per share may cause us to report significant dilution in our diluted earnings per share.

In addition, as discussed in Note 9 to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2004 and incorporated by reference in this prospectus, we derive an income tax benefit related to the CODES. This benefit does not impact our overall effective income tax rate, but does have the effect of lowering our U.S. federal income tax payments. Depending on the actual interest rate yield that the holders of the CODES are able to achieve upon settlement, we may be required to pay a portion or all of the U.S. federal income tax payments that are deferred.



**Table of Contents****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 (loss) 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.

The following table shows our consolidated ratio of earnings to fixed charges for the periods indicated:

	Year ended December 31,					Three months ended March 31,
	2000	2001	2002	2003(1)	2004(2)	2005
Ratio of earnings to fixed charges	17.41	26.21	4.42		4.79	4.61

- (1) As a result of the Comcast arbitration ruling, we recognized a loss from continuing operations before income taxes for the year ended December 31, 2003. The amount of the coverage deficiency for the historical year ended December 31, 2003 was \$48.5 million.
- (2) Excludes the write-off of unamortized deferred financing costs of \$6.6 million resulting from the repayment of our outstanding indebtedness under our then-existing credit facility in June 2004.

**USE OF PROCEEDS**

We will not receive any of the proceeds from the sale of the CODES or the common stock issuable upon conversion of the CODES by any selling securityholder. We used the net proceeds from the initial issuance of the CODES, along with our available cash, cash equivalents and marketable securities:

to fund the concurrent repurchase of approximately 2.1 million shares of our common stock from one of the initial purchasers; and

to repay in full our outstanding indebtedness under our now-terminated credit facility. The credit facility was terminated concurrently with the repayment.

**Table of Contents****PRICE RANGE OF COMMON STOCK**

Our common stock is quoted on the Nasdaq National Market under the symbol CSGS. The following table sets forth, for the periods indicated, the high and low sale prices for the common stock on the Nasdaq National Market, as reported by The Nasdaq Stock Market.

	<u>High</u>	<u>Low</u>
<b>Year ended December 31, 2003</b>		
First Quarter	\$ 15.68	\$ 8.15
Second Quarter	\$ 14.63	\$ 8.31
Third Quarter	\$ 17.29	\$ 12.53
Fourth Quarter	\$ 15.95	\$ 8.69
<b>Year ended December 31, 2004</b>		
First Quarter	\$ 17.70	\$ 12.56
Second Quarter	\$ 21.22	\$ 15.85
Third Quarter	\$ 20.98	\$ 14.02
Fourth Quarter	\$ 19.22	\$ 14.57
<b>Year ending December 31, 2005</b>		
First Quarter	\$ 18.93	\$ 15.88
Second Quarter (through May 10, 2005)	\$ 18.12	\$ 15.74

On May 10, 2005, the closing price of our common stock was \$17.82. As of the close of business on March 31, 2005, there were 277 holders of record of our common stock.

**DIVIDEND POLICY**

We have never declared cash dividends on our common stock. 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 have no present intention of declaring cash dividends in the foreseeable future. Any of our future credit facilities may contain restrictions on the payment of dividends. Any future determination to pay dividends will be at the discretion of our board of directors and will be dependent upon then existing conditions, including our financial condition, results of operations, contractual restrictions, capital requirements, business prospects, and other factors our board of directors deems relevant.

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**DESCRIPTION OF CODES**

We issued the CODES under an indenture dated as of June 2, 2004, between us and Deutsche Bank Trust Company Americas, as trustee, in a private transaction that was not subject to the registration requirements of the Securities Act. The terms of the CODES include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, as amended. The registration rights agreement dated as of June 2, 2004, between us and the initial purchasers of the CODES sets forth the rights holders have to require us to register their CODES with the SEC.

The following description is only a summary of the material provisions of the CODES, the indenture and the registration rights agreement. We urge you to read these documents in their entirety because they, and not this description, define your rights as holders of the CODES. You may obtain copies of these documents from us at our address set forth under [Where You Can Find More Information](#). Certain terms used in this section but not defined below have the meanings assigned to them in the indenture.

When we refer to CSG Systems, we, our or us in this section, we refer only to CSG Systems International Inc., a Delaware corporation, and not any of its current or future subsidiaries.

**Brief Description of the CODES**

The CODES:

are limited to \$230,000,000 aggregate principal amount;

bear interest at a rate of 2.50% per year, payable semi-annually on each June 15 and December 15, beginning December 15, 2004;

accrue additional amounts if we fail to comply with certain obligations as set forth under [Registration Rights](#) ;

are our unsecured senior subordinated obligations, and rank:

junior in right of payment to all of our existing and future senior indebtedness;

equally in right of payment to our future indebtedness that provides such indebtedness is *pari passu* with the CODES; and

senior in right of payment to our existing and future junior subordinated indebtedness;

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are structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of our existing and future subsidiaries;

are convertible into shares of our common stock, cash or any combination of shares and cash, at our election, as described below under Conversion Rights ;

are redeemable by us at our option at any time and from time to time on or after June 20, 2011 upon the terms and at the redemption price set forth below under Optional Redemption by CSG Systems ;

are subject to repurchase by us at your option upon the terms and at the repurchase price set forth below under Repurchase of CODES at Option of Holders ; and

mature on June 15, 2024, unless earlier converted, redeemed by us at our option or repurchased by us at your option.

For U.S. federal income tax purposes, the CODES will be treated as indebtedness subject to special regulations governing contingent payment debt instruments, which we refer to as the contingent debt regulations. Pursuant to the contingent debt regulations, a U.S. Holder (as defined under Material United States Federal Income Tax Considerations U.S. Holders ) will generally be required to accrue interest income on the

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CODES, subject to certain adjustments, at a rate of 9.09%, compounded semiannually, regardless of whether the holder uses the cash or accrual method of tax accounting. Accordingly, U.S. Holders will generally be required to include interest in taxable income in each year in excess of any interest payments (whether fixed or contingent) actually received in that year. For this purpose, a conversion of the CODES will be treated as the receipt of a contingent payment with respect to the CODES, which may produce an adjustment to a U.S. Holder's interest accruals. Under the contingent debt regulations, gain recognized upon a sale, exchange, repurchase or redemption of a CODES will be treated as ordinary interest income; loss will be ordinary loss to the extent of interest previously included in income, and thereafter capital loss. See Material United States Federal Income Tax Considerations.

The indenture does not contain any financial covenants and will not restrict us, or our subsidiaries, from paying dividends, incurring additional indebtedness or issuing or repurchasing other securities. The indenture also will not protect holders in the event of a highly leveraged transaction or a change in control of our company except to the extent described below under Repurchase of CODES at Option of Holders Change in Control. The CODES are not subject to legal or covenant defeasance.

As of March 31, 2005:

we had no outstanding senior indebtedness;

we had no outstanding indebtedness ranking *pari passu* with the CODES; and

our subsidiaries had approximately \$162.3 million of liabilities outstanding, excluding intercompany liabilities.

For information regarding form, denomination, registration of transfer and exchange of global CODES, see Form, Denomination and Registration. You must comply with the provisions set forth below under Notice to Investors with respect to any sale or transfer of the CODES and our common stock issuable upon conversion of the CODES.

## **Payment of Interest and Principal**

The CODES bear interest from June 2, 2004 at an annual rate of 2.50%.

We will pay interest semi-annually on June 15 and December 15 of each year, which we refer to as the interest payment dates, to holders of record at the close of business on the immediately preceding June 1 or December 1, respectively, beginning on December 15, 2004. If holders elect to require us to repurchase the CODES, or if we redeem the CODES, on a date that is after a record date and on or prior to the corresponding interest payment date, we will pay interest in respect of accrued and unpaid interest on the CODES being repurchased or redeemed to, but excluding, the repurchase date or the redemption date, respectively, to the holders on the corresponding record date, which may or may not be the same person to whom we will pay the repurchase or redemption price.

We may pay contingent interest on the CODES under the circumstances described under Contingent Interest. We may also pay additional amounts on the CODES under the circumstances described under Registration Rights.

Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. Interest will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from the initial issue date.

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If any interest payment date (other than an interest payment date coinciding with the stated maturity date or earlier redemption date or repurchase date) of a CODES falls on a day that is not a business day, such interest payment date will be postponed to the next succeeding business day. If the stated maturity date, redemption date or repurchase date of a CODES would fall on a day that is not a business day, the required payment of interest, if any, and principal will be made on the next succeeding business day and no interest on such payment will accrue for the period from and after the stated maturity date, redemption date or purchase date to such next succeeding business day. The term "business day" means, with respect to any CODES, any day other than a Saturday, a Sunday or a day on which banking institutions in The City of New York are authorized or required by law, regulation or executive order to close.

Interest will cease to accrue on a CODES upon its maturity, conversion, redemption by us at our option or repurchase by us at your option.

Unless previously converted, redeemed by us at our option or repurchased by us at your option, we will pay interest (including contingent interest and additional amounts, if any) due on:

the global CODES to DTC in immediately available funds;

any definitive CODES having an aggregate principal amount of \$5,000,000 or less by check mailed to the holders of these CODES;  
and

any definitive CODES having an aggregate principal amount of more than \$5,000,000 by wire transfer in immediately available funds if requested by holder of those CODES.

In the case of the third bullet above, the trustee must receive wire transfer instructions no later than 15 days prior to the interest payment date.

Unless previously converted, redeemed by us at our option or repurchased by us at your option, at maturity we will pay principal on:

the global CODES to DTC in immediately available funds; and

the definitive CODES at our office or agency in New York City, which initially will be the office or agency of the trustee in New York City.

## **Conversion Rights**

### *General*

You may convert your CODES at any time prior to the business day immediately preceding the maturity date (unless such CODES have been previously converted, redeemed by us at our option or repurchased by us at your option), initially at a conversion rate of 37.3552 shares of our

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common stock per \$1,000 principal amount of CODES, equal to an initial conversion price of approximately \$26.77 per share, under the circumstances summarized below. A holder may convert CODES only in denominations of \$1,000 and whole multiples of \$1,000. The conversion rate will be subject to adjustment as described below under Conversion Rate Adjustments.

On December 15, 2004, we irrevocably elected, by notice to the trustee and the holders of the CODES, to satisfy in cash 100% of the principal amount of the CODES converted after that date. After that date, we still may satisfy our conversion obligation to the extent it exceeds the principal amount in cash or common stock or a combination of cash and common stock. See Settlement Upon Conversion.

