CSG SYSTEMS INTERNATIONAL INC
Form 10-Q
November 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 0-27512

CSG SYSTEMS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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

6175 S. Willow Drive, 10th Floor

Greenwood Village, Colorado 80111

(Address of principal executive offices, including zip code)

(303) 200-2000

(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

Shares of common stock outstanding at November 2, 2018: 33,328,416

CSG SYSTEMS INTERNATIONAL, INC.

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CSG SYSTEMS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS - UNAUDITED

(in thousands, except per share amounts)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 197,172	$ 122,243
Short-term investments	2,130	139,117
Total cash, cash equivalents and short-term investments	199,302	261,360
Trade accounts receivable:		
Billed, net of allowance of $4,182 and $4,149	246,731	219,531
Unbilled	36,847	31,187
Income taxes receivable	7,452	13,839
Other current assets	38,706	28,349
Total current assets	529,038	554,266
Non-current assets:		
Property and equipment, net of depreciation of $108,266 and $123,126	78,265	44,651
Software, net of amortization of $116,761 and $108,986	31,953	26,906
Goodwill	210,697	210,080
Client contracts, net of amortization of zero and $97,109	-	43,626
Acquired client contracts, net of amortization of $81,286 and zero	39,863	-
Client contract costs, net of amortization of $37,038 and zero	35,584	-
Deferred income taxes	11,011	14,057
Other assets	10,898	10,948
Total non-current assets	418,271	350,268
Total assets	$ 947,309	$ 904,534
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 7,500	$ 22,500
Client deposits	36,079	31,053
Trade accounts payable	39,054	38,420
Accrued employee compensation	56,578	62,984
Deferred revenue	41,388	41,885
Income taxes payable	448	1,216
Other current liabilities	21,590	24,535
Total current liabilities	202,637	222,593
Non-current liabilities:		
Long-term debt, net of unamortized discounts of $15,641 and $18,264	353,109	309,236
Deferred revenue	13,578	12,346
Income taxes payable	2,372	2,415
Deferred income taxes	5,881	4,584
Other non-current liabilities	11,313	10,614
Total non-current liabilities	386,253	339,195
Total liabilities	588,890	561,788
Stockholders' equity:		
Preferred stock, par value $.01 per share; 10,000 shares authorized; zero shares issued and outstanding	-	-

Common stock, par value $.01 per share; 100,000 shares authorized; 33,451 and 33,516 shares outstanding	693	689
Common stock warrants; 439 warrants vested; 1,425 issued	9,082	9,082
Additional paid-in capital	436,412	427,091
Treasury stock, at cost; 34,470 and 34,075 shares	(831,585)	(814,732)
Accumulated other comprehensive income (loss):		
Unrealized loss on short-term investments, net of tax	(7)	(88)
Cumulative foreign currency translation adjustments	(37,364)	(28,734)
Accumulated earnings	781,188	749,438
Total stockholders' equity	358,419	342,746
Total liabilities and stockholders' equity	$ 947,309	$ 904,534

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

CSG SYSTEMS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME - UNAUDITED

(in thousands, except per share amounts)

	Quarter Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenues:				
Cloud and related solutions	$186,473	$ 164,789	$ 551,390	$ 481,445
Software and services	14,283	15,726	39,573	46,680
Maintenance	12,299	18,680	36,829	56,253
Total revenues	213,055	199,195	627,792	584,378
Cost of revenues (exclusive of depreciation, shown separately below):				
Cloud and related solutions	95,092	79,856	277,212	233,194
Software and services	8,669	9,725	25,816	31,404
Maintenance	5,291	10,136	16,612	30,487
Total cost of revenues	109,052	99,717	319,640	295,085
Other operating expenses:				
Research and development	31,477	30,324	91,809	85,103
Selling, general and administrative	39,243	35,816	120,515	109,981
Depreciation	4,831	3,344	13,293	9,975
Restructuring and reorganization charges	2,799	1,618	7,028	4,597
Total operating expenses	187,402	170,819	552,285	504,741
Operating income	25,653	28,376	75,507	79,637
Other income (expense):				
Interest expense	(4,456)	(4,186)	(13,202)	(12,638)
Amortization of original issue discount	(671)	(634)	(1,984)	(2,147)
Interest and investment income, net	675	800	2,256	2,310
Loss on extinguishment of debt	-	-	(810)	-
Other, net	(709)	(970)	(347)	(1,123)
Total other	(5,161)	(4,990)	(14,087)	(13,598)
Income before income taxes	20,492	23,386	61,420	66,039
Income tax provision	(4,391)	(8,806)	(16,188)	(19,641)
Net income	$16,101	$ 14,580	$ 45,232	$ 46,398
Weighted-average shares outstanding:				
Basic	32,507	32,561	32,541	32,383
Diluted	32,806	32,901	32,939	32,825
Earnings per common share:				
Basic	$0.50	$ 0.45	$ 1.39	$ 1.43
Diluted	0.49	0.44	1.37	1.41

