CSG SYSTEMS INTERNATIONAL INC
Form DEF 14A
April 12, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x
Filed by a Party other than the Registrant o
Check the appropriate box:

o	Preliminary Proxy Statement
o	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x	Definitive Proxy Statement
o	Definitive Additional Materials
o	Soliciting Material Pursuant to §240.14a-12

CSG SYSTEMS INTERNATIONAL, INC.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x	No fee required.	
o	Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.	
	(1)	Title of each class of securities to which transaction applies:
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	(4)	Proposed maximum aggregate value of transaction:
	(5)	Total fee paid:
o	Fee paid previously with preliminary materials.	
o	Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.	
	(1)	Amount Previously Paid:
	(2)	Form, Schedule or Registration Statement No.:
	(3)	Filing Party:
	(4)	Date Filed:

CSG Systems International, Inc.
9555 Maroon Circle
Englewood, Colorado 80112

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MAY 25, 2007

The annual meeting of stockholders of CSG Systems International, Inc. (the Company) will be held at the office of the Company, 9555 Maroon Circle, Englewood, Colorado, on Friday, May 25, 2007, at 8:00 a.m., for the following purposes:

1. To elect three Class I Directors.

2. To consider and vote on approval of a Performance Bonus Program.

3. To consider and vote on approval of performance goals for performance-based awards under the Company s 2005 Stock Incentive Plan.

4. To ratify the appointment of KPMG LLP as the Company s independent auditor for 2007.

5. To transact such other business as properly may come before the meeting or any adjournments thereof.

The Board of Directors fixed the close of business on March 27, 2007, as the record date for determining the stockholders of the Company who are entitled to notice of and to vote at the meeting and any adjournment thereof.

All stockholders are cordially invited to attend the meeting.

By Order of the Board of Directors,

Joseph T. Ruble
Secretary

April 12, 2007

REGARDLESS OF WHETHER YOU EXPECT TO ATTEND THE MEETING, PLEASE COMPLETE, DATE AND SIGN THE ENCLOSED PROXY AND MAIL IT PROMPTLY IN THE ACCOMPANYING ENVELOPE IN ORDER TO ASSURE REPRESENTATION OF YOUR SHARES. NO POSTAGE IS REQUIRED IF THE ACCOMPANYING ENVELOPE IS MAILED IN THE UNITED STATES. YOU ALSO MAY FILE YOUR PROXY BY TELEPHONE OR THE INTERNET IN ACCORDANCE WITH THE INSTRUCTIONS ACCOMPANYING THE PROXY. THE PROXY WILL NOT BE USED IF YOU ATTEND THE MEETING IN PERSON AND SO REQUEST.

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9555 Maroon Circle
Englewood, Colorado 80112

PROXY STATEMENT
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May 25, 2007

GENERAL INFORMATION

This Proxy Statement is furnished by the Board of Directors (the Board) of CSG Systems International, Inc. (the Company) in connection with the Board s solicitation of proxies for use at the annual meeting of stockholders of the Company (the Annual Meeting) to be held at the office of the Company, 9555 Maroon Circle, Englewood, Colorado, on Friday, May 25, 2007, at 8:00 a.m., and at any adjournments of the Annual Meeting. All proxies will be voted in accordance with the instructions contained in such proxies; if no choice is specified, the proxies will be voted in favor of the director nominees named in this Proxy Statement and in favor of the approval of the Performance Bonus Program, the approval of performance goals for performance-based awards under the Company s 2005 Stock Incentive Plan, and the ratification of the appointment of KPMG LLP as the Company s independent auditor for 2007. A stockholder may revoke a proxy at any time before it is exercised either by giving written notice to that effect to the Secretary of the Company, by delivering to the Company a properly signed proxy bearing a later date or by attending the Annual Meeting and voting in person.

VOTING INFORMATION

The Board fixed the close of business on March 27, 2007, as the record date for determining the stockholders of the Company who are entitled to notice of and to vote at the Annual Meeting. At the close of business on March 27, 2007, there were outstanding and entitled to vote at the Annual Meeting 44,472,866 shares of Common Stock of the Company, par value $.01 per share (Common Stock). Each share is entitled to one vote.

The Company will bear all costs of this solicitation of proxies. In addition to solicitations by mail, the Company s directors, officers and regular employees, without additional remuneration, and their appointed agents may solicit proxies in person or by telephone, e-mail, facsimile or other means. The Company will request banks, brokers and other fiduciaries to forward proxy soliciting material to the owners of stock held in their names. The Company will reimburse such banks, brokers and other fiduciaries for their reasonable out-of-pocket expenses incurred in connection with the distribution of proxy material.

The Company is first mailing this Proxy Statement and the accompanying proxy card on or about April 13, 2007, to persons who were stockholders of the Company at the close of business on the record date.

Quorum and Votes Required

A majority of the shares of Common Stock outstanding on the record date is required to be present or represented by proxy at the Annual Meeting in order to have the quorum necessary to take action at the Annual Meeting. Assuming that a quorum is present at the Annual Meeting, the three nominees for election as the Class I directors who receive the greatest number of votes cast in the election of directors will be elected as the Class I directors. Approval of the Performance Bonus Program, approval of performance goals for performance-based awards under the Company s 2005 Stock Incentive Plan, and ratification of the appointment of KPMG LLP as the Company s independent auditor for 2007 requires the affirmative vote of the holders of a majority of the shares of Common Stock present or represented by proxy at the Annual Meeting and entitled to vote on such matter.

Votes cast in person or by proxy at the Annual Meeting will be tabulated by the inspector appointed for the Annual Meeting. The inspector will treat abstentions as Common Stock that is present and entitled to vote for purposes of determining the presence of a quorum but as not voted for purposes of determining the approval of any matter submitted to stockholders for a vote. Abstentions will have no effect in the director election but will have the effect of a no vote with respect to other matters voted upon. If a broker indicates on a proxy that such broker does not have discretionary authority to vote on a particular matter and has not received voting instructions from the beneficial owner as to certain shares of Common Stock, then (unless otherwise required by Delaware law) such shares will not be counted in determining the number of votes required for approval of such matter; however, such broker non-votes will be counted for purposes of determining whether a quorum is present at the Annual Meeting.

BENEFICIAL OWNERSHIP OF COMMON STOCK

The first table below sets forth each person known by the Company to own beneficially more than 5% of the outstanding Common Stock as of December 31, 2006. The second table below sets forth to the Company s knowledge the beneficial ownership of Common Stock by each director and each executive officer of the Company named in the Summary Compensation Table, individually, and by all directors and executive officers of the Company as a group as of December 31, 2006.