If, however, a holder has already exercised its right to require us to repurchase its CODES as described under Repurchase of CODES at Option of Holders by delivering a holder purchase notice with respect to a CODES, the holder may not convert that CODES until the holder has validly withdrawn such notice in accordance with the indenture and, after such withdrawal, has converted its CODES prior to the close of business on the applicable repurchase date. If you are a holder of CODES that have been called for redemption and wish

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to convert your CODES, you must exercise your conversion right prior to the close of business on the second business day preceding the redemption date, unless we default in payment of the redemption price.

Except as described in this prospectus, upon conversion of the CODES, we will not make any cash payment or issue additional shares of our common stock or make any other adjustment for either accrued and unpaid interest (including contingent interest and additional amounts, if any) on the CODES or dividends on any shares of our common stock issued. See Conversion Procedures.

Our delivery to you of the full number of shares of our common stock into which your CODES is convertible, cash or a combination of our common stock and cash, together with any cash payment for your fractional shares of our common stock, will be deemed to satisfy our obligation to pay the principal amount of your CODES and to satisfy our obligation to pay any accrued and unpaid interest (including contingent interest and additional amounts, if any) on that CODES. As a result, accrued and unpaid interest and additional amounts on your CODES will be deemed paid in full rather than cancelled, extinguished or forfeited. Notwithstanding the foregoing, accrued and unpaid interest (including contingent interest and additional amounts, if any) will be payable in cash upon any conversion of CODES at your option made concurrently with or after acceleration of the CODES following an event of default under the CODES.

The conversion agent is initially Deutsche Bank Trust Company Americas. We may change the conversion agent, but the conversion agent will not be our affiliate. The conversion agent may solicit bids from securities dealers that are believed by us to be willing to bid for the CODES.

### *Conversion Upon Satisfaction of Common Stock Price Condition*

A holder may convert any of its CODES during any fiscal quarter (and only during such fiscal quarter) if the closing price of our common stock for a period of at least 20 consecutive trading days in the 30-trading-day period ending on the last trading day of the preceding fiscal quarter is more than 130% of the conversion price per share of our common stock on the last day of such preceding fiscal quarter. We refer to this condition as the common stock price condition. The closing price per share of our common stock on any date means:

the closing per share sale price (or if no closing sale price is reported, the average of the bid and ask prices or, if more than one in either case, the average of the average bid and the average ask prices) on that date as reported on the Nasdaq National Market or, if our common stock is not listed on the Nasdaq National Market, on the principal U.S. national or regional securities exchange or inter-dealer quotation system on which our common stock is then listed for trading; or

if our common stock is not reported on the Nasdaq National Market and not listed for trading on a U.S. national or regional securities exchange or inter-dealer quotation system on the relevant date, the closing price will be the last quoted bid price for our common stock in the over-the-counter market on the relevant date as reported by the National Quotation Bureau or similar organization; or

if our common stock is not reported on the Nasdaq National Market and not listed for trading on a U.S. national or regional securities exchange or inter-dealer quotation system and is not quoted in the over-the-counter market, the closing price will be the average of the mid-points of the last bid and ask prices for our common stock on the relevant date from each of three nationally recognized independent securities dealers we select for this purpose; *provided*, that if such prices cannot reasonably be obtained from three such dealers, but are obtained from two such dealers, then the market price will be the average of the mid-points of such bid and ask prices from those two dealers, and if such prices can reasonably be obtained from only one such dealer, then the market price will be the mid-point of such bid and ask prices from that dealer.

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The conversion price per share of our common stock on any day equals the quotient of a \$1,000 principal amount of CODES divided by the number of shares of our common stock issuable upon conversion of a \$1,000 principal amount of CODES on that day, assuming that such conversion settled entirely with shares (including fractional shares).

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A trading day means a day during which trading in securities generally occurs on the Nasdaq National Market or, if our common stock is not listed on the Nasdaq National Market, on the principal U.S. national or regional securities exchange or inter-dealer quotation system on which our common stock is then listed for trading; *provided*, that no day on which our common stock experiences any of the following (each, a non-trading event ) will count as a trading day:

any suspension of or limitation imposed on quotation or trading of our common stock on the Nasdaq National Market or any other national or regional securities exchange or association, inter-dealer quotation system or over-the-counter market; or

the Nasdaq National Market or any other relevant national or regional securities exchange or association, inter-dealer quotation system or over-the-counter market on which our common stock trades closes on any exchange business day prior to its scheduled closing time unless such earlier closing time is announced by the exchange at least one hour prior to the earlier of (i) the actual closing time for the regular trading session on such exchange and (ii) the submission deadline for orders to be entered into the exchange for execution on such business day.

This conversion upon satisfaction of stock price condition has been designed to prevent any conversion of the CODES in reliance on this provision unless our stock price has increased to the conversion trigger price for the requisite amount of time, as described above. As a result, you may not be able to convert your CODES in reliance on this condition, even though our common stock may be trading at a price above the effective conversion price of the CODES. See Risk Factors Risk relating to the CODES and the Common Stock into which the CODES are convertible The contingent conversion feature of the CODES could result in your not being entitled to convert a CODES when our common stock is trading at a price above the effective conversion price of the CODES.

### *Conversion Upon Satisfaction of CODES Price Condition*

You may convert any of your CODES during the five business-day period (the measurement period ) following any 10-consecutive-trading-day period in which the average of the trading prices per \$1,000 of principal amount of CODES for that 10-trading-day period was less than 98% of the average conversion value for the CODES during that period; *provided, however*, you may not convert your CODES in reliance on this provision after June 15, 2019 if on any trading day during the measurement period the closing price of our common stock is greater than or equal to the then-current conversion price but less than or equal to 130% of the then-current conversion price. See Conversion Rights General. We refer to this condition as the CODES price condition.

The average conversion value for each \$1,000 principal amount of CODES equals the sum of the conversion values for each trading day in the relevant period divided by the number of trading days in the period. The conversion value of each \$1,000 principal amount of CODES on any day is equal to the product of the closing price for our common stock on that day multiplied by the then-current conversion rate, which is the number of shares of common stock into which the \$1,000 principal amount of each CODES is then convertible.

The trading price of a CODES on any date of determination means the average of the secondary market bid quotations per CODES obtained by us or the conversion agent for \$10 million principal amount of CODES at approximately 3:30 p.m., New York City time, on such determination date from three independent nationally recognized securities dealers we select; *provided*, that if at least three such bids cannot reasonably be obtained from three such dealers, but are obtained from two such dealers, then the average of the two bids shall be used, and if such prices can reasonably be obtained from only one dealer, that one bid shall be used. If either we or the conversion agent cannot reasonably obtain at least one bid for \$10 million principal amount of the CODES from a nationally recognized securities dealer, then the trading price of the CODES for that date will, for purposes of determining the average conversion value, be deemed to be 97.9% of (a) the then-applicable conversion rate of the CODES multiplied by (b) the closing price of our common stock on such determination date.



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Notwithstanding anything to the contrary in this prospectus, the conversion agent will have no obligation to determine the trading price of the CODES unless we have requested that it make such determination. We will have no obligation to make such request unless so requested by a holder in writing who also provides us with reasonable evidence in that on a trading day preceding the date of such notice, the trading price per \$1,000 principal amount of CODES was less than 98% of the conversion value. At such time, we will instruct the conversion agent to determine the trading price per \$1,000 principal amount of CODES beginning on the next trading day and on each successive trading day until such trading price is greater than or equal to 98% of the average conversion value for 10 consecutive trading days. We will confirm whether any such determination made by the conversion agent satisfies the CODES price condition.

This conversion upon satisfaction of CODES price condition has been designed to allow you to convert your CODES if, because of trading irregularities or otherwise, the CODES are trading at less than their conversion value.

### *Conversion Upon Notice of Redemption*

A holder may surrender for conversion any CODES we call for redemption at any time prior to the close of business on the day that is two business days prior to the redemption date, even if such CODES is not otherwise convertible at that time pursuant to its terms or the terms of the indenture.

### *Conversion Upon Specified Corporate Transactions*

If:

we distribute to all or substantially all holders of our common stock rights or warrants entitling them to purchase our common stock, unless such rights, warrants or securities shall not be exercisable or convertible for a period of at least 60 days after the date of distribution (or securities convertible into our common stock) at less than (or having a conversion price less than) the then-current market price (as defined below under *Conversion Rate Adjustments*) of our common stock on the day of the announcement date of such distribution;

we distribute to all or substantially all holders of our common stock our assets, debt securities or other evidences of our indebtedness, shares of our capital stock or rights or warrants to purchase our securities, which distribution has a per share value exceeding 5% of the then-current market price (as defined below under *Conversion Rate Adjustments*) of our common stock on the day preceding the declaration date of for such distribution; or

a change in control as described under *Repurchase of CODES at Option of Holders* *Change in Control* has occurred but holders of CODES do not have the right to require us to repurchase their CODES as a result of such change in control because either (1) the closing price of our common stock for a specified period prior to such change in control exceeds a specified level or (2) the consideration received in such change in control consists of capital stock that is freely tradable and the CODES become convertible into that capital stock,

then we must notify the holders of CODES at least 20 days prior to the ex-dividend date for such distribution or within 20 business days after the occurrence of the change in control described in the third bullet point above, as the case may be. Once we have given such notice, holders may convert their CODES at any time until either (a) the earlier of the close of business on the business day prior to the ex-dividend date or our

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announcement that such distribution will not take place, in the case of a distribution, or (b) the close of business on the 20th business day after the change in control notice, in the case of a change in control described in the third bullet point above. In the case of a distribution, no conversion pursuant to that distribution will be allowed if the holder will participate in the distribution without conversion. The ex-dividend date means, with respect to any issuance or distribution on shares of our common stock, the first date on which the shares of our common stock trade regular way on the principal securities market on which the shares of our common stock are then traded without the right to receive such issuance or distribution.

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In addition, if we are party to a consolidation, merger or binding share exchange pursuant to which our common stock would be converted into cash, securities or other property (other than any change in control described in the third bullet point in the previous paragraph), a holder may convert its CODES at any time from and after the date which is 20 days prior to the anticipated effective date of the transaction until 20 days after the effective date of that transaction. If we are a party to a consolidation, merger or binding share exchange pursuant to which our common stock is converted into cash, securities or other property, then from the effective time of the transaction, the right to convert a CODES into our common stock will be changed into a right to convert that CODES into the kind and amount of cash, securities or other property which the holder would have received if the holder had converted its CODES immediately prior to the transaction. If we engage in any transaction described in the preceding sentence, the conversion rate will not be otherwise adjusted. If the transaction also constitutes a change in control, as defined below, the holder can require us to purchase all or a portion of its CODES as described under Repurchase of CODES at Option of Holders Change in Control.