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

CSG SYSTEMS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME - UNAUDITED

(in thousands)

	Quarter Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net income	$16,101	$ 14,580	$45,232	$ 46,398
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	(109)	5,609	(8,630)	15,173
Unrealized holding gains on short-term investments arising during period	107	7	81	154
Other comprehensive income (loss), net of tax	(2)	5,616	(8,549)	15,327
Total comprehensive income, net of tax	$16,099	$ 20,196	$36,683	$ 61,725

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

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CSG SYSTEMS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(in thousands)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Cash flows from operating activities:		
Net income	$45,232	$ 46,398
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation	13,293	9,975
Amortization	31,974	21,670
Amortization of original issue discount	1,984	2,147
Asset impairment	1,428	2,135
Gain on short-term investments and other	(65)	(76)
Loss on extinguishment of debt	810	-
Deferred income taxes	2,150	1,487
Stock-based compensation	14,805	16,659
Changes in operating assets and liabilities, net of acquired amounts:		
Trade accounts receivable, net	(15,952)	7,567
Other current and non-current assets	(21,763)	(1,788)
Income taxes payable/receivable	5,365	1,715
Trade accounts payable and accrued liabilities	(13,174)	(16,007)
Deferred revenue	7,182	10,940
Net cash provided by operating activities	73,269	102,822
Cash flows from investing activities:		
Purchases of software, property and equipment	(44,047)	(23,370)
Purchases of short-term investments	(53,285)	(116,203)
Proceeds from sale/maturity of short-term investments	190,467	150,768
Acquisition of and investments in business, net of cash acquired	(71,443)	-
Acquisition of and investments in client contracts	-	(10,082)
Net cash provided by investing activities	21,692	1,113
Cash flows from financing activities:		
Proceeds from issuance of common stock	1,701	1,259
Payment of cash dividends	(21,197)	(20,405)
Repurchase of common stock	(24,034)	(24,764)
Proceeds from long-term debt	150,000	-
Payments on long-term debt	(123,750)	(11,250)
Settlement of convertible notes	-	(34,771)
Payments of deferred financing costs	(1,490)	-
Net cash used in financing activities	(18,770)	(89,931)
Effect of exchange rate fluctuations on cash	(1,262)	2,396
Net increase in cash and cash equivalents	74,929	16,400

Cash and cash equivalents, beginning of period	122,243	126,351
Cash and cash equivalents, end of period	$ 197,172	$ 142,751
Supplemental disclosures of cash flow information:		
Cash paid during the period for-		
Interest	$ 14,181	$ 13,638
Income taxes	8,426	16,407

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

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CSG SYSTEMS INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. GENERAL

We have prepared the accompanying unaudited condensed consolidated financial statements as of September 30, 2018 and December 31, 2017, and for the quarters and nine months ended September 30, 2018 and 2017, in accordance with accounting principles generally accepted ("GAAP") in the United States of America ("U.S.") for interim financial information, and pursuant to the instructions to Form 10-Q and the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of our management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of our financial position and operating results have been included. The unaudited Condensed Consolidated Financial Statements (the "Financial Statements") should be read in conjunction with the Consolidated Financial Statements and notes thereto, together with Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), contained in our Annual Report on Form 10-K for the year ended December 31, 2017 (our "2017 10-K"), filed with the SEC. The results of operations for the quarter and nine months ended September 30, 2018 are not necessarily indicative of the expected results for the entire year ending December 31, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in Preparation of Financial Statements. The preparation of the accompanying Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of our Financial Statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Revenue. We adopted Topic 606 Revenue from Contracts with Customers ("ASC 606") as of January 1, 2018 using the cumulative effect method and have applied ASC 606 to all contracts with clients that had not been completed as of the date of initial application. In conjunction with the adoption of ASC 606, we recorded a cumulative adjustment increasing beginning retained earnings (net of tax) by approximately $7 million, primarily related to contracts that we were previously required to defer revenue as we did not have vendor specific objective evidence ("VSOE") of fair value for certain undelivered elements. Since we adopted ASC 606 using the cumulative effect method, comparative information in our Financial Statements has not been adjusted and continues to be as previously reported.