Principal Stockholders

Name and Address of Beneficial Owner	Shares of Common Stock Beneficially Owned		Percentage of Common Stock Outstanding	
Barclays Global Investors, NA	4,989,505	(1)	10.65	%
Barclays Global Fund Advisors				
Barclays Global Investors, Ltd.				
Barclays Global Investors Japan Trust and Banking Company Limited				
Barclays Global Investors Japan Limited				
45 Fremont Street				
San Francisco, California 94105				
State Street Bank and Trust Company	2,846,286	(2)	6.08	%
225 Franklin Street				
Boston, Massachusetts 02110				
Goldman Sachs Asset Management, L.P.	2,711,879	(3)	5.79	%
32 Old Slip				
New York, New York 10005				

(1) Barclays Global Investors, NA (Investors), Barclays Global Fund Advisors (Advisors), Barclays Global Investors, Ltd. (Limited), Barclays Global Investors Japan Trust and Banking Company Limited, and Barclays Global Investors Japan Limited (Japan) filed with the United States Securities and Exchange Commission (the SEC) on January 23, 2007, a joint Schedule 13G stating that (i) Investors beneficially owns 3,867,288 of these shares, with sole voting power with respect to 3,276,424 of the shares and sole dispositive power with respect to 3,867,288 of the shares, (ii) Advisors beneficially owns 1,094,753 of these shares with sole voting and dispositive power, (iii) Limited beneficially owns 5,270 of these shares with sole voting and dispositive power, and (iv) Japan beneficially owns 22,914 of these shares with sole voting and dispositive power.

(2) State Street Bank and Trust Company (State Street) filed with the SEC on February 13, 2007, a Schedule 13G stating that State Street has sole voting power and sole dispositive power over these shares.

(3) Goldman Sachs Asset Management, L.P. (Goldman Sachs) filed with the SEC on February 7, 2007, a Schedule 13G stating that Goldman Sachs has sole voting power with respect to 2,432,272 of these shares and sole dispositive power with respect to all of these shares.

Directors and Executive Officers

Name of Beneficial Owner	Shares of Common Stock Beneficially Owned(1)(2)(3)	Percentage of Common Stock Outstanding
Ronald H. Cooper	3,000	*
Peter E. Kalan	170,099	*
Edward C. Nafus	169,556	*
Janice I. Obuchowski	89,418	*
Donald B. Reed	9,000	*
Bernard W. Reznicek	52,627	*
Joseph T. Ruble	30,022	*
Robert M. Scott	82,969	*
Frank V. Sica	100,362	*
Donald V. Smith	33,000	*
James A. Unruh	6,000	*
Randy R. Wiese	34,500	*
All directors and executive officers as a group (12 persons)	780,553	1.66 %

* Less than 1% of the outstanding Common Stock.

(1) Each person named has sole voting and investment power over the shares owned by him or her, except that Ms. Obuchowski has shared voting and investment power with respect to 3,000 shares owned jointly with her husband.

(2) Includes 22,450, 79,500, 39,533, 25,500, 24,000 and 190,983 shares subject to stock options that currently are exercisable or will become exercisable within 60 days which are held by Mr. Kalan, Ms. Obuchowski, Mr. Reznicek, Mr. Sica and Mr. Smith and by all directors and executive officers as a group, respectively.

(3) Includes unvested restricted shares of Common Stock awarded under the 1996 or 2005 Stock Incentive Plan of the Company. Each holder of unvested restricted shares may vote such shares but may not sell, transfer or encumber such shares until they vest in accordance with the applicable restricted stock award agreement. The persons named in this table held the following numbers of unvested restricted shares as of December 31, 2006:

Name	Number of Restricted Shares
Ronald H. Cooper	3,000
Peter E. Kalan	100,000
Edward C. Nafus	132,500
Janice I. Obuchowski	3,000
Donald B. Reed	3,000
Bernard W. Reznicek	3,000
Joseph T. Ruble	28,125
Robert M. Scott	82,083
Frank V. Sica	3,000
Donald V. Smith	3,000
James A. Unruh	3,000
Randy R. Wiese	34,500

In February 2007, the Board established stock ownership guidelines for the Company s directors and executive officers. Such guidelines provide that (i) each director of the Company should own at least 3,000 shares of Common Stock, (ii) the Chief Executive Officer of the Company should own at least that number of shares of Common Stock which is equal to 300% of his base salary, and (iii) each other executive officer of the Company should own at least that number of shares of Common Stock which is equal to 100% of his base salary. The present directors of the Company have three years and the present executive officers of the Company have four years to reach the applicable guideline level of Common Stock ownership. Similar periods to reach such guideline levels will apply to newly elected directors or executive officers of the Company.

PROPOSAL 1: ELECTION OF DIRECTORS

The Board is divided into three classes presently consisting of three Class I directors, three Class II directors and two Class III directors whose present terms continue until the annual meetings of stockholders of the Company to be held in 2007, 2008 and 2009, respectively, and until their respective successors are elected and qualified.

Unless the proxy is marked otherwise, the person acting under the accompanying proxy will vote to elect Mr. Nafus, Ms. Obuchowski and Mr. Reed as the Class I directors. The proxy may not be voted for more than three directors. If a nominee is unable to serve, then the person acting under the proxy may vote the proxy for the election of a substitute nominee. The Company does not presently contemplate that any of the three nominees will be unable to serve. **The Board recommends that stockholders vote FOR the election of Mr. Nafus, Ms. Obuchowski and Mr. Reed as Class I directors.**

The following information relates to the Board s nominees for election at the Annual Meeting and to the other directors of the Company whose terms of office will continue after the Annual Meeting:

Nominees for Election as Class I Directors With Terms Expiring in 2010:

Edward C. Nafus

Mr. Nafus, 66, was elected to the Board in March 2005 and became the Company s Chief Executive Officer on April 1, 2005. Mr. Nafus joined the Company in August 1998 as Executive Vice President and became the President of the Company s Broadband Services Division in January 2002. From 1978 to 1998, Mr. Nafus held numerous management positions with First Data Corporation and from 1992 to 1998 served as Executive Vice President of First Data Corporation and President of First Data Resources.

Janice I. Obuchowski

Ms. Obuchowski, 55, was elected to the Board in November 1997. Ms. Obuchowski has been President of Freedom Technologies, Inc., a public policy and corporate strategy consulting firm specializing in telecommunications, since 1992. In 2003, Ms. Obuchowski was appointed by President George W. Bush to serve as Ambassador and Head of the U.S. Delegation to the World Radio Communication Conference. She has served as Assistant Secretary for Communications and Information at the Department of Commerce and as Administrator for the National Telecommunications and Information Administration. Ms. Obuchowski currently is a director of Orbital Sciences Corporation and Stratos Global Corporation.