These conversion upon specified corporate event conditions have been designed to allow you to convert your CODES prior to the occurrence of the specified corporate events described above if you would prefer not to be a holder of the CODES after such specified corporate event.

## **Settlement Upon Conversion**

(1) *Conversion on or prior to the final notice date.* In the event that we receive your notice of conversion on or prior to the day that is 23 business days prior to maturity or, with respect to CODES being redeemed, the applicable redemption date (the final notice date), the following procedures will apply:

If we elect to satisfy all or any portion of our obligation (the conversion obligation) in cash, we will notify the converting holder through the trustee of the dollar amount to be satisfied in cash (which must be expressed either as 100% of the conversion obligation or as a fixed dollar amount) at any time on or before the date that is five trading days following receipt of the converting holder's notice of conversion (the cash settlement notice period). If we timely elect to satisfy all or any portion of our conversion obligation in cash, the converting holder may retract its conversion notice at any time during the two-trading-day period beginning on the day after the final day of the cash settlement notice period (the conversion retraction period). No such retraction may be made (and a conversion notice will be irrevocable) if we do not elect to satisfy all or any portion of our conversion obligation in cash (other than cash in lieu of any fractional shares). If the conversion notice has not been retracted, then settlement (in cash and/or shares of our common stock) will occur on the third trading day following the final day of the 20-trading-day period beginning on the third trading day following the final day of the conversion retraction period (the cash settlement averaging period). The amount of cash and/or shares we will deliver in respect of a conversion obligation (the settlement amount) will be computed as follows:

If we elect to satisfy the entire conversion obligation in shares of our common stock, we will deliver to you a number of shares of our common stock equal to:

the aggregate principal amount of the CODES to be converted divided by 1,000, multiplied by

the then-effective conversion rate.

If we elect to satisfy the entire conversion obligation in cash, we will deliver to you cash in an amount equal to:

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a number equal to (a) the aggregate principal amount of the CODES to be converted divided by 1,000, multiplied by (b) the then-effective conversion rate, multiplied by

the arithmetic average of the volume-weighted average prices (as defined below under Settlement Upon Conversion ) of our common stock for each trading day during the cash settlement averaging period.

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If we elect to satisfy a portion of the conversion obligation in cash (other than 100%), we will deliver to you that specified cash amount (the cash amount ) plus the number of shares of our common stock equal to the greater of:

zero, and

the excess, if any, of

the number of shares of our common stock equal to (X) the aggregate principal amount of the CODES to be converted divided by 1,000, multiplied by (Y) the then-effective conversion rate, minus

the number of shares of our common stock equal to the quotient of (X) the cash amount, divided by (Y) the arithmetic average of the volume-weighted average prices of our common stock for each trading day during the cash settlement averaging period.

(2) *Conversion after the final notice date.* In the event that we receive your notice of conversion after the final notice date, we will not send individual notices of our election to satisfy all or any portion of the conversion obligation in cash. Instead, if we elect to satisfy all or any portion of the conversion obligation in cash, we will send a single notice to the trustee of the dollar amount to be satisfied in cash (which must be expressed either as 100% of the conversion obligation or as a fixed dollar amount) at any time on or before the final notice date. Settlement amounts will be computed and settlement dates will be determined in the same manner as set forth above under Conversion on or prior to the final notice date except that the cash settlement averaging period shall be the 20 consecutive trading days ending on the third trading day prior to the maturity date or the applicable redemption date, as applicable. If we elect to satisfy all or any portion of our conversion obligation in respect of conversions made after the final notice date in cash, converting holders may retract a conversion notice that was given after the final notice date at any time prior to the close of business on the day that is two business days prior to the redemption date or the business day immediately preceding the maturity date, as the case may be. Settlement (in cash and/or shares) will occur on the third trading day following the final day of such cash settlement averaging period.

(3) *Conversion after irrevocable election to pay principal in cash.* On December 15, 2004, we irrevocably elected, by notice to the trustee and the holders of the CODES, to satisfy in cash 100% of the principal amount of the CODES converted after that date. After that date, we still may satisfy our conversion obligation to the extent it exceeds the principal amount in cash or common stock or a combination of cash and common stock. If we elect to satisfy all or a portion of the remainder of our conversion obligation in cash, we will provide notice of our election in the same manner as set forth above under either Conversion after the final notice date or Conversion on or prior to the final notice date, whichever is applicable. Settlement amounts will be computed and settlement dates will be determined in the same manner as set forth under Conversion after the final notice date or Conversion on or prior to the final notice date, as applicable.

The volume-weighted average price of one share of our common stock on any trading day will be the volume-weighted average prices as displayed under the heading Bloomberg VWAP on Bloomberg Page CSGS <equity> AQR in respect of the period from 9:30 a.m. to 4:00 p.m. (New York City time) on that trading day (or if such volume-weighted average price is not available, the market value of one share of our common stock on such trading day as we determine in good faith using a volume-weighted method).

Notwithstanding the above, if our common stock experiences any non-trading event on any day during the original cash settlement averaging period (determined assuming our common stock experienced no non-trading event during that period) that would result in a volume-weighted average price being determined later than the eighth trading day after the last day of the original cash settlement averaging period, then we will determine any delayed and undetermined prices on that eighth trading day based on our good faith estimate of our common stock's value on the day on which such non-trading event occurred.



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We will not issue fractional shares of our common stock upon conversion of CODES. Instead, we will pay a cash amount based upon the closing price of our common stock on the trading day that is three business days prior to the conversion date.

### **Conversion Procedures**

Except as described below, if you convert your CODES on any day other than an interest payment date, you will not receive any payment in cash with respect to interest (including contingent interest and additional amounts, if any) that has accrued on those CODES since the prior interest payment date. If you convert your CODES after a record date for an interest payment but prior to the corresponding interest payment date, you (or, if you were not the holder on the record date, the predecessor holder on the record date) will receive on the interest payment date interest accrued and unpaid on such CODES (including contingent interest and additional amounts, if any), notwithstanding the conversion of such CODES prior to such interest payment date. At the time of conversion of such CODES, however, you must pay us an amount equal to the interest (including contingent interest and additional amounts, if any) that you (or, if you were not the holder on the record date, the predecessor holder on the record date) will receive on the interest payment date on the CODES being converted. The preceding sentence, however, does not apply if you convert, after a record date for an interest payment but prior to the corresponding interest payment date, CODES that we call for redemption prior to such conversion on a redemption date that is on or prior to the second business day after such interest payment date. Accordingly, if we call your CODES for redemption on a date that is after a record date for an interest payment but on or prior to the second business day after the corresponding interest payment date, and prior to the redemption date you choose to convert your CODES, you will not be required to pay us, at the time you surrender such CODES for conversion, the amount of interest on such CODES that you will receive on the interest payment date.

You will not be required to pay any transfer taxes or duties relating to the issuance or delivery of our common stock if you exercise your conversion rights, but you will be required to pay any transfer taxes or duties which may be payable relating to any transfer involved in the issuance or delivery of common stock in a name other than yours. If you convert any CODES within two years after its original issuance, any common stock issuable upon conversion will not be issued or delivered in a name other than yours unless the applicable restrictions on transfer have been satisfied. See Notice to Investors. Certificates representing shares of our common stock will be issued or delivered only after all applicable transfer taxes and duties, if any, payable by you have been paid.

To convert interests in a global CODES, you must deliver to DTC the appropriate instruction form for conversion pursuant to DTC's conversion program. To convert a definitive CODES (should CODES become issuable in definitive form), you must:

complete the conversion notice on the back of the CODES (or a facsimile thereof);

deliver the completed conversion notice and the CODES to be converted to the specified office of the conversion agent;

pay all funds required, if any, relating to interest on the CODES to be converted to which you are not entitled, as described in the second preceding paragraph; and

pay all transfer taxes or duties, if any, as described in the preceding paragraph.

The conversion date will be the date on which all of the foregoing requirements have been satisfied. The CODES will be deemed to have been converted immediately prior to the close of business on the conversion date. We will deliver, or cause to be delivered, to you cash, shares of our common stock or a combination of cash and shares, as described above under Settlement Upon Conversion, together with any cash payment for

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your fractional shares as soon as practicable on or after the conversion date, subject to satisfaction of the cash settlement averaging period provisions, if applicable.

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The conversion agent will determine on our behalf if the CODES are convertible upon satisfaction of the common stock price condition at the end of each quarter, in each case notifying us and the trustee. Whenever the CODES become convertible (or, in the case of conversion upon satisfaction of CODES price condition, whenever the conversion agent has determined that such CODES price condition is met), we or, at our request, the trustee in our name and at our expense, will notify the holders of the event triggering such convertibility in accordance with the indenture, and we will issue a press release through Dow Jones & Company, Inc. or Bloomberg Business News containing the relevant information and make this information available on our website or through another public medium as we may use at that time. Any notice so given will be conclusively presumed to have been duly given, whether or not the holder receives such notice.