The following tables summarize the impacts of adopting ASC 606 on our Financial Statements as of and for the quarter and nine months ended September 30, 2018 (in thousands, except per share amounts):

	As of September 30, 2018		
Condensed Balance Sheet	As Reported	Adjustments	Balances without adoption of ASC 606

Unbilled trade accounts receivable	$36,847	$ (533)	$36,314
Other current assets	38,706	4,014	42,720
Client contracts, net of amortization	-	66,364	66,364
Acquired client contracts, net of amortization	39,863	(39,863)	-
Client contract costs, net of amortization	35,584	(35,584)	-
Other non-current assets	10,898	5,069	15,967
Other assets	785,411	-	785,411
Total assets (1)	$947,309	$ (533)	$946,776
Deferred revenue	$54,966	$ 2,655	$57,621
Deferred income taxes	5,881	8	5,889
Other liabilities	528,043	-	528,043
Total liabilities	588,890	2,663	591,553
Accumulated earnings	781,188	(3,196)	777,992
Other stockholders' equity	(422,769)	-	(422,769)
Total stockholders' equity	358,419	(3,196)	355,223
Total stockholders' equity and liabilities	$947,309	$ (533)	$946,776

(1) See Note 3 for further discussion related to the reclassification of our client contracts and client contract costs.

	Quarter Ended September 30, 2018		
Condensed Statement of Income	As Reported	Adjustments	Balances without adoption of ASC 606
Revenues:			
Cloud and related services (2)	$186,473	$ (6,162)	$180,311
Software and services (2)	14,283	1,589	15,872
Maintenance (2)	12,299	5,217	17,516
Total revenues	213,055	644	213,699
Cost of revenues:			
Cloud and related services (2)	95,092	(4,544)	90,548
Software and services (2)	8,669	208	8,877
Maintenance (2)	5,291	4,336	9,627
Total cost of revenues	109,052	-	109,052
Other expenses	83,511	-	83,511
Income before income taxes	20,492	644	21,136
Income tax provision	(4,391)	(187)	(4,578)
Net income	$16,101	$ 457	$16,558
Net income per diluted share	$0.49	$ 0.01	$0.50

	Nine Months Ended September 30, 2018		
Condensed Statement of Income	As Reported	Adjustments	Balances without adoption of ASC 606
Revenues:			
Cloud and related services (2)	$551,390	$ (19,294)	$532,096
Software and services (2)	39,573	4,742	44,315
Maintenance (2)	36,829	15,542	52,371
Total revenues	627,792	990	628,782
Cost of revenues:			
Cloud and related services (2)	277,212	(15,542)	261,670
Software and services (2)	25,816	660	26,476
Maintenance (2)	16,612	13,938	30,550
Total cost of revenues	319,640	(944)	318,696
Other expenses	246,732	-	246,732
Income before income taxes	61,420	1,934	63,354
Income tax provision	(16,188)	(561)	(16,749)
Net income	$45,232	$ 1,373	$46,605
Net income per diluted share	$1.37	$ 0.04	$1.41

(2) Adjustments are primarily related to software license products and related maintenance contracted as part of our cloud solutions contracts that were not capable of being distinct as a separate performance obligation under ASC

606 and are included in cloud solutions services in the quarter and nine months ended September 30, 2018. Costs associated with these products were also reclassified to cost of cloud solution services in the quarter and nine months ended September 30, 2018.

Condensed Statement of Cash Flows	Nine Months Ended September 30, 2018 As Reported	Adjustments	Balances without adoption of ASC 606
Net income	$45,232	$ 1,373	$46,605
Adjustments to reconcile net income to net cash provided by operating activities -			
Amortization	31,974	(3,146)	28,828
Deferred income taxes	2,150	561	2,711
Other	32,255	-	32,255
Changes in operating assets and liabilities:			
Other current and non-current assets	(21,763)	10,231	(11,532)
Deferred revenue	7,182	(1,689)	5,493
Other	(23,761)	-	(23,761)
Net cash provided by operating activities	73,269	7,330	80,599
Cash flows from investing activities:			
Acquisition of and investments in client contracts	-	(7,330)	(7,330)
Other	21,692	-	21,692
Net cash provided by (used in) investing activities	21,692	(7,330)	14,362
Net cash used in financing activities	(18,770)	-	(18,770)
Effect of exchange rate fluctuations on cash	(1,262)	-	(1,262)
Net increase cash and cash equivalents	74,929	-	74,929
Cash and cash equivalents, beginning of period	122,243	-	122,243
Cash and cash equivalents, end of period	$197,172	$ -	$197,172

As a result of adopting ASC 606, we have changed our accounting policies for revenue recognition as discussed in more detail below.