Donald B. Reed

Mr. Reed, 62, was elected to the Board in May 2005. He currently is retired, having served as Chief Executive Officer of Cable & Wireless Global from May 2000 to January 2003. Cable & Wireless Global incorporated Cable & Wireless plc s wholly owned operations in the United States, United Kingdom, Europe and Japan as a provider of internet protocol (IP) and data services to business customers. From June 1998 until May 2000, Mr. Reed served Cable & Wireless in various other executive positions. Mr. Reed s career includes 30 years at NYNEX Corporation (now part of Verizon), a regional telephone operating company. From 1995 to 1997, Mr. Reed served NYNEX Corporation as President and Group Executive with responsibility for directing the company s regional, national and international government affairs, public policy initiatives, legislative and regulatory matters and public relations. Mr. Reed currently is a director of Idearc Inc., Intervoice, Inc. and St. Lawrence Cement Group.

Class II Directors With Terms Expiring in 2008:

Ronald H. Cooper

Mr. Cooper, 50, was elected to the Board in November 2006. From January 2003 to July 2006, Mr. Cooper served as President and Chief Operating Officer of Adelphia Communications Corporation. From October 2001 to December 2002, Mr. Cooper was President of AT&T Broadband, the cable television and broadband services subsidiary of AT&T Corp. Mr. Cooper was President and Chief Operating Officer of RELERA Data Centers and Solutions, a start-up data center, hosting and data storage company, during 2000 and 2001. Previously, from 1982 to 1999, Mr. Cooper held various executive positions with MediaOne Group, Inc. (formerly Continental Cablevision, Inc.), a cable television and broadband services company, completing his service to MediaOne in 1999 as Executive Vice President Operations.

Bernard W. Reznicek

Mr. Reznicek, 70, was elected to the Board in January 1997 and presently serves as the Company s non-executive Chairman of the Board. Mr. Reznicek currently provides consulting services through Premier Enterprises. Mr. Reznicek previously was National Director of Special Markets for Central States Indemnity Company of Omaha, a Berkshire Hathaway company, from January 1997 to January 2003. He has 40 years of experience in the electric utility industry, having served as Chairman, President and Chief Executive Officer of Boston Edison Company and President and Chief Executive Officer of Omaha Public Power District. Mr. Reznicek currently is a director of infoUSA, Inc. and Pulte Homes, Inc.

Donald V. Smith

Mr. Smith, 64, was elected to the Board in January 2002. Mr. Smith presently serves as Senior Managing Director of Houlihan Lokey Howard & Zukin, Inc., an international investment banking firm with whom he has been associated since 1988. He currently is in charge of the firm s New York office and serves on the board of directors of the firm. From 1978 to 1988, Mr. Smith was employed by Morgan Stanley & Co. Incorporated, where he headed the valuation and reorganization services within that firm s corporate finance group. Mr. Smith currently serves on the Boards of Directors of the Princeton (NJ) HealthCare System Foundation and Business Executives for National Security.

Class III Directors With Terms Expiring in 2009:

Frank V. Sica

Mr. Sica, 56, has served as a director of the Company since its formation in 1994. Mr. Sica currently is a Managing Partner of Tailwind Capital (since December 2006) and President of Menemsha Capital Partners, Ltd (since July 2005), such two companies being private investment companies. Mr. Sica was a Senior Advisor to Soros Fund Management from 2004 to 2006 and was President of Soros Private Funds Management from June 2000 through December 2003. From 1998 to 2000 Mr. Sica was Managing Director of Soros Fund Management LLC. Before joining Soros, Mr. Sica was a Managing Director and Co-Head of Merchant Banking at Morgan Stanley Dean Witter & Co. Mr. Sica currently is a director of JetBlue Airways Corporation, Kohl s Corporation and Northstar Realty Finance Corp.

James A. Unruh

Mr. Unruh, 66, was elected to the Board in June 2005. He became a founding principal of Alerion Capital Group, LLC (a private equity investment company) in 1998 and currently holds such position. Mr. Unruh was an executive with Unisys Corporation from 1987 to 1997 and served as its Chairman and Chief Executive Officer from 1990 to 1997. From 1982 to 1987, Mr. Unruh held various executive positions, including Senior Vice President, Finance, with Burroughs Corporation, a predecessor of Unisys Corporation. Mr. Unruh currently is a director of Prudential Financial, Inc., Tenet Healthcare Corporation and Qwest Communications International Inc.

Other Board Information

There are no family relationships between any of the directors or executive officers of the Company. There are no arrangements between any director, nominee or executive officer of the Company and any other person pursuant to which such director, nominee or executive officer was selected for such position.

CORPORATE GOVERNANCE

The Board has determined that Messrs. Cooper, Reed, Reznicek, Sica, Smith and Unruh and Ms. Obuchowski, who are all of the present non-employee directors of the Company, are independent directors as defined in the applicable rule of The Nasdaq Stock Market, Inc. (Nasdaq).

During 2006, the Board held nine meetings and on one other occasion acted by unanimous written consent. During their respective periods of service as directors during 2006, all directors of the Company attended at least 75% of the aggregate number of meetings of the Board and of the committees on which they serve.

The Board has established a process for stockholders of the Company to send communications to the Board or to a specified individual member of the Board. Such communications should be in writing and sent to the Board or such individual director in care of the Secretary of the Company at the address shown on the first page of this Proxy Statement. Depending upon the subject matter of the communication, the

Secretary of the Company will either (i) forward the communication to all of the members of the Board or to the individual member of the Board to whom the communication is addressed, (ii) forward a communication relating to accounting, internal accounting controls or auditing matters to the chair of the Audit Committee of the Board, (iii) attempt to respond directly to an inquiry or request involving publicly available information about the Company or its stock or (iv) not forward the communication if it is primarily commercial in nature or relates to an improper or irrelevant topic. The Secretary of the Company will maintain a log of all communications addressed to the Board or an individual member of the Board which are not forwarded in accordance with this policy; directors of the Company may review such log at any time and request copies of any of such communications.

Historically, very few stockholders of the Company have attended the Company s annual meetings of stockholders; almost all stockholders who vote do so by proxy. Accordingly, the Company s policy is that employee directors of the Company are expected to attend annual meetings of stockholders of the Company if their schedules permit and that non-employee members of the Board are not expected to attend annual meetings of stockholders but may do if they so desire. Mr. Nafus attended the 2006 annual meeting of the Company s stockholders.