## **Conversion Rate Adjustments**

We will adjust the initial conversion rate for certain events, including:

(1) the issuance of shares of our common stock as a dividend or a distribution on our common stock, in which event the conversion rate will be adjusted by multiplying the conversion rate then in effect by a fraction:

the numerator of which is the sum of (a) the number of shares of our common stock outstanding on the record date fixed for the dividend or distribution plus (b) the total number of shares constituting the dividend or distribution; and

the denominator of which is the number of shares of our common stock outstanding on the record date fixed for the dividend or distribution;

(2) subdivisions, splits, combinations and reclassifications of our common stock, in which event the conversion rate then in effect will be proportionately increased or reduced;

(3) the issuance by us of rights or warrants to all or substantially all holders of our common stock entitling holders to subscribe for or purchase shares of our common stock (or securities convertible into our common stock) at less than (or having a conversion price per share less than) the then-current market price of our common stock, in which event the conversion rate will be adjusted by multiplying the conversion rate then in effect by a fraction:

the numerator of which is the sum of (a) the number of shares of our common stock outstanding on the record date fixed for the distribution plus (b) the total number of additional shares of our common stock offered for subscription or purchase (or into which such convertible securities could be converted); and

the denominator of which is the sum of (a) the number of shares of our common stock outstanding on the record date fixed for the distribution plus (b) the total number of shares of our common stock that the aggregate offering price of the total number of shares offered for subscription or purchase (or the aggregate conversion price of such convertible securities) would purchase at the then-current market price;

(4) distributions to all or substantially all holders of our common stock of our assets, debt securities or other evidences of our indebtedness, shares of our capital stock or rights or warrants to purchase our securities (excluding (A) any dividend, distribution or issuance covered by

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clause (1) or (3) above and (B) any dividend or distribution paid exclusively in cash), in which event the conversion rate will be adjusted by multiplying the conversion rate then in effect by a fraction:

the numerator of which is the then-current market price of a share of our common stock; and

the denominator of which is (a) the then-current market price of a share of our common stock minus (b) the fair market value, as determined by our board of directors, except as described in the following sentence, of the portion of those assets, debt securities or other evidences of our indebtedness, shares of capital stock or rights or warrants so distributed applicable to one share of common stock on the declaration date for such distribution;

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In the event that we make a distribution to all holders of our common stock that consists of shares of capital stock of, or similar equity interests in, a subsidiary or other business unit of ours, any conversion rate adjustment will be based on the market value of the securities so distributed relative to the market value of our common stock, in each case based on the average of the closing prices of those securities for each of the 10 trading days commencing on and including the fifth trading day after the date on which ex-dividend trading commences for such dividend or distribution on the Nasdaq National Market, the New York Stock Exchange or such principal other national or regional exchange or market on which the securities are then listed or quoted;

(5) dividends or other distributions consisting exclusively of cash to all or substantially all holders of our common stock, in which event the conversion rate will be adjusted by multiplying the conversion rate then in effect by a fraction:

the numerator of which will be the then-current market price per share of our common stock; and

the denominator of which will be (a) the then-current market price per share of our common stock minus (b) the amount per share of such dividend or distribution; and

(6) purchases of our common stock pursuant to a tender offer or exchange offer made by us or any of our subsidiaries to the extent that the same involves an aggregate consideration that, together with:

the aggregate of cash and the fair market value of any other consideration paid in any other tender offer by us or any of our subsidiaries for our common stock expiring within the 12 months preceding such tender offer for which no adjustment has been made, plus

the aggregate amount of any all-cash distributions referred to in clause (5) above to all holders of our common stock within 12 months preceding the expiration of such tender offer for which no adjustments have been made,

exceeds 10% of our market capitalization on the expiration of such tender offer, in which event the conversion rate will be adjusted by multiplying the conversion rate then in effect by a fraction:

the numerator of which will be the product of (a) the number of shares of our common stock outstanding (including any tendered shares) at the expiration of the tender offer and (b) the then-current market price of a share of our common stock at such expiration time; and

the denominator of which will be (a) the product of (X) the number of shares of our common stock outstanding (including any tendered shares) at the expiration of the tender or exchange offer and (Y) the then-current market price of our common stock at such expiration time minus (b) the amount by which such combined amount exceeds 10% of our market capitalization.

The then-current market price on any date means the average of the closing prices per share of common stock for the 10 consecutive trading days prior to such date. Our market capitalization, on any date, means the product of the closing price of our common stock multiplied by the number of shares of our common stock outstanding on such date.

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We will not make an adjustment in the conversion rate unless such adjustment would require a change of at least 1% in the conversion rate then in effect; *provided*, that we will carry forward any adjustments that are less than 1% of the conversion rate then in effect and make an aggregate adjustment representing all such carried forward adjustments, even if that aggregate adjustment is less than 1%, upon the earlier of:

a date (determined by us) that may be no more than one year following the date of the first such adjustment carried forward; and

any time at which any holder surrenders for conversion any CODES we call for redemption as described under Conversion Rights Conversion Upon Notice of Redemption above.

Once we make any such aggregate adjustment, we will recommence carrying forward any adjustments in the manner described above until such time as we are required to make another aggregate adjustment.

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If rights or warrants for which an adjustment to the conversion rate has been made expire unexercised, the conversion rate will be readjusted to take into account the actual number of such rights or warrants which were exercised.

If we:

reclassify or change our common stock (other than changes resulting from a subdivision or combination); or

consolidate or combine with or merge into or are a party to a binding share exchange with any person or sell or convey to another person all or substantially all of our property and assets,

and the holders of our common stock receive (or the common stock is converted into) stock, other securities or other property or assets (including cash or any combination thereof) with respect to or in exchange for their common stock, then, at the effective time of the transaction, the holders of the CODES may convert the CODES into the consideration they would have received if they had converted their CODES immediately prior to the reclassification, change, consolidation, combination, merger sale or conveyance. We may not become a party to any such transaction unless its terms are consistent with the foregoing.

In the event we elect to make a distribution described under clause (3) or (4) of the first paragraph of this subsection Conversion Rate Adjustments, which, in the case of clause (4), has a per share value equal to more than 5% of the then-current market price of our shares of common stock on the business day immediately preceding the declaration date for the distribution, we will be required to give notice to the holders of CODES at least 20 days prior to the ex-dividend date for the distribution and, upon the giving of notice, the CODES may be surrendered for conversion at any time until the close of business on the business day prior to the ex-dividend date or until we announce that the distribution will not take place. No adjustment to the conversion rate or the ability of a holder of a CODES to convert will be made in respect of a distribution described under clauses (1), (3), (4) and (5) of such paragraph if the holder will otherwise participate in the distribution without conversion.

In the case of any distribution described under (4) of the first paragraph of this subsection Conversion Rate Adjustments, in which:

the fair market value of such distribution applicable to one share of common stock equals or exceeds the average of the closing prices of our common stock over the 10-consecutive trading-day period ending on the record date for such distribution, or

such average closing price exceeds the fair market value of such distribution by less than \$1.00,

then, in each such case, rather than being entitled to an adjustment in the conversion rate, adequate provision shall be made so that each holder of a CODES shall have the right to receive upon conversion of a CODES, in addition to cash and/or shares of our common stock as specified by the terms of those CODES, the kind and amount of such distribution that such holder would have received if it had converted its CODES entirely into common stock immediately prior to the record date for determining the shareholders entitled to receive the distribution at the conversion rate then in effect.

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If a taxable distribution to holders of our common stock or other transaction occurs which results in any adjustment of the conversion rate (including an adjustment at our option), you may in certain circumstances be deemed to have received a distribution subject to U.S. federal income tax as a dividend. In certain other circumstances, the absence of an adjustment may result in a taxable dividend to the holders of our common stock. See Material United States Federal Income Tax Considerations.

To the extent permitted by law, from time to time we may increase the conversion rate or reduce the conversion price of the CODES by any amount for any period of at least 20 days. In that case, we will give at least 15 days notice of such change. We may also increase the conversion rate or reduce the conversion price as our board of directors deems advisable to avoid or diminish any income tax to holders of our common stock

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resulting from any dividend or distribution of stock (or rights to acquire stock) or from any event treated as such for income tax purposes. In no event will we take any action that would require adjustment to the conversion rate or the conversion price nor will we make any such adjustment, if such adjustment would require us to issue, upon conversion of the CODES, a number of shares of our common stock that would require us to obtain prior shareholder approval under the rules and regulations of the Nasdaq National Market and, if applicable, the rules of any other exchange or quotation system on which our common stock is then traded without obtaining such prior shareholder approval.

The applicable conversion rate will not be adjusted:

upon the issuance of any shares of our common stock pursuant to any option, warrant, right or convertible security outstanding as of the date the CODES are initially issued;

for a change solely in the par value of the common stock; or

for accrued and unpaid interest (including contingent interest and additional amounts, if any).

Adjustments to the applicable conversion rate will be calculated to the nearest 1/10,000<sup>th</sup> of a share of common stock.

If we adjust the conversion rate or conversion price pursuant to the above provisions, we will issue a press release through Dow Jones & Company, Inc. or Bloomberg Business News containing the relevant information and make this information available on our website or through another public medium as we may use at that time.

## **Subordination**

The payment of principal, interest (including contingent interest and additional amounts, if any) and premium, if any, on the CODES will be subordinated in right of payment, as set forth in the indenture, to the prior payment in full in cash of all of our senior indebtedness (as defined below), including senior indebtedness incurred after the date the CODES are issued.

Upon any distribution to our creditors in a liquidation or dissolution of us or in a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to us or our property, an assignment for the benefit of creditors or any marshalling of our assets and liabilities, the holders of senior indebtedness will be entitled to receive payment in full in cash or cash equivalents of all obligations due in respect of such senior indebtedness (including interest after the commencement of any such proceeding at the rate specified in the applicable senior indebtedness, whether or not an allowable claim in any such proceeding) before you will be entitled to receive any payment with respect to your CODES, and until all obligations with respect to senior indebtedness are paid in full in cash, any distribution to which you would be entitled will be made to the holders of senior indebtedness. In the event of any acceleration of the CODES because of an event of default, the holders of any outstanding senior indebtedness would be entitled to payment in full in cash or other payment satisfactory to the holder of senior indebtedness of all senior indebtedness before the holders of the CODES are entitled to receive any payment or distribution. We and the trustee are required under the indenture to promptly notify holders of senior indebtedness if payment of the CODES is accelerated because of an event of default.

We may not make any payment on the CODES if:

a default in the payment of designated senior indebtedness (as defined below) occurs and is continuing beyond any applicable period of grace or any other default on designated senior indebtedness occurs and the maturity of such designated senior indebtedness is accelerated in accordance with its terms (called a "payment default"); or

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a default, other than a payment default, on any designated senior indebtedness occurs and is continuing that permits holders of designated senior indebtedness to accelerate its maturity without further notice (except such notice as may be required to effect such acceleration), or in the case of a lease, a default occurs and is continuing that permits the lessor to either terminate the lease or require us to make an irrevocable offer to terminate the lease following an event of default under the lease, and the trustee receives a notice of such default (called a payment blockage notice ) from a holder of designated senior indebtedness or any other person permitted to give such notice under the indenture (called a non-payment default ).

We may resume payments and distributions on the CODES:

in case of a payment default, upon the date on which such default is cured or waived or ceases to exist; and

in case of a non-payment default, the earlier of the date on which such non-payment default is cured or waived or ceases to exist or 179 days after the date on which the payment blockage notice is received by us and the trustee.

No new period of payment blockage may be commenced pursuant to a payment blockage notice unless 360 days have elapsed since the initial effectiveness of the immediately prior payment blockage notice. No non-payment default that existed or was continuing on the date of delivery of any payment blockage notice shall be the basis for any later payment blockage notice unless such default shall have been cured or waived for a period of not less than 90 consecutive days.