In summary, our revenue from client contracts is primarily related to our cloud and related solutions and, to a lesser degree, software and service and related maintenance arrangements, and is measured based on consideration specified within each of our contracts, excluding sales incentives and amounts collected on behalf of third parties, if any. We account for various products and services separately if they are distinct. A product or service, or group of products or services, is distinct if it is separately identifiable from other items in the context of the contract and if our client can benefit from the product or service on their own or with other resources that are readily available to that client. We recognize revenue when we satisfy our performance obligations by transferring control of a particular product or service, or group of products or services, to our clients, as described in more detail below. Taxes assessed on our products and services based on governmental authorities at the time of invoicing are excluded from our revenue.

Cloud and Related Solutions.

Our cloud and related solutions revenues relate to: (i) our software-as-a-service ("SaaS"), cloud-based, revenue management and digital monetization solutions, and various related ancillary services; and (ii) our managed services offering in which we operate software solutions (primarily our software solutions) on behalf of our clients.

We contract for our cloud-based solutions using long-term arrangements whose terms have typically ranged from three to five years. The long-term cloud-based arrangements include a series of multiple services delivered daily or monthly, to include such things as: (i) revenue and customer communications management services; (ii) business support services (e.g., workforce management tools, consumer credit verifications, etc.); (iii) content monetization and delivery functions; and (iv) customer statement invoice printing and mailing services. The fees for these services typically are billed to our clients monthly based upon actual monthly volumes and/or usage of services (e.g., the number of client customers maintained on our systems, the number of transactions processed on our systems, and/or the quantity and content of the monthly statements and mailings processed through our systems).

For cloud-based solution contracts, the total contract consideration (including impacts of discounts or incentives) is primarily variable dependent upon actual monthly volumes and/or usage of services; however, these contracts can also include ancillary fixed consideration in the form of one-time, monthly or annual fees. Although there may be multiple performance obligations, there is generally no allocation of value between the individual performance obligations as all are considered cloud and related solutions revenues that are recognized based on activities performed in each daily or monthly period.

We contract for managed services solutions using long-term arrangements whose terms have typically ranged from three to five years. Under managed services agreements, we may operate software products (primarily our software solutions) on behalf of our clients: (i) out of a client's data center; (ii) out of a data center we own and operate; or (iii) out of a third-party data center we contract with for such services. Managed services can also include us providing other services, such as transitional services, fulfillment, remittance processing, operational consulting, back office, and end user billing services.

For managed services contracts, the total contract consideration is typically a fixed fee, but these contracts may also have variable fee components. The fees for these services typically are billed to our clients on a monthly basis. Unless managed services are included with a software license contract (as discussed further below), there is generally only one performance obligation and revenue is recognized for these arrangements on a ratable basis as the services are performed.

Fees related to set-up or implementation activities for both cloud-based solution and managed services contracts are deferred and recognized ratably over the related service period to which the activities relate.

Depending on the significance of variable consideration, number of products/services, complex pricing structures and long-term nature of these types of contracts, the judgments and estimates made in this area could have a significant effect on the amount and timing of revenues recognized in any period.

Prior to the adoption of ASC 606, we recognized revenue related to our cloud and related solutions contracts on a monthly basis as we provided the services. The adoption of ASC 606 did not result in any significant changes to the timing of revenue recognition related to these contracts.

Software and Services.

Our software and services revenues relate primarily to: (i) software license sales on either a perpetual or term license basis; and (ii) professional services to implement the software. Our software and services contracts are often contracted in bundled arrangements that include not only the software license and related implementation services, but can also include maintenance, managed services and/or additional professional services.

For our software arrangements, the total contract consideration is allocated between the separate performance obligations based on stand-alone selling prices for software licenses, cost plus applicable margin for services and established pricing for maintenance. The initial sale of software products generally requires significant production, modification or customization, such that the delivery of the software license and the related professional services required to implement the software represent one combined performance obligation that is satisfied over time based of hours worked (hours-based method). We are using hours worked on the project as the measure to determine progress toward completion as we believe it is the most appropriate metric to measure such progress. The software and services fees are generally billed to our clients on a milestone or date basis.