Audit Committee

The Board has a standing Audit Committee, presently composed of Ms. Obuchowski, Mr. Reed and Mr. Reznicek (Chair). The Committee s purpose, as currently set forth in its charter, is to oversee the accounting and financial reporting processes of the Company and the audits of the financial statements of the Company. A current copy of the Audit Committee Charter is available on the Company s web site under Investor Relations, Corporate Governance, at *http://www.csgsystems.com.* Information on the Company s web site is not incorporated by reference in this Proxy Statement. As required by the Audit Committee Charter, all of the members of the Audit Committee are independent directors as defined in the applicable Nasdaq rule and also satisfy the other requirements of the Nasdaq rule applicable to audit committee members. The Board has determined that Messrs. Reed and Reznicek are audit committee financial experts as defined by the SEC. The Audit Committee held five meetings during 2006.

Compensation Committee

The Board has a standing Compensation Committee, presently composed of Messrs. Cooper, Sica (Chair), Smith and Unruh. The Compensation Committee Charter provides, among other things, that the Committee is to review and recommend to the Board the Company s senior management compensation and benefits policies generally, evaluate the performance of the Company s executive officers, and review and recommend to the Board the compensation of the Company s executive officers. The Compensation Committee also is responsible for the administration of and the granting of stock options and other awards under the Company s 1996 Stock Incentive Plan (no further options or awards may be granted under this Plan), 2001 Stock Incentive Plan and 2005 Stock Incentive Plan and, subject to approval of the Company s Performance Bonus Program at the Annual Meeting, for the administration of such Program as discussed in more detail under Approval of Performance Bonus Program later in this Proxy Statement. A current copy of the Compensation Committee Charter is available on the Company s web site under Investor Relations, Corporate Governance, at *http://www.csgsystems.com.* Information on the Company s web site is not incorporated by reference in this Proxy Statement. As required by the Compensation Committee Charter, all of the members of the Committee are independent directors as defined in the applicable Nasdaq rule and also are outside directors for purposes of Section 162(m) of the Internal Revenue Code of 1986. The Compensation Committee held eight meetings during 2006 and on two other occasions acted by unanimous written consent.

The Compensation Committee meets at least quarterly. To fulfill its responsibilities of reviewing and recommending to the Board the compensation of the Company s executive officers, the Compensation Committee uses the services of an independent compensation consulting firm selected by the Committee, consults with the Company s Chief Executive Officer and human resources director, and draws upon the extensive business experience of the Committee s members. The Committee directs the consulting firm selected by the Committee (currently Pearl Meyer & Partners) to provide to the Committee comprehensive formal assessments of the competitiveness of the Company s executive officer compensation program, including a comparison of the principal components of the Company s executive officer compensation programs (base salaries, cash incentive programs and equity grants and awards) with those of other publicly owned technology companies; and the Committee considers such assessments and the consultant s recommendations in arriving at the Committee s decisions or recommendations to the Board with respect to base salaries and cash incentive programs for the Company s executive officers. The Committee also considers the information provided by the Committee s independent compensation consultant in determining the equity grants or awards made by the Committee to the executive officers of the Company and the terms of such grants and awards. Additional information with respect to the matters discussed in this paragraph appears in the Compensation Discussion and Analysis later in this Proxy Statement.

In making equity grants or awards to non-employee directors of the Company, the Compensation Committee considers relevant information provided by the Committee s independent compensation consultant and the recommendations of the Nominating and Corporate Governance Committee and the Board with respect to such grants or awards.

While the Board makes the final decisions with respect to the base salaries of the executive officers of the Company, the Compensation Committee makes specific recommendations to the Board with respect to such salaries and, in arriving at those recommendations, also considers the recommendations of the Company s Chief Executive Officer as to the base salaries of executive officers other than himself.

Nominating and Corporate Governance Committee

The Board has a standing Nominating and Corporate Governance Committee, presently composed of Mr. Cooper, Ms. Obuchowski (Chair), Mr. Reed and Mr. Smith. The Nominating and Corporate Governance Committee Charter provides, among other things, that the Committee is to identify individuals qualified to become Board members, recommend to the Board nominees for election as directors, recommend directors for appointment to Board committees, evaluate the Board s performance, review and recommend to the Board the compensation of the Company s directors, and develop and recommend to the Board the Company s Corporate Governance Guidelines and Code of Business Conduct and Ethics. A current copy of the Nominating and Corporate Governance Committee Charter is available on the Company s web site under Investor Relations, Corporate Governance, at *http://www.csgsystems.com.* Information on the Company s web site is not incorporated by reference in this Proxy Statement. As required by the Nominating and Corporate Governance Committee Charter, all of the members of the Committee are independent directors as defined in the applicable Nasdaq rule. The Nominating and Corporate Governance Committee held five meetings during 2006.

In recommending to the Board nominees for election as directors, the Nominating and Corporate Governance Committee reviews the present composition of the Board to determine the qualities, skills and areas of expertise (including but not limited to financial and accounting expertise) needed to enable the Board and its committees to properly discharge their responsibilities. The Committee considers it necessary for the Board to have at least one of its independent members qualify as an audit committee financial expert and takes that requirement into account in making its recommendations to the Board. While the Committee has not established other specific minimum requirements for service on the Board, when assessing and determining a candidate s qualifications, the Committee considers among other things the number and type of other boards on which the candidate serves; other business and professional commitments of the candidate and potential conflicts of interest; the ability and willingness of a candidate to devote the required amount of time to the candidate s responsibilities as a Board member and as a member of one or more committees of the Board; the age, background, reputation, independence, experience, skills and judgment of the candidate; and the diversity of the Board s membership. Directors, while relying on the honesty and integrity of the Company s senior management and its outside advisors and auditors, are expected to exercise their best business judgment when acting on behalf of the Company and its stockholders and to adhere to the applicable provisions of the Company s Code of Business Conduct and Ethics.

The Committee will consider qualified nominees for election as directors recommended by the Company s stockholders. A stockholder who wishes to recommend a nominee for consideration by the Committee should submit the recommendation in writing to the Secretary of the Company at the address shown on the first page of this Proxy Statement, indicating the proposed nominee s qualifications and other relevant biographical information and providing written confirmation of the proposed nominee s consent to serve as a director if nominated and elected. The Secretary of the Company will forward legitimate recommendations from stockholders to the chair of the Committee for further review and consideration. The bylaws of the Company provide that stockholder nominations of persons for election to the Board (as distinguished from recommendations to the Committee) are subject to certain advance notice and informational requirements; stockholders may obtain a copy of the relevant bylaw provisions from the Secretary of the Company at the address shown on the first page of this Proxy Statement.