If the trustee or any holder of the CODES receives a payment in respect of the CODES when the payment would be prohibited by the subordination provisions of the CODES and the indenture, and the trustee or the holder has actual knowledge that the payment is prohibited, then the trustee or the holder, as the case may be, will hold the payment in trust for the benefit of the holders of senior indebtedness. Upon the proper written request of the holders of senior indebtedness, the trustee or the holder, as the case may be, will deliver the amounts in trust to the holders of senior indebtedness or their proper representative.

As a result of the subordination provisions described above, in the event of a liquidation or insolvency, you may recover less ratably than our creditors who are holders of senior indebtedness. See Risk Factors Risks Related to the CODES and the Common Stock into which the CODES are Convertible Your right to receive payments under the CODES is junior to our existing senior debt and certain future borrowings. You will receive payment on your CODES only if we have funds remaining after we have paid any existing and future senior indebtedness.

Our right to receive any assets of any of our subsidiaries upon their liquidation or reorganization, and therefore the right of the holders to participate in those assets, will be effectively subordinated to the claims of the subsidiary's creditors, including trade creditors. In addition, even if we were a creditor to any of our subsidiaries, our rights as a creditor would be subordinate to any security interest in the assets of our subsidiaries and any indebtedness of our subsidiaries senior to that held by us.

Designated senior indebtedness means any senior indebtedness which, at the date of determination, has an aggregate principal amount outstanding of at least \$25 million and is specifically designated as designated senior indebtedness for purposes of the indenture in the instrument creating or evidencing such indebtedness, or any related agreements or documents to which we are a party, *provided* that the instrument, agreement or other document may place limitations and conditions on the right of the creditor to exercise the rights of the designated senior indebtedness.



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Senior indebtedness means:

all existing and future indebtedness of ours outstanding under credit facilities and all hedging obligations with respect to that indebtedness and any other existing and future indebtedness incurred by us, unless the instrument under which that indebtedness is incurred expressly provides that it is *pari passu* with or subordinated in right of payment to the CODES; and

all principal, interest (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization, whether or not a claim for post-filing interest is allowed in such proceeding), premium, penalties, fees, charges, expenses, indemnification, reimbursement obligations, damages, guarantees and other liabilities or amounts payable under the documentation governing any indebtedness of ours referred to above.

Notwithstanding anything to the contrary in the foregoing, senior indebtedness will not include:

any liability for federal, state, local or other taxes owed or owing by CSG Systems;

any indebtedness of CSG Systems to any of our subsidiaries or other affiliates; or

any trade payables of CSG Systems.

Indebtedness means, with respect to any person, any indebtedness of that person, whether or not contingent, in respect of borrowed money or evidenced by bonds, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof) or banker's acceptances or representing capital lease obligations or the balance deferred and unpaid of the purchase price of any property or representing any hedging obligations if and to the extent any of the foregoing indebtedness (other than letters of credit and hedging obligations) would appear as a liability upon a balance sheet of such person prepared in accordance with GAAP, as well as all indebtedness of others secured by a lien on any assets of such person (whether or not such indebtedness is assumed by such person) and, to the extent not otherwise included, the guarantee by such person of any indebtedness of any other person.

The indenture does not restrict the creation of senior indebtedness or any other indebtedness in the future. For information concerning our potential incurrence of additional senior indebtedness, see Risk Factors Risks Related to the CODES and the Common Stock into which the CODES are Convertible Your right to receive payments under the CODES is junior to our existing senior debt and certain future borrowings.

## **Contingent Interest**

We will pay contingent interest to the holders of CODES during any six-month period from and including an interest payment date to but excluding the next interest payment date, commencing with the six-month period beginning June 15, 2011, if the average trading price of the CODES 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 CODES.

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The rate of contingent interest payable in respect of any such six-month interest period will equal 0.25% of the average trading price of the CODES over the measuring period triggering the contingent interest payment. Contingent interest, if any, will accrue from the first day of any interest period and be payable on the interest payment date at the end of the relevant six-month period to holders of the CODES as of the record date relating to such interest payment date.

Upon determination that CODES holders will be entitled to receive contingent interest which may become payable during a relevant six-month period, on or prior to the start of such six-month period, we will issue a press release through Dow Jones & Company, Inc. or Bloomberg Business News containing the relevant information and make this information available on our website or through another public medium as we may use at that time.

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### **Optional Redemption by CSG Systems**

No sinking fund is provided for the CODES.

Prior to June 20, 2011, the CODES will not be redeemable at our option. At any time on or after June 20, 2011, we may redeem the CODES for cash as a whole at any time, or from time to time in part, at a repurchase price equal to 100% of the principal amount of such CODES plus any accrued and unpaid interest (including contingent interest and additional amounts, if any) to, but excluding, the redemption date. If the redemption date is on a date that is after a record date and on or prior to the corresponding interest payment date, we will pay such interest to the holder of record on the corresponding record date, which may or may not be the same person to whom we will pay the redemption price and the redemption price will be 100% of the principal amount of CODES redeemed.

We will give not less than 20 days nor more than 60 days notice of any redemption by mail to holders of CODES. CODES or portions of CODES called for redemption will be convertible by the holder until the close of business on the second business day prior to the redemption date. You will receive shares of our common stock upon any such conversion unless we have given notice, as set forth under Settlement Upon Conversion Conversion after the final notice date above, at least 23 business days prior to the redemption date that we intend to settle all or a portion of any conversions in cash. If we redeem less than all of the outstanding CODES, the trustee shall select the CODES to be redeemed on a pro rata basis if permitted by the procedures of DTC, or otherwise by lot, in principal amounts of \$1,000 or integral multiples of \$1,000. If a portion of a holder's CODES is selected for partial redemption and the holder thereafter converts a portion of the CODES, the converted portion shall be deemed to be part or all, as the case may be, of the portion selected for redemption.

Any notice of redemption shall include, among other things, (1) a statement regarding the holder's right to convert the CODES, (2) the date by which the CODES called for redemption may be converted and (3) should the holder elect to convert CODES that we have called for redemption, the date on which the cash settlement averaging period will commence if we elect to satisfy all or a portion of that conversion obligation in cash. Notices of redemption may not be conditional.

We may also, to the extent permitted by applicable law and agreements governing our other debt (if any), at any time purchase CODES in the open market or by tender at any price or by private agreement. Any CODES so purchased by us may, to the extent permitted by applicable law, be reissued or resold or may be surrendered to the trustee for cancellation. Any CODES surrendered to the trustee may not be reissued or resold and will be canceled promptly.

### **Repurchase of CODES at Option of Holders**

#### *General*

On June 15, 2011, June 15, 2016 and June 15, 2021 (each, a repurchase date), each holder will have the right, at the holder's option but subject to the terms and conditions of the indenture, to require us to purchase for cash all or any portion of the holder's CODES in integral multiples of \$1,000 principal amount, at a repurchase price equal to 100% of the principal amount of those CODES plus any accrued and unpaid interest (including contingent interest and additional amounts, if any) to, but excluding, the repurchase date. Any interest payable on such repurchase date (including contingent interest and additional amounts, if any) shall be paid to the holder of record on the record date immediately preceding such repurchase date.

Holders may submit their CODES for purchase to the paying agent at any time from the opening of business on the date that is 20 business days prior to the repurchase date until the close of business on the third business day prior to the repurchase date. We will be required to give notice on a date not less than 20 business days prior to each repurchase date to the trustee, to all holders of CODES at their addresses shown in the register of the registrar and to beneficial owners as required by applicable law, stating among other things the procedures that

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holders must follow to require us to repurchase their CODES. See *Repurchase of CODES at Option of Holders Procedures*.

### *Change in Control*

If a change in control occurs, we will be required to purchase the CODES on a date designated by us, which will be no later than 35 business days after the occurrence of such change in control. In this prospectus, we refer to the date on which such purchase will occur as the *change in control purchase date*. Each holder will have the right, at the holder's option but subject to the terms and conditions of the indenture, to require us to purchase for cash all or any portion of the holder's CODES in integral multiples of \$1,000 principal amount, at a repurchase price equal to 100% of the principal amount of those CODES plus any accrued and unpaid interest (including contingent interest and additional amounts, if any) to, but excluding, the change in control purchase date; *provided, however*, that if holders elect to require us to repurchase the CODES on a date that is after a record date and on or prior to the corresponding interest payment date, we will pay interest in respect of accrued and unpaid interest (including contingent interest and additional amounts, if any) on the CODES being repurchased to, but excluding, the repurchase date to such holders of record on the corresponding record date and the repurchase price will only be 100% of the principal amount of CODES being repurchased.

Within 20 business days after the occurrence of a change in control, we must mail to the trustee, to all holders of CODES at their addresses shown in the register of the registrar and to beneficial owners as required by applicable law a notice regarding the change in control. That notice must state, among other things:

the events causing a change in control;

the date of such change in control;

the last date on which a holder may exercise the purchase right;

the change in control purchase price;

the change in control purchase date;

the name and address of the paying agent and the conversion agent;

the conversion rate and any adjustments to the conversion rate;

that CODES with respect to which a change in control purchase notice is given by the holder may be converted, if otherwise convertible, only if the change in control purchase notice has been withdrawn in accordance with the terms of the indenture; and

the procedures that holders must follow to exercise these rights. See *Repurchase of CODES at Option of Holders Procedures*.

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Under the indenture, a change in control of our company is deemed to have occurred at such time after the original issuance of the CODES when any of the following has occurred:

the acquisition by any person, including any syndicate or group deemed to be a person under Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, of beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of purchases, mergers or other acquisition transactions, of shares of our capital stock entitling that person to exercise 50% or more of the total voting power of all shares of our capital stock entitled to vote generally in elections of directors, other than any acquisition by us, any of our subsidiaries or any of our employee benefit plans (except that such person shall be deemed to have beneficial ownership of all securities that such person has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition);

the first day on which a majority of the members of our board of directors does not consist of continuing directors; or

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the consolidation or merger of us with or into any other person, any merger of another person into us, or any conveyance, transfer, sale, lease or other disposition of all or substantially all of our properties and assets to another person, other than:

(1) any transaction:

that does not result in any reclassification, conversion, exchange or cancellation of outstanding shares of our capital stock; and

pursuant to which the holders of 50% or more of the total voting power of all shares of our capital stock entitled to vote generally in elections of directors immediately prior to such transaction have the entitlement to exercise, directly or indirectly, 50% or more of the total voting power of all shares of our capital stock entitled to vote generally in elections of directors of the continuing or surviving person immediately after giving effect to such transaction; or

(2) any merger solely for the purpose of changing our jurisdiction of incorporation and resulting in a reclassification, conversion or exchange of outstanding shares of common stock solely into shares of common stock of the surviving entity.