The determination of the performance obligations and allocation of value for software license arrangements require significant judgment. We generally determine stand-alone selling prices using pricing calculations (which include regional market factors) for our software license fees and maintenance, and cost-plus margins for services. Additionally, our use of an hours-based method of accounting for software license and other professional services performance obligations that are satisfied over time requires estimates of total project revenues and costs, along with the expected hours necessary to complete a project. Changes in estimates as a result of additional information or experience on a project as work progresses are inherent characteristics of this method of revenue recognition as we are exposed to various business risks in completing these types of performance obligations. The estimation process to support our hours-based recognition method is more difficult for projects of greater length and/or complexity. The judgments and estimates made in this area could: (i) have a significant effect on revenues recognized in any period by changing the amount and/or the timing of the revenue recognized; and/or (ii) impact the expected profitability of a project, including whether an overall loss on an arrangement has occurred. To mitigate the inherent risks in using this hours-based method, we track our performance on projects and reevaluate the appropriateness of our estimates as part of our monthly accounting cycle.

In certain instances, we sell software license volume upgrades, which provide our clients the right to use our software to process higher transaction volume levels. In these instances, we analyze the contract to determine if the volume upgrade is a separate performance obligation and if so, we recognize the value associated with the software license as revenue on the effective date of the volume upgrade.

A portion of our professional services revenues are contracted separately (e.g., business consulting services, etc.). Such contracts can either be on a fixed-price or time-and-materials basis. Revenues from fixed-price, professional service contracts are recognized using an hours-based method, as these professional services represent a performance obligation that is satisfied over time. Revenues from professional services contracts billed on a time-and-materials basis are recognized as the services are performed.

Prior to the adoption of ASC 606, we recognized revenue for our software arrangements under the guidelines of contract accounting as our software products required significant production, modification or customization and if we had VSOE of fair value for undelivered elements (e.g., maintenance), which we generally had, we would allocate a portion of the total arrangement fee to the undelivered element based on its VSOE of fair value, and the balance of the arrangement fee was recognized using the percentage-of-completion (“POC”) method of accounting.

Maintenance

Our maintenance revenue relates primarily to support of our software once it has been implemented. Maintenance revenues are recognized ratably over the software maintenance period as services are provided. Our maintenance consists primarily of client and product support, technical updates (e.g., bug fixes, etc.), and unspecified upgrades or enhancements to our software products. If specified upgrades or enhancements are offered in a contract, which is rare, they are accounted for as a separate performance obligation. Maintenance can be invoiced to our clients on a monthly, quarterly or annual basis.

Transaction Price Allocated to the Remaining Performance Obligations

As of September 30, 2018, our aggregate amount of the transaction price allocated to the remaining performance obligations is approximately $527 million, which is made up of fixed fee consideration and guaranteed minimums expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied). We expect to recognize approximately 70% of this amount by the end of 2020, with the remaining amount recognized by the end of 2028. We have excluded from this amount variable consideration expected to be recognized in the future related to performance obligations that are unsatisfied (a practical expedient allowed under ASC 606). The majority of our future revenue is related to our cloud and related solution client contracts that include variable consideration dependent upon a series of monthly volumes and/or daily usage of services and have contractual terms ending from 2019 through 2028.

We have not disclosed transaction price allocation to remaining performance obligations or an explanation thereof of comparable amounts as of December 31, 2017 (a transitional practical expedient allowed under ASC 606).

Disaggregation of Revenue

In the following table, revenue is disaggregated by geographic region (using the location of the client as the basis of attributing revenues to the individual regions):

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Americas (principally the U.S.)	$180,489	$169,880	$530,609	$497,852
Europe, Middle East, and Africa	21,723	15,980	64,135	51,011
Asia Pacific	10,843	13,335	33,048	35,515
Total revenues	$213,055	$199,195	$627,792	$584,378

Billed and Unbilled Accounts Receivable. Billed accounts receivable represents our unconditional rights to consideration. Once invoiced, our payment terms are generally between 30-60 days, and rarely do we have contracts with financing arrangements. Unbilled accounts receivable represents our rights to consideration for work completed but not billed. Unbilled accounts receivable is transferred to billed accounts receivable when the rights become unconditional which is generally at the time of invoicing.