Upon the recommendation of the Nominating and Corporate Governance Committee, the Board has adopted a Code of Business Conduct and Ethics applicable to all of the directors, officers and employees of the Company and its subsidiaries. The Company s Code of Business Conduct and Ethics and the Company s Corporate Governance Guidelines are available on the Company s web site under Investor Relations, Corporate Governance, at *http://www.csgsystems.com.* Information on the Company s web site is not incorporated by reference in this Proxy Statement.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company s officers (as defined in the applicable regulations) and directors, and persons who beneficially own more than 10% of a class of the Company s equity securities registered under such Act, to file certain reports of ownership and changes of ownership of the Company s equity securities with the SEC. Officers, directors and more than 10% stockholders are required by SEC regulation to furnish to the Company copies of all Section 16(a) forms which they file.

Based solely on its review of the copies of such forms submitted to it, or written representations from certain reporting persons that no Form 5 was required for those persons, the Company believes that all filing requirements applicable to its officers and directors were complied with for the year ended December 31, 2006, except that a Form 4 report for Randy R. Wiese was filed 19 days late because of a miscommunication within the Company as to the need for such filing, a Form 4 report for Donald B. Reed was filed 19 days late because of a technical problem with the electronic filing of such report, and a Form 4 report for Edward C. Nafus was filed one day late.

COMPENSATION OF DIRECTORS

Each non-employee director of the Company is entitled to receive from the Company an annual retainer fee of $45,000 payable in quarterly installments, a meeting attendance fee of $2,000 for attendance at a meeting of the Board and a meeting attendance fee of $1,250 for attendance at a meeting of a committee of the Board. The chairperson of the Audit Committee of the Board also is entitled to receive an annual retainer fee of $16,000 payable in quarterly installments, and the chairpersons of the Compensation Committee of the Board and the Nominating and Corporate Governance Committee of the Board also are entitled to receive an annual retainer fee of $8,000 payable in quarterly installments.

Effective July 1, 2005, Mr. Reznicek was elected as Chairman of the Board of the Company. He receives a fee for his non-executive services in such capacity at an annual rate of $50,000, payable in quarterly installments. Such fee is in addition to the fees referred to in the preceding paragraph. Mr. Reznicek is not an employee of the Company and receives no employee benefits from the Company.

A director who is an officer or employee of the Company does not receive additional compensation for serving as a director or committee member. Mr. Nafus, Chief Executive Officer of the Company, is the only officer of the Company who serves as a director of the Company. No officers or employees of the Company currently serve on any committee of the Board.

Director Compensation

The following table contains information concerning the compensation of the Company s non-employee directors for 2006. All numbers have been rounded to the nearest whole dollar.

Name	**Fees Earned or Paid in Cash(1)**	**Stock Awards(2)**	**Option Awards(3)**	**Totals**
Ronald H. Cooper(4)	$ 2,000	$ 10,271	$	$ 12,271
Janice I. Obuchowski	$ 86,000	$ 47,502	$ 19,397	$ 152,899
Donald B. Reed	$ 77,250	$ 47,502	$	$ 124,752
Bernard W. Reznicek	$ 139,000	$ 47,502	$ 7,214	$ 193,716
Frank V. Sica	$ 84,750	$ 47,502	$ 18,136	$ 150,388
Donald V. Smith	$ 83,000	$ 47,502	$ 10,377	$ 140,879
James A. Unruh	$ 76,750	$ 47,502	$	$ 124,252
Totals	$ 548,750	$ 295,283	$ 55,124	$ 899,157

(1) Amounts appearing in this column consist of the following:

Name	**Chairman of the Board Annual Retainer***	**Annual Board Retainer****	**Annual Committee Chairperson Retainer****	**Board and Committee Meeting Fees*****	**Totals**
Ronald H. Cooper	$	$	$	$ 2,000	$ 2,000
Janice I. Obuchowski	$	$ 45,000	$ 8,000	$ 33,000	$ 86,000
Donald B. Reed	$	$ 45,000	$	$ 32,250	$ 77,250
Bernard W. Reznicek	$ 50,000	$ 45,000	$ 16,000	$ 28,000	$ 139,000
Frank V. Sica	$	$ 45,000	$ 8,000	$ 31,750	$ 84,750
Donald V. Smith	$	$ 45,000	$	$ 38,000	$ 83,000
James A. Unruh	$	$ 45,000	$	$ 31,750	$ 76,750
Totals	$ 50,000	$ 270,000	$ 32,000	$ 196,750	$ 548,750

* Mr. Reznicek serves as non-executive Chairman of the Board of the Company and receives no benefits in such capacity other than those disclosed in the Director Compensation table.

** Paid in quarterly installments.

*** Paid subsequent to meetings $2,000 for each Board meeting and $1,250 for each committee meeting attended.

(2) Amounts appearing in this column reflect the 2006 stock-based compensation expense related to restricted stock awards granted before or during 2006 to the persons named in this table, computed in accordance with Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004) (SFAS 123R"), Share-Based Payment , without considering the impact of forfeitures. Restricted stock awards granted in 2006 to each of the Company s non-employee directors and the corresponding grant date fair value of each award were as follows:

Name	Shares of Restricted Stock Granted in 2006	Full Grant-Date Fair Value of Shares Granted	Unvested Shares of Restricted Stock at December 31, 2006
Ronald H. Cooper	3,000	$ 83,310	3,000
Janice I. Obuchowski	3,000	$ 80,820	3,000
Donald B. Reed	3,000	$ 80,820	3,000
Bernard W. Reznicek	3,000	$ 80,820	3,000
Frank V. Sica	3,000	$ 80,820	3,000
Donald V. Smith	3,000	$ 80,820	3,000
James A. Unruh	3,000	$ 80,820	3,000

(3) Amounts appearing in this column reflect the stock-based compensation expense in 2006 related to stock option awards granted prior to 2006 to the persons named in this table, computed in accordance with SFAS 123R without considering the impact of forfeitures. The fair value of stock option awards was estimated on the date of grant using the Black-Scholes option-pricing model, with the following weighted-average assumptions for non-employee director stock option awards: risk-free interest rate of 3.7%, dividend yield of zero percent, expected life of 8.0 years, and volatility of 60.0%. As of December 31, 2006, the aggregate number of shares covered by outstanding stock option awards held by each non-employee director was as follows:

Name	Stock Option Awards Outstanding at December 31, 2006
Ronald H. Cooper	
Janice I. Obuchowski	79,500
Donald B. Reed	
Bernard W. Reznicek	39,533
Frank V. Sica	25,500
Donald V. Smith	24,000
James A. Unruh	

(4) Mr. Cooper was elected to the Company s Board of Directors in November 2006.