However, a change in control will be deemed not to have occurred if:

the closing price per share of our common stock for any five trading days within the period of 10 consecutive trading days ending immediately:

after the later of the change in control or the public announcement of the change in control, in the case of a change in control under the first or second bullet point above, or

before the change in control, in the case of a change in control under the third bullet point above,

equals or exceeds 105% of the conversion price of the CODES in effect on each such trading day; or

at least 90% of the consideration in the transaction or transactions (other than cash payments for fractional shares and cash payments made in respect of dissenters' appraisal rights) constituting a change in control consists of shares of common stock traded or to be traded immediately following such change in control on the Nasdaq National Market or a national securities exchange or automated inter-dealer quotation system and, as a result of the transaction or transactions, the CODES become convertible solely into such common stock (and any rights attached thereto).

Beneficial ownership shall be determined in accordance with Rules 13d-3 and 13d-5 under the Exchange Act. The term "person" includes any syndicate or group that would be deemed to be a "person" under Section 13(d)(3) under the Exchange Act.

Continuing directors means, as of any date of determination, any member of our board of directors who:

was a member of the board of directors on the date of this prospectus; or

was nominated for election or elected to the board of directors with the approval of two-thirds of the continuing directors who were members of the board at the time of a new director's nomination or election.

The definition of "change in control" includes a phrase relating to the conveyance, sale, transfer, lease or disposition of all or substantially all of our properties and assets. There is no precise, established definition of the phrase "substantially all" under New York law, which is the law governing the indenture and the CODES. In interpreting this phrase, courts, among other things, make a subjective determination as to the portion of assets conveyed, considering many factors, including the value of assets conveyed, the proportion of an entity's income derived from the assets conveyed and the significance of those assets to the ongoing business of the entity. To the extent the meaning of such phrase is uncertain, there may be uncertainty as to whether a change in control has occurred and, therefore, as to whether you will have the right to require us to repurchase your CODES.

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The change in control purchase feature of the CODES may in certain circumstances make more difficult or discourage a takeover of CSG Systems. This feature does not, however, result from our knowledge of any specific effort to accumulate shares of our common stock or to obtain control of us by any means or any plan by us to adopt a series of anti-takeover provisions. This feature is a standard term contained in other securities similar to the CODES, including those marketed by the initial purchasers of the CODES, and has resulted from our negotiations with them.

### *Procedures*

To exercise the right to require us to repurchase CODES, whether on a repurchase date or in connection with a change in control, the holder must deliver a written notice (a holder purchase notice ) that must be received by the paying agent no later than the close of business on the third business day prior to the repurchase date or the change in control purchase date, as applicable. That holder purchase notice must state:

the certificate numbers of the holder s CODES to be delivered for repurchase;

the portion of the principal amount of CODES to be repurchased, which portion must be \$1,000 or an integral multiple of \$1,000; and

that we are to purchase such CODES pursuant to the applicable provisions of the CODES.

A holder may withdraw any holder purchase notice by delivering a written notice of withdrawal to the paying agent prior to the close of business on the repurchase date or the change in control purchase date, as applicable. The notice of withdrawal must state:

the principal amount of the CODES being withdrawn;

the certificate numbers of the CODES being withdrawn, or such information as may be required under applicable DTC procedures;  
and

the principal amount, if any, of the CODES that remain subject to a change in control purchase notice or the change in control purchase notice, as applicable.

In connection with any repurchase offer or purchase offer in the event of a change in control, we will, to the extent applicable, comply with the provisions of Rule 13e-4, Rule 14e-1 and any other tender offer rules and make any filings under the Exchange Act which may then be applicable or required.

Our obligation to pay the repurchase price or the change in control purchase price, as applicable, for a CODES for which a holder purchase notice has been delivered and not validly withdrawn is conditioned upon the holder delivering the CODES, together with necessary endorsements, to the paying agent at any time after the delivery of the holder purchase notice. We will cause the repurchase price or the change in control purchase price, as applicable, for such CODES to be paid in cash promptly following the later of the repurchase date or the change in control purchase date, as applicable, or the time of delivery of such CODES.

If the paying agent holds money sufficient to pay the repurchase price or the change in control purchase price, as applicable, of the CODES on the business day following the repurchase date or the change in control purchase date, respectively, in accordance with the terms of the indenture, then, immediately after such date, the CODES will cease to be outstanding and interest on such CODES will cease to accrue, whether or not such CODES are delivered to the paying agent. Thereafter, all other rights of the holder shall terminate, other than the right to receive the repurchase price or the change in control purchase price, as applicable, upon delivery of the CODES.

We may not purchase any CODES at the option of holders, whether on a repurchase date or in connection with a change in control, if an event of default with respect to such CODES has occurred and is continuing, other than a default in the payment of the repurchase price or the change in control purchase price, as applicable, with

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respect to such CODES. In addition, our ability to purchase CODES may be limited by the terms of our then-existing borrowing agreements, applicable law and our ability to obtain funds for such purchase through dividends and other payments by our subsidiaries.

For a discussion of the tax treatment of a holder receiving cash on the repurchase of CODES, see Material United States Federal Income Tax Considerations U.S. Holders Sale, Exchange, Conversion, Repurchase or Redemption of the CODES.

## **Events of Default**

Each of the following constitutes an event of default under the indenture:

our failure to pay when due (i) the principal of or premium, if any, on any of the CODES at maturity, upon redemption or exercise of a repurchase right or otherwise or (ii) the settlement amount required upon conversion;

our failure to pay when due an installment of interest (including contingent interest and additional amounts, if any) on any of the CODES for 30 days after the date when due and payable;

our failure to perform or observe any other term, covenant or agreement in the indenture or the CODES for a period of 60 consecutive days after notice of such failure, requiring us to remedy the same, shall have been given to us by the trustee or to us and the trustee by holders of 25% or more in aggregate principal amount of the CODES then outstanding;

a default under any indebtedness for money borrowed by us or any of our subsidiaries (other than intercompany indebtedness) the aggregate outstanding principal amount of which is in an amount in excess of \$10 million, for a period of 30 days after written notice to us by the trustee or to us and the trustee by holders of at least 25% in aggregate principal amount of the CODES then outstanding, which default:

is caused by a failure to pay principal or interest due on such indebtedness by the end of the applicable grace period, if any, unless such indebtedness is discharged; or

results in the acceleration of such indebtedness, unless such acceleration is waived, cured, rescinded, annulled or such indebtedness is discharged; or

certain events of bankruptcy, insolvency, receivership or reorganization with respect to us or any substantial part of our property, including without limitation any of our subsidiaries that is a significant subsidiary (as defined in Rule 405 under the Securities Act) or any group of two or more subsidiaries that, taken as a whole, would constitute a significant subsidiary.

The indenture provides that the trustee will, within 90 days of the occurrence of a default, give to the registered holders of the CODES notice of all uncured defaults known to it, but the trustee will be protected in withholding such notice if it, in good faith, determines that the withholding of such notice is in the best interest of such registered holders, except in the case of a default in the payment of the principal of, or interest (including contingent interest or additional amounts, if any) on, any of the CODES when due or in the payment of any redemption or repurchase obligation.

If an event of default specified in the last bullet point above occurs and is continuing with respect to CSG Systems, then automatically the principal of all outstanding CODES, and any accrued and unpaid interest thereon (including contingent interest and additional amounts, if any) shall become immediately due and payable. If any other event of default shall occur and be continuing (the default not having been cured or waived as provided under Modification and Waiver below), the trustee or the holders of at least 25% in aggregate principal amount of the CODES then outstanding may declare the CODES due and payable at their principal amount together with accrued interest (including contingent interest and additional amounts, if any). Upon any such acceleration the trustee may, at its discretion, proceed to protect and enforce the rights of the holders of CODES

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by appropriate judicial proceedings. Such declaration may be rescinded with the written consent of the holders of a majority in aggregate principal amount of the CODES then outstanding upon the conditions provided in the indenture.

The indenture contains a provision entitling the trustee, subject to the duty of the trustee during default to act with the required standard of care, to be indemnified by the holders of CODES before proceeding to exercise any right or power under the indenture at the request of such holders. The indenture provides that the holders of a majority in aggregate principal amount of the CODES then outstanding through their written consent may direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred upon the trustee.

We will be required to furnish annually to the trustee a statement as to the fulfillment of our obligations under the indenture.

## **Modification and Waiver**

The indenture, including the terms and conditions of the CODES, may be modified or amended by us and the trustee, without the consent of the holder of any CODES, for the purposes of, among other things:

adding to our covenants for the benefit of the holders of CODES;

surrendering any right or power conferred upon us;

providing for the assumption of our obligations to the holders of CODES in the case of a permitted merger, consolidation, conveyance, transfer or lease of all or substantially all of our assets;

complying with the requirements of the SEC in connection with effecting or maintaining the registration of the CODES under the Securities Act or qualifying the indenture under the Trust Indenture Act of 1939, as amended, *provided* that such modification or amendment does not, in the good faith opinion of a senior executive officer and the trustee, adversely affect the interests of the holders of CODES in any material respect; and

curing any ambiguity or omission, or correcting or supplementing any defective provision or inconsistency contained in the indenture; *provided* that such modification or amendment does not, in the good faith opinion of a senior executive officer and the trustee, adversely affect the interests of the holders of CODES in any material respect.

Modifications and amendments to the indenture or to the terms and conditions of the CODES may also be made, and past defaults by us may be waived, with the written consent of the holders of at least a majority in aggregate principal amount of the CODES at the time outstanding. However, no such modification, amendment or waiver may, without the written consent or the affirmative vote of the holder of each CODES so affected:

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change the maturity of the principal of or the date any installment of interest (including any payment of contingent interest or additional amounts) is due on any CODES;

reduce the principal amount, repurchase price, redemption price, change in control purchase price or interest (including contingent interest or additional amounts, if any) on any CODES;

change the currency of payment of such CODES or interest thereon;

alter the manner of calculation or rate of accrual of interest (including contingent interest and additional amounts) on any CODES or extend the time of payment of any such amount;

except as otherwise permitted or contemplated by provisions concerning corporate reorganizations, adversely affect the repurchase rights or the conversion rights of holders of the CODES;

change the redemption provisions of the indenture in a manner adverse to the holders of the CODES;

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reduce the percentage in aggregate principal amount of CODES outstanding necessary to modify or amend the indenture or to waive any past default; or

impair the right to institute suit for the enforcement of any payment with respect to, or conversion of, any CODES.