The following table rolls forward our unbilled accounts receivable from December 31, 2017 to September 30, 2018 (in thousands):

	Unbilled Receivables
Beginning Balance, December 31, 2017	$ 31,187
Cumulative effect adjustments	4,193
Reclassification - Adoption of ASC 606	(2,276)
Beginning Balance, January 1, 2018	$ 33,104
Recognized during the period	168,198
Reclassified to receivables	(163,117)
Other	(1,338)
Ending Balance, September 30, 2018	$ 36,847

Deferred Revenue. Deferred revenue represents consideration received from clients in advance of services being performed.

The following table rolls forward our deferred revenue from December 31, 2017 to September 30, 2018 (in thousands):

	Deferred Revenue
Beginning Balance, December 31, 2017	$ (54,231)
Cumulative effect adjustments	4,344
Reclassification - Adoption of ASC 606	2,276
Beginning Balance, January 1, 2018	$ (47,611)
Revenue recognized that was included in deferred revenue at the beginning of the period	35,575
Consideration received in advance of services performed net of revenue recognized in the current period	(44,218)
Other	1,288
Ending Balance, September 30, 2018	$ (54,966)

Cash and Cash Equivalents. We consider all highly liquid investments with original maturities of three months or less at the date of the purchase to be cash equivalents. As of September 30, 2018 and December 31, 2017, our cash equivalents consist primarily of institutional money market funds, commercial paper, and time deposits held at major banks.

As of September 30, 2018 and December 31, 2017, we had $3.0 million and $4.2 million, respectively, of restricted cash that serves to collateralize outstanding letters of credit. This restricted cash is included in cash and cash equivalents in our Condensed Consolidated Balance Sheets (“Balance Sheets” or “Balance Sheet”).

Short-term Investments and Other Financial Instruments. Our financial instruments as of September 30, 2018 and December 31, 2017 include cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and debt. Because of their short maturities, the carrying amounts of cash equivalents, accounts receivable, and accounts payable approximate their fair value.

Our short-term investments and certain of our cash equivalents are considered “available-for-sale” and are reported at fair value in our Balance Sheets, with unrealized gains and losses, net of the related income tax effect, excluded from earnings and reported in a separate component of stockholders’ equity. Realized and unrealized gains and losses were not material in any period presented.

Primarily all short-term investments held by us as of September 30, 2018 and December 31, 2017 have contractual maturities of less than two years from the time of acquisition. Our short-term investments as of September 30, 2018 and December 31, 2017 consisted almost entirely of fixed income securities. Proceeds from the sale/maturity of short-term investments for the nine months ended September 30, 2018 and 2017 were $190.5 million and $150.8 million, respectively.

Our short-term investments as of September 30, 2018 and December 31, 2017 were $2.1 million and $139.1 million, respectively. The significant decrease in our short-term investments between periods is due primarily to the acquisition of Business Ink in February 2018 for approximately $70 million and positioning of cash as of September 30, 2018 for the acquisition of Forte Payment Systems, Inc., which closed on October 1, 2018 for a purchase price of approximately $85 million, (approximately $80 million, net of cash acquired), less approximately $13 million in cash subject to certain tax filings (see Note 5).

The following table represents the fair value hierarchy based upon three levels of inputs, of which Levels 1 and 2 are considered observable and Level 3 is unobservable, for our financial assets and liabilities measured at fair value (in thousands):

	September 30, 2018			December 31, 2017		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Cash equivalents:						
Money market funds	$14,828	$—	$14,828	$3,544	$—	$3,544
Commercial paper	—	—	—	—	32,467	32,467
Short-term investments:						
Corporate debt securities	—	—	—	—	124,182	124,182
U.S. government agency bonds	—	1,542	1,542	—	1,547	1,547
Asset-backed securities	—	588	588	—	13,388	13,388
Total	$14,828	$2,130	$16,958	$3,544	$171,584	$175,128

Valuation inputs used to measure the fair values of our money market funds and corporate equity securities were derived from quoted market prices. The fair values of all other financial instruments are based upon pricing provided by third-party pricing services. These prices were derived from observable market inputs.

We have chosen not to measure our debt at fair value, with changes recognized in earnings each reporting period. The following table indicates the carrying value (par value for convertible debt) and estimated fair value of our debt as of the indicated periods (in thousands):

	September 30, 2018		December 31, 2017
	Carrying	Fair	