COMPENSATION DISCUSSION AND ANALYSIS

Overview of Business

The Company is a leading provider of outsourced billing, customer care and print and mail solutions and services supporting the North American cable and direct broadcast satellite markets. Our solutions support some of the world s largest and most innovative providers of bundled multi-channel video, Internet, voice and IP-based services.

We are headquartered in Englewood, Colorado, with major operations in Omaha, Nebraska, and near Tallahassee, Florida. The Company has approximately 1,700 employees at all locations.

The compensation-related decisions of our Compensation Committee have been affected by a number of major changes in the Company s business during the past several years, as well as the challenge of

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transitioning from leadership by our founder and prior Chief Executive Officer to leadership and management by a newer executive management team. The Company is now focused on investing in significant research and development projects, developing new partner relationships and identifying acquisition candidates with significant synergistic potential.

Board and Compensation Committee Philosophy

The purpose of the Compensation Committee is to assist the Board in the discharge of its responsibilities relating to compensation of the Company s executive officers. Members of the Compensation Committee are appointed by the Board and consist entirely of independent directors in compliance with Nasdaq listing standards.

The Compensation Committee reviews and approves, or recommends for approval by the Board, the compensation of our Chief Executive Officer and the Company s other executive officers, including salary, bonus and incentive compensation levels; executive perquisites; equity compensation (including awards to induce employment); severance arrangements; change-in-control benefits, and other forms of executive officer compensation.

Our overall philosophy of executive compensation is predicated on four primary principles:

- Aligning compensation with stockholder return;
- Aligning compensation with personal performance;
- Attracting and retaining qualified personnel; and
- Making our compensation practices transparent and understandable to our stockholders.

Each component of our executive compensation program is designed consistent with this philosophy: annual base salary, annual cash performance bonuses that are closely tied to the achievement of predetermined financial and personal objectives and a long-term component comprised of restricted stock awards. Each component of the compensation program and the objectives underlying each component are discussed below.

Role of the Independent Compensation Consultant

The Compensation Committee retains an independent compensation consultant, Pearl Meyer & Partners, or Pearl Meyer, to assist it in developing and implementing our executive compensation program. The Compensation Committee is responsible for selecting the consultant, negotiating the fees that are paid and determining the scope of the engagement. As part of its overall compensation analysis and recommendations, Pearl Meyer examines a peer group of companies that (1) may compete with the Company for executive and other managerial talent or (2) share important characteristics with the Company (*e.g.,* technology companies with similar talent needs, similar revenue or similar market capitalization). Pearl Meyer currently advises the Compensation Committee only on compensation matters associated with our named executive officers, or NEOs, and not on matters associated with the compensation of other members of management or the Company s workforce generally, although they have consulted on compensation for a broader management group in the past. Pearl Meyer provides no other services to the Company or to the Board. The Compensation Committee has instructed Pearl Meyer to take a holistic view of the competitive compensation landscape to assist the Compensation Committee in structuring a program that balances the need for short-term compensation with the benefits of a long-term incentive program. By taking this broader view of compensation, the Board has been able to attract and retain a highly talented executive team.

Pearl Meyer reviews compensation data available from public sources, third parties and its own proprietary compensation-related database. For 2007, the peer group of companies used for comparison purposes includes the following: BISYS Group, Inc.; Checkfree Corp.; Fair Isaac Corp.; Gevity HR, Inc.; Intuit, Inc.; Lightbridge, Inc.; S1 Corp.; Startek, Inc.; Talx Corp.; TNS, Inc.; Total System Services, Inc.; and Transaction Systems Architects, Inc.

In 2006 Pearl Meyer performed the following services as requested by the Compensation Committee:

- A competitive analysis of compensation for each NEO utilizing peer group compensation and industry appropriate broad survey data.

- A dilution analysis of overall Company equity grants for employee compensation compared to overall equity grants for employee compensation by our peer group of companies.

- Trends and recommendations with respect to vesting provisions for performance-based restricted stock.

- Trends with respect to ownership guidelines for NEOs and boards of directors.

Although the Compensation Committee selects the independent compensation consultant and determines the scope of that firm s engagement, management assists the consultant with its analysis and recommendations. For example, the consultant obtains from management historical pay data of the NEOs, management s perspectives on the competitive environment in which the Company operates and management s opinions as to which companies (or types of companies) are most likely to attempt to recruit talent from the managerial ranks of the Company. While the Compensation Committee is primarily responsible for developing and recommending to the Board the compensation program for the NEOs, our Chief Executive Officer provides performance evaluations and makes recommendations for compensation of the other NEOs.

Executive Compensation Process

Our executive compensation review process typically starts in the fourth quarter of each calendar year. During this time, in coordination with Pearl Meyer, the Compensation Committee begins evaluating the competitive landscape, compensation trends, governance best practices and regulatory requirements. Included in the analyses are each NEO s current progress toward achieving annual corporate financial objectives (and consequently, anticipated annual bonuses) and the retention power provided by the long-term, restricted stock component of the overall compensation program; the individual performance of each NEO; each NEO s contribution to the Company s major objectives, and an examination of the companies comprising the peer group.

The preliminary results of this analysis are then formally reviewed by the Compensation Committee at its regularly scheduled meeting held in the fourth quarter. After evaluating this analysis, management and Pearl Meyer are instructed to gather additional information and perform further analyses to be presented to the Compensation Committee and the Board during the first quarter of the subsequent year.

At that first quarter meeting, the Compensation Committee receives from management and Pearl Meyer final recommendations relating to equity awards (currently, restricted stock awards), annual base salaries and annual performance bonus targets. At that time, the Compensation Committee determines whether any adjustments to base salary or annual performance bonus targets are appropriate, as well as whether to make any awards of restricted stock. The Compensation Committee has no formal policy mandating that equity awards be granted only within certain timeframes (e.g., immediately following the announcement of quarterly financial results). The Compensation Committee believes that, in light of the considered and deliberate nature of its equity award process, which is generally conducted over the same time period each year, such a requirement is not necessary.