## **Merger and Sales of Assets**

The indenture provides that we may not consolidate with or merge into any other person or convey, transfer, sell, lease or otherwise dispose of all or substantially all of our properties and assets to another person unless, among other things,

we are the continuing corporation, or the resulting, surviving or transferee person is organized and existing under the laws of the United States, any state thereof or the District of Columbia;

if we are not the surviving corporation, such person assumes all of our obligations under the CODES and the indenture; and

we or such successor is not then or immediately thereafter in default under the indenture and no event which, after the giving of notice or the passage of time or both, would become an event of default under the indenture shall have occurred or be continuing.

The occurrence of certain of the foregoing transactions could also constitute a change in control.

The covenant described above includes a phrase relating to the conveyance, transfer, sale, lease or disposition of all or substantially all of our properties and assets. There is no precise, established definition of the phrase substantially all under New York law, which is the law governing the indenture and the CODES. In interpreting this phrase, courts, among other things, make a subjective determination as to the portion of assets conveyed, considering many factors, including the value of assets conveyed, the proportion of an entity's income derived from the assets conveyed and the significance of those assets to the ongoing business of the entity. To the extent the meaning of such phrase is uncertain, there may be uncertainty as to whether the restrictions on conveyance, transfer, sale or disposition of our assets described above apply to a particular transaction.

## **Governing Law**

The indenture and the CODES are governed by, and construed in accordance with, the laws of the State of New York.

## **Registration Rights**

We have entered into a registration rights agreement with the initial purchasers of the CODES for the benefit of the holders of the CODES. Pursuant to the agreement, we have agreed to, at our expense:

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file with the SEC not later than 90 days after the earliest date of original issuance of any of the CODES, a shelf registration statement on such form as we deem appropriate covering resales by holders of all of the CODES and the common stock issuable upon conversion of the CODES;

use our reasonable best efforts to cause such registration statement to become effective as promptly as is practicable, but in no event later than 180 days after the date of original issuance of the CODES; and

use our reasonable best efforts to keep the registration statement effective until the earliest of:

two years after the last date of original issuance of any of the CODES;

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the date when the holders of all of the CODES and the common stock issuable upon conversion of the CODES are able to sell all such securities immediately without restrictions under Rule 144(k) under the Securities Act or any successor provision;

the date when all of the CODES and our common stock issuable upon conversion of the CODES have ceased to be outstanding (whether as a result of redemption, repurchase and cancellation, conversion or otherwise); and

the date when all of the CODES and the common stock issuable upon conversion of the CODES are registered under the shelf registration statement and disposed of in accordance with either such registration statement or Rule 144 under the Securities Act or any successor provision.

We have agreed to mail a selling securityholder notice and questionnaire (the questionnaire), in substantially the form required by the registration rights agreement, to each holder of CODES and our common stock converted from the CODES to obtain certain information regarding such holders for inclusion in the registration statement and the related prospectus. We have agreed to mail the questionnaire not less than 20 business days (but not more than 40 business days) prior to the time we intend to have the shelf registration statement declared effective. To be named as selling securityholders in the related prospectus at the time of effectiveness of the registration statement, holders must complete and deliver the questionnaire within 20 business days of the date of the questionnaire. Holders that do not complete and deliver a questionnaire prior to the effectiveness of the shelf registration statement will not be named as selling securityholders in the prospectus, but may receive a questionnaire from us upon request. Thereafter, upon receipt of a completed questionnaire from a holder following the effectiveness of the shelf registration statement, we will, as promptly as practicable but in any event within 20 business days, file any pre-effective or post-effective amendments or supplements to the shelf registration statement or to a related prospectus as are necessary to permit such holder to be named as a selling security holder in the prospectus; *provided, however*, that we shall not be obligated to file more than one such amendment or supplement for all holders during one fiscal quarter.

When we file the shelf registration statement, we will:

provide to each holder for whom the shelf registration statement was filed copies of the prospectus that is a part of the shelf registration statement;

notify each such holder when the shelf registration statement has become effective;

notify each such holder of the commencement of any suspension period (as described below); and

take certain other actions as are required to permit unrestricted resales of the CODES and the common stock issuable upon conversion of the CODES.

Each holder who sells securities pursuant to the shelf registration statement generally will be:

required to be named as a selling holder in the related prospectus;

required to deliver a prospectus to the purchaser;

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subject to the applicable liability provisions under the Securities Act in connection with the holder's sales; and

bound by the provisions of the registration rights agreement that are applicable to the holder (including certain indemnification rights and obligations).

Each holder must notify us not later than three business days prior to any proposed sale by that holder pursuant to the shelf registration statement. This notice will be effective for five business days. We may suspend the holder's use of the prospectus for a period not to exceed 60 days in any 90-day period, and not to exceed an aggregate of 90 days in any 360-day period, if:

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the prospectus would, in our reasonable judgment, contain a material misstatement or omission as a result of an event that has occurred and is continuing and we reasonably determine in good faith that the disclosure of this material non-public information would have a material adverse effect on us and our subsidiaries taken as a whole; or

the SEC has notified us of their intention to review our public filings or have provided comments on any of our public filings.

However, if the disclosure relates to a previously undisclosed proposed or pending material business transaction, the disclosure of which would impede our ability to consummate such transaction, we may extend the suspension period from 60 days to 75 days. Each holder, by its acceptance of a CODES, agrees to hold in confidence any communication by us in response to a notice of a proposed sale.

Upon the initial sale of CODES or common stock issued upon conversion of the CODES, each selling holder will be required to deliver a notice of such sale. The notice will, among other things:

identify the sale as a transfer pursuant to the shelf registration statement;

certify that the prospectus delivery requirements, if any, of the Securities Act have been complied with; and

certify that the selling holder and the aggregate principal amount of CODES or number of shares of common stock, as the case may be, owned by such holder are identified in the related prospectus in accordance with the applicable rules and regulations under the Securities Act.

If:

we have not filed the shelf registration statement prior to or on the 90th day following the earliest date of original issuance of any of the CODES;

the shelf registration statement has not been declared effective prior to or on the 180th day following the earliest date of original issuance of any of the CODES (the effectiveness target date ); or

at any time after the effectiveness target date, the registration statement ceases to be effective or fails to be usable and (1) unless we have exercised our right to suspend the shelf registration statement, we do not cure the registration statement within ten business days by a post-effective amendment or a report filed pursuant to the Exchange Act or (2) we do not terminate the suspension period, described above, by the 60th or 75th day, as the case may be, or the suspension periods exceed an aggregate of 90 days in any 360-day period (each, a registration default );

then additional amounts will accrue on the CODES, from and including the day following the registration default to but excluding the day on which the registration default has been cured. Additional amounts will be paid semi-annually in arrears, with the first semi-annual payment due on the first interest payment date, as applicable, following the date on which such additional amounts begin to accrue, and will accrue at a rate per year equal to:

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an additional 0.25% of the principal amount to and including the 90th day following such registration default; and

an additional 0.50% of the principal amount from and after the 91st day following such registration default.

In no event will additional amounts accrue at a rate per year exceeding 0.50% as a result of a registration default. If a holder has converted some or all of its CODES into our common stock, the holder will not be entitled to receive additional amounts on such common stock. No additional amounts shall be payable in respect of cash paid in lieu of our common stock upon conversion of the CODES.

If this registration statement does not remain effective, the CODES may not be sold or otherwise transferred except pursuant to an exemption from registration under the Securities Act and applicable state laws or in a transaction not subject to those laws.

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### **Information Concerning the Trustee**

Deutsche Bank Trust Company Americas is the trustee, paying agent, conversion agent, registrar and custodian with regard to the CODES. EquiServe Trust Company, N.A. is the transfer agent and registrar for our common stock. The trustee, the transfer agent and their respective affiliates may from time to time in the future provide banking and other services to us in the ordinary course of their business.

We are obligated to pay reasonable compensation to the trustee and to indemnify the trustee against any losses, liabilities or expenses incurred by it in connection with its duties relating to the CODES. The trustee's claims for such payments will be senior to your claims for such payments in respect of all funds collected or held by the trustee.

### **Rule 144A Information**

We will furnish to the holders, beneficial holders and prospective purchasers of the CODES and our common stock into which the CODES are convertible, upon their request, the information, if any, required by Rule 144A(d)(4) under the Securities Act until such time as these securities are no longer restricted securities within the meaning of Rule 144 under the Securities Act.

### **Form, Denomination and Registration**

#### *Denomination and Registration*

The CODES are issued in fully registered form, without coupons, in denominations of \$1,000 principal amount and whole multiples of \$1,000.

#### *Global CODES: Book-Entry Form*

Except as provided below, the CODES are evidenced by one or more global CODES deposited with the trustee as custodian for DTC, and registered in the name of Cede & Co. as DTC's nominee.

Record ownership of the global CODES may be transferred, in whole or in part, only to another nominee of DTC or to a successor of DTC or its nominee, except as set forth below. Owners of beneficial interests in the CODES may hold their interests in the global CODES directly through DTC if such owner is a participant in DTC, or indirectly through organizations that are direct DTC participants if such owner is not a participant in DTC. Transfers between direct DTC participants will be effected in the ordinary way in accordance with DTC's rules and will be settled in same-day funds. Owners may also beneficially own interests in the global CODES held by DTC through certain banks, brokers, dealers, trust companies and other parties that clear through or maintain a custodial relationship with a direct DTC participant, either directly or indirectly.

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So long as Cede & Co., as nominee of DTC, is the registered owner of the global CODES, Cede & Co. for all purposes will be considered the sole holder of the global CODES. Except as provided below, owners of beneficial interests in the global CODES:

will not be entitled to have certificates registered in their names;

will not receive or be entitled to receive physical delivery of certificates in definitive form; and

will not be considered holders of the global CODES.

We will wire, through the facilities of the trustee, payments of principal, interest (including contingent interest and additional amounts, if any) and premium, if any, on the global CODES to Cede & Co., the nominee of DTC, as the registered owner of the global CODES. None of CSG Systems, the trustee and any paying agent will have any responsibility or be liable for paying amounts due on the global CODES to owners of beneficial interests in the global CODES.

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It is DTC's current practice, upon receipt of any payment of principal of, premium, if any, and interest on the global CODES, to credit participants' accounts on the payment date in amounts proportionate to their respective beneficial interests in the CODES represented by the global CODES, as shown on the records of DTC, unless DTC believes that it will not receive payment on the payment date. Payments by DTC participants to owners of beneficial interests in CODES represented by the global CODES held through DTC participants will be the responsibility of DTC participants, as is now the case with securities held for the accounts of customers registered in street name.