The Compensation Committee has adopted procedures permitting the delegation of limited authority to the Chief Executive Officer to grant restricted stock awards to non-executive members of management. At each regularly scheduled meeting of the Compensation Committee, the committee adopts a resolution authorizing the Chief Executive Officer to grant to non-executive management employees of the Company restricted stock awards. The Chief Executive Officer is only authorized to grant restricted stock, is not permitted to grant more than 25,000 shares to any one employee, and is not permitted to grant more than a total of 50,000 shares from each authorization. At each meeting, the names of those persons granted shares pursuant to this authority are reported to the Compensation Committee after which it reauthorizes the delegation of authority to the Chief Executive Officer in accordance with these restrictions. The Compensation Committee has authorized this limited delegation of authority for many years and has found this process to be an efficient means of granting smaller awards under a variety of circumstances including new hire and promotion awards to non-executive management of the Company.

Core Components of Executive Compensation

The current three core components of our executive compensation program are annual base salaries, annual performance bonuses and equity awards in the form of restricted stock. Each of these components is discussed below

Annual Base Salary

In consultation with Pearl Meyer, the Compensation Committee establishes and makes adjustments to annual base salary amounts for each NEO with the objective of providing competitive levels of base salary. Decisions regarding base salary amounts take into consideration a variety of factors including compensation programs established by the peer group of companies, performance of each individual executive, experience, and proprietary market data and analyses provided by Pearl Meyer. In keeping with the philosophy of rewarding for performance, annual base salaries constitute a comparatively smaller percentage of each NEO s overall targeted compensation.

In 2006, the base salary amounts for the NEOs were increased as follows: Mr. Nafus 9.1%, Mr. Wiese 21.1%, Mr. Kalan 13.3%, Mr. Scott 18.2% and Mr. Ruble 3.5%.

Annual Performance Bonus

The annual performance bonus is a short-term compensation component that is paid in cash only upon the achievement of predetermined annual corporate financial and individual performance objectives. The targeted amount of annual performance bonus that may be earned by each NEO ranges from 50% to 100% of the NEO s annual base salary. The target percentage is determined based upon the peer group analysis and the NEO s level of experience, duties, and responsibilities. The maximum payout permitted under the annual performance bonus plan is 200% of the NEO s target bonus amount. The annual performance bonus is typically paid during the first quarter after the year in which it was earned.

The Compensation Committee weights the amount of cash compensation that can be earned by an executive between annual base salary and annual performance bonus based upon an executive s level of experience, duties, and responsibilities. The weighting for Mr. Nafus is 50% of his total target cash compensation in the form of annual base salary and 50% in the form of an annual performance bonus opportunity dependent upon achieving certain personal and Company financial objectives. Thus, Mr. Nafus annual performance bonus target is 100% of his annual base salary.

The annual performance bonus is paid in cash only upon the achievement of predetermined targets for annual corporate financial and individual performance objectives described below:

- *Annual Corporate Financial Objectives.* Historically, the two most often used financial objectives for determining annual performance bonus payouts have been total revenues and either operating income or net income as the operational measures of financial performance. The use and weight of

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particular factors have varied from year to year depending upon the business objectives of the Company for a particular year. At the beginning of each year management presents that year s comprehensive financial plan to the Board for approval. Only then does the Board approve the financial targets for the year which determine potential performance bonus payouts. The Board establishes targets that it believes are achievable only upon excellent execution of the current year s business plan.

- *Individual Performance Objectives.* Individual performance objectives for the NEOs vary according to the individual s role and responsibility within the Company. Different NEOs may have more specific performance objectives contained in his or her individual plan, such as completion of a specific task or program, expense management or quality, but generally each of those particular objectives can be linked to a means of performing under one of the Company s core values which can be summarized as follows:

Customer Focus	Integrity
Innovation	Open Communication
Performance	Respect for Customers, Employees and Partners

For 2006, the Board designated operating income and revenue as the corporate financial performance objectives under the annual performance bonus plan. This decision to use operating income instead of net income as the operational measure of financial performance was made in light of the Company s large cash reserves and the announcement of a $350 million stock buyback program in August 2006 which, depending upon the pace of the buyback, could have a disproportionate effect on net income that may not be reflective of 2006 financial operating results.

The payout related to the achievement of the annual corporate financial objectives can range from 0% to 200%. An individual NEO may achieve between 0% and 200% of his or her individual performance objectives in any particular year. In no event, however, may an NEO earn more than a total of 200% of his or her annual performance bonus target for a year, regardless of Company or individual performance.

For 2002 through 2006, the annual performance bonus payout percentages based on the Company s achievement of predetermined financial objectives were as follows:

YEAR	PERCENTAGE OF TARGET PAYOUT
2002	70%
2003(1)	73%
2004(2)	Broadband Services Division: 100% Global Software Services Division: 65%
2005	118%
2006(3)	106%

(1) For 2003, neither the then-current Chief Executive Officer nor the then-current President of the Company received any payout under the annual performance bonus plan.

(2) Since the financial results of the Company s two operating divisions differed significantly for 2004, annual performance bonus plan payout amounts were adjusted to reflect that disparity for those members of management employed by the different divisions.

(3) This percentage reflects the overall bonus percentage payout approved by the Board and the bonus payout achieved in accordance with the predetermined targets established for the annual performance bonus plan. Each of Messrs. Nafus, Kalan, Ruble and Wiese, however, achieved only 95% of their individual performance objectives for the year, resulting in a bonus amount equal to 101% of each

individual s target. Mr. Scott exceeded his individual performance objectives for the year and was awarded a bonus amount equal to 133.7% of his target.

The threshold, target and maximum amount of estimated possible payouts for 2006 annual performance bonuses for each of the NEOs is reported in the Grants of Plan-Based Awards table. The annual performance bonus amounts earned for 2006 are reported in the Summary Compensation Table as Non-Equity Incentive Plan Compensation. The 2006 annual performance bonuses were paid on March 13, 2007.

For 2007, the Company modified the annual performance bonus program and has designed the program for NEOs to comply with the requirements for qualifying performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended, the Code. For additional information, see the Section 162(m) Performance-Based Compensation discussion below and Proposal 2, Approval of Performance Bonus Program.

Equity Awards

Restricted stock is currently the only long-term compensation component of our executive compensation program. Beginning in 2003, for a variety of market and competitive reasons, the Compensation Committee started limiting the use of stock options as long-term incentive compensation and instead began making grants of restricted stock awards. The Compensation Committee believes that the use of restricted stock awards brings a greater degree of predictability and stability to the long-term incentive component of our management compensation program.