If you would like to convert your CODES pursuant to the terms of the CODES, you should contact your broker or other direct or indirect DTC participant to obtain information on procedures, including proper forms and cut-off times, for submitting those requests.

Because DTC can only act on behalf of DTC participants, who in turn act on behalf of indirect DTC participants and other banks, your ability to pledge your interest in the CODES represented by global CODES to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate.

Neither CSG Systems nor the trustee (nor any registrar, paying agent or conversion agent under the indenture) will have any responsibility for the performance by DTC or direct or indirect DTC participants of their obligations under the rules and procedures governing their operations. DTC has advised us that it will take any action permitted to be taken by a holder of the CODES, including, without limitation, the presentation of the CODES for conversion as described below, only at the direction of one or more direct DTC participants to whose account with DTC interests in the global CODES are credited and only for the principal amount of the CODES for which directions have been given.

DTC has advised us as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a clearing corporation within the meaning of the Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC was created to hold securities for DTC participants and to facilitate the clearance and settlement of securities transactions between DTC participants through electronic book-entry changes to the accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations, such as the initial purchasers of the CODES. Certain DTC participants or their representatives, together with other entities, own DTC. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through, or maintain a custodial relationship with, a participant, either directly or indirectly.

Although DTC has agreed to the foregoing procedures in order to facilitate transfers of interests in the global CODES among DTC participants, it is under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. If DTC is at any time unwilling or unable to continue as depositary and a successor depositary is not appointed by us within 90 days, we will cause CODES to be issued in definitive form in exchange for the global CODES. Notwithstanding anything herein to the contrary, if an event of default has occurred and is continuing with respect to the CODES, any owner of a beneficial interest in the CODES may request that we cause CODES in definitive form in respect of that owner's beneficial interest to be issued to that owner. If we do not promptly cause CODES in definitive form to be delivered to that owner of a beneficial interest, that beneficial owner will have direct rights against us under the indenture as if it had received CODES in definitive form. None of CSG Systems, the trustee or any of their respective agents will have any responsibility for the performance by DTC, direct or indirect DTC participants of their obligations under the rules and procedures governing their operations, including maintaining, supervising or reviewing the records relating to, or payments made on account of, beneficial ownership interests in global CODES.

According to DTC, the foregoing information with respect to DTC has been provided to its participants and other members of the financial community for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.



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**Discharge of the Indenture**

We may satisfy and discharge our obligations under the indenture by delivering to the trustee for cancellation all outstanding CODES or by depositing with the trustee, the paying agent or the conversion agent, if applicable, after the CODES have become due and payable, whether at stated maturity, on any redemption date, repurchase date or change in control purchase date, upon conversion or otherwise, cash or shares of common stock (as applicable under the terms of the indenture) sufficient to pay all of the outstanding CODES and paying all other sums payable under the indenture by us.

**Calculations in Respect of CODES**

We or our agents will be responsible for making all calculations called for under the CODES. These calculations include, but are not limited to, determination of the trading prices of the CODES and the closing prices of our common stock and amounts of contingent interest and additional amounts, if any, payable on the CODES. We or our agents will make all these calculations in good faith and, absent manifest error, these calculations will be final and binding on holders of CODES. We, or our agents, will provide a schedule of these calculations to the trustee, and the trustee is entitled to rely upon the accuracy of these calculations without independent verification.

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**DESCRIPTION OF CAPITAL STOCK**

**General Matters**

The following description of our common stock and preferred stock and the relevant provisions of our restated certificate of incorporation and by-laws are summaries thereof and are qualified by reference to our restated certificate of incorporation and by-laws, copies of which have been filed with the SEC. The summary is not complete. You should read our restated certificate of incorporation and by-laws for the provisions that are important to you. As used herein, we, us and our refer to CSG Systems International, Inc., only, and do not include its current or future subsidiaries.

As indicated below, certain provisions of the Delaware General Corporation Law ( DGCL ), the restated certificate of incorporation and the bylaws summarized in the following paragraphs may have an anti-takeover effect. This may delay, defer or prevent a tender offer or takeover attempt that a shareholder might consider in its best interests, including those attempts that might result in a premium over the market price for its shares.

Our authorized capital stock consists of 100,000,000 shares of common stock, par value \$0.01 per share, and 10,000,000 shares of preferred stock, par value \$0.01 per share. The registrar and transfer agent for the common stock is EquiServe Trust Company, N.A.

**Common Stock**

As of March 31, 2005, there were 50,425,744 shares of our common stock outstanding held of record by 277 stockholders of record.

Holders of common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders. Subject to preferences applicable to any preferred stock outstanding at the time, holders of common stock are entitled to receive ratably such dividends, if any, as our board of directors lawfully may declare from time to time. Upon our dissolution, the holders of common stock are entitled to share ratably in the assets remaining after payment of our liabilities and subject to the liquidation preference of any outstanding preferred stock. Holders of common stock, as such, have no preemptive, subscription, redemption, or conversion rights and are not subject to future calls or assessments by us. The outstanding shares of common stock are fully paid and non-assessable. The rights, preferences, and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock which we may designate and issue from time to time in the future.

**Preferred Stock**

Our board of directors has the authority to issue preferred stock in one or more series, and to fix the rights, preferences, privileges and restrictions, including the dividend, conversion, voting, redemption (including sinking fund provisions) and other rights, liquidation preferences and the number of shares constituting any series and the designations of such series, without any further vote or action by our stockholders. The provisions of any preferred stock could adversely affect the voting power of the holders of common stock and could, among other things, have

the effect of delaying, deferring or preventing a change in control of our company.

### **Stock Incentive Plans**

As of March 31, 2005, we had four stock incentive plans, under which an aggregate of 14,964,000 shares of common stock were reserved for issuance, of which 5,547,982 shares were available for future issuance. Depending upon the specific provisions of each of the respective plans, the shares available for issuance are limited to certain individuals, and limited to certain types of awards, including issuance in the form of stock options, stock appreciation rights, performance unit awards, restricted stock awards or stock bonus awards. Historically, the awards issued pursuant to these plans have consisted primarily of stock options and restricted stock. Stock options are granted with an exercise price equal to the fair market value of our common stock as of the date of the grant. Generally, options vest over four years and have a maximum term of ten years. Certain outstanding stock options become fully vested upon a change of control of our company. As of March 31, 2005, options to purchase 1,993,371 shares of common stock were outstanding under the various plans, of which 1,203,165 shares were exercisable.

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Substantially all of our restricted stock grants to date have been issued in exchange for surrendered stock options. For those that have not been subject to such exchanges, the restricted stock is issued at no cost to the individual. Restricted stock awards typically vest over three or four years, depending on the specific awards. Certain restricted stock awards become fully vested upon a change of control of our company. As of March 31, 2005, 3,042,526 shares of restricted stock awards had been issued, of which 1,877,828 shares were not vested.

On February 24, 2005, our Board adopted, subject to the approval of our stockholders, the 2005 Stock Incentive Plan (the "2005 Plan"). On May 27, 2005, we will hold our annual meeting of stockholders, at which time the stockholders will vote on the proposed 2005 Plan. The 2005 Plan will replace one of the existing stock incentive plans, the 1996 Stock Incentive Plan (the "1996 Plan"). If the 2005 Plan is approved by our stockholders and becomes effective, no further grants may be made under the 1996 Plan, but any stock options which are outstanding under the 1996 Plan will remain in effect in accordance with their respective terms. If our stockholders do not approve the 2005 Plan, the 1996 Plan will remain in effect until by its terms it terminates for purposes of further grants on December 31, 2005. Under the proposed 2005 Plan, shares may be granted to officers and other key employees of our company and its subsidiaries and to non-employee directors of our company in the form of stock options, stock appreciation rights, performance unit awards, restricted stock awards, or stock bonus awards. The aggregate number of shares of common stock which would be available for issuance pursuant to the 2005 Plan would be 12.4 million, which may be authorized and unissued shares or treasury shares. Shares granted under the 2005 Plan in the form of a performance unit award, restricted stock award, or stock bonus award would be 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. At March 31, 2005, 4,892,861 shares of our common stock were available for grants under the 1996 Plan.

## **Employee Stock Purchase Plan**

Under our employee stock purchase plan, 958,043 shares of common stock have been reserved for sale to our 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. Purchases are made at the end of each month.

As of March 31, 2005, 473,694 shares were available for issuance and purchase.

## **Limitation of Liability**

As permitted by the Delaware General Corporation Law, our restated certificate of incorporation provides that our directors shall not be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director, except for liability:

for any breach of the director's duty of loyalty to us or our stockholders;

for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;

under Section 174 of the Delaware General Corporation Law, relating to prohibited dividends or distributions or the repurchase or redemption of stock; or

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for any transaction from which the director derives an improper personal benefit.

As a result of this provision, we and our stockholders may be unable to obtain monetary damages from a director for breach of his duty of care. Although stockholders may continue to seek injunctive or other equitable relief for an alleged breach of fiduciary duty by a director, stockholders may not have any effective remedy against the challenged conduct if equitable remedies are unavailable.

Our by-laws require us, to a maximum extent and in the manner permitted by the General Corporation Law of Delaware, to indemnify each of our directors and officers against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with any action, suit or proceeding arising by reason of the fact that the person is or was our director, officer, employee or agent. In addition, we may, to the extent and in the manner permitted by the General Corporation Law of Delaware, indemnify each of our employees and agents (other than directors and officers) against expenses (including

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attorneys' fees), judgments, fines and amounts paid in settlements actually and reasonably incurred in connection with any action, suit or proceeding arising by reason of the fact that the person is or was our employee or agent. We maintain directors and officers liability insurance for the benefit of our directors and officers.

We have entered into separate indemnification agreements with each of our directors and certain executive and other officers pursuant to which we have agreed, among other things, and subject to certain limited exceptions: (i) to indemnify them to the fullest extent permitted by law against any claims and expenses incurred in connection therewith arising out of any event or occurrence relating to their status as director, officer, employee, agent, or fiduciary of our company or of any other entity as to which they served at our request or by reason of any action or inaction while serving in such capacity, and (ii) to advance any such expenses no later than five days after demand.

**Business Combination Provisions**

The business combination provision contained in Section 203 of the Delaware General Corporation Law, or Section 203, defines an interested stockholder as any person that:

owns, directly or indirect