The Compensation Committee determines the number of shares of restricted stock to be granted to the NEOs after consultation with Pearl Meyer. The objective is to align NEO compensation with long-term stockholder return and create a compensation program that motivates management to focus less on immediate results and economic rewards and more on creating sustainable, long-term enterprise value for the Company s stockholders. In addition, in determining the number of shares for restricted stock awards, the Compensation Committee considers (among other factors such as market and competitive data) dilution and potential dilution. The Compensation Committee considers the percentage of the total outstanding shares of the Company, determined on a fully diluted basis, represented by shares of restricted stock and the few remaining outstanding stock options held both by executive officers and by all employees of the Company as a whole. A subcomponent of that dilution, or overhang , is represented by shares of restricted stock held by executive management. As of December 31, 2006, Mr. Kalan was the only NEO with an outstanding stock option; at that date, he had exercisable stock options to purchase 22,450 shares.

In past years, each award of restricted stock has typically vested in equal increments over a four-year period commencing on the first anniversary of the grant date. The Compensation Committee believes that a four-year vesting period motivates management to adopt a longer term perspective on Company performance while simultaneously developing a strong retention incentive for our NEOs over the long term.

During 2006, the Company granted restricted stock awards to the NEOs with respect to the following numbers of shares: Mr. Nafus 70,000 shares, Mr. Wiese 30,000 shares, Mr. Kalan 25,000 shares, Mr. Scott 40,000 shares and Mr. Ruble 22,500 shares.

Starting in 2007, the Compensation Committee commenced a program whereby 50% of each NEO s annual restricted stock award is subject to performance-based vesting (*i.e.,* the shares will vest over a three-year period and only upon the achievement of specified performance goals), with the remainder of the annual restricted stock award subject to time-based vesting over a four-year period. The Committee decided to modify the annual restricted stock award to add a performance-based vesting portion because the Committee believes this further aligns management s compensation with long-term stockholder returns. The Company is seeking stockholder approval of performance goals for performance-based awards under the 2005 Stock Incentive Plan. The Company intends that performance-based restricted stock awards for NEOs be designed to comply with the requirements for qualifying performance-based compensation under Section 162(m). For additional information, see the Section 162(m) Performance-Based Compensation discussion below and Proposal 3, Approval of Performance Goals for Performance-Based Awards Under the 2005 Stock Incentive Plan.

Section 162(m) Performance-Based Compensation

Section 162(m) of the Code imposes an annual $1 million limit on the amount that a public company may deduct for compensation paid to the Company s Chief Executive Officer or any of the Company s four most highly compensated executive officers who are employed as of the end of the year. This limitation does not apply to compensation that meets the requirements under Section 162(m) for qualifying performance-based compensation (*i.e.,* compensation paid only upon the attainment of pre-established objective goals based on performance criteria approved by stockholders). The Company has included two proposals in this Proxy Statement seeking stockholder approval to qualify as performance-based compensation for purposes of Section 162(m) compensation payable under the Performance Bonus Program and performance-based awards under the 2005 Stock Incentive Plan. For additional information, see Proposal 2, Approval of Performance Bonus Program and Proposal 3, Approval of Performance Goals for Performance-Based Awards Under the 2005 Stock Incentive Plan.

Other Compensation

The Compensation Committee does not believe that perquisites and other compensation and benefits should play a major role in the overall executive compensation program. Our NEOs are offered the opportunity to defer a portion of their annual base salary and annual performance bonus through a 401(k) plan that is generally available Company-wide and through a more restricted (*i.e.,* participation is limited to vice presidents and above) non-qualified deferred compensation program, both of which include Company matching contributions. The Compensation Committee views these deferral programs more as an individual retirement planning option for the NEO and not as a long-term compensation program. The amount of Company matching contributions for each NEO is reported in a footnote to the Summary Compensation Table.

In 2004, Mr. Scott was promoted to Executive Vice President of the Company and subsequently was promoted to Executive Vice President and Chief Operating Officer. As a condition of that promotion, Mr. Scott is required to spend a significant amount of his time at the Company s headquarters in suburban Denver, Colorado, rather than in Omaha, Nebraska, where the majority of the Company s operations are located and where Mr. Scott and his family had resided for many years. As a result of these requirements, Mr. Scott acquired a residence near the Company s corporate headquarters, while relocating his residence in the Omaha area. Mr. Scott is currently maintaining a residence in each of the two cities. During 2006 the Company reimbursed Mr. Scott for many of the expenses associated with such relocation, as well as the incremental costs incurred by Mr. Scott as a result of maintaining two residences. Those reasonable incremental expenses incurred by Mr. Scott relating to this situation that were not considered reimbursable business expenses or deductible by Mr. Scott on his personal income tax return were considered to be compensation for Mr. Scott. The Company also reimbursed Mr. Scott for the tax gross-up on such amounts, which also is considered to be compensation for Mr. Scott. The amounts of these expenses are reported in a footnote to the Summary Compensation Table. Although reimbursing these incremental expenses is significantly less costly to the Company than the expected hotel and associated expenses that would otherwise be incurred, the Compensation Committee has determined that the expenses are nonetheless deemed to be perquisites as that term is defined under applicable rules. Consequently, beginning in 2007, the Company discontinued reimbursing Mr. Scott for any incremental expense he incurs as a result of his second residence, unless such expense is determined to be a reimbursable business expense under the applicable rules.

Factors Affecting a Material Change in Compensation

Under the Company s executive compensation program there are two factors that may affect a material change in executive officer compensation: the Company s achievement of strategic financial objectives and the executive s assumption of materially different duties. If the Company were to significantly modify its current financial objectives, it would have a material impact (either positively or negatively) on the compensation of our executive officers. Any such material change would be evaluated as part of the annual executive compensation review process for determining annual base salary, performance goals and targets for the annual performance bonus plan and performance goals for performance-based restricted stock awards. Furthermore, a material deviation from anticipated financial results would most likely have a corresponding direct impact upon the value of the executive s restricted stock.

Also, in exceptional and infrequent circumstances, the Board may approve the payment of discretionary cash bonuses to all or some of the NEOs to reward the executive for achievement of unusual or outstanding goals or results.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table contains information concerning the compensation earned by the Company s Chief Executive Officer, Chief Financial Officers, and three other most highly compensated executive officers for 2006. All dollar values have been rounded to the nearest whole dollar.

Name and Principal Position(1)	Year	Salary(3)	Bonus	Stock Awards(4)	Non-Equity Incentive Plan Compensation (5)	All Other Compensation (6)	Total
Edward C. Nafus President and Chief Executive Officer	2006	$ 600,000	$	$ 1,896,874	$ 604,200	$ 42,681	$ 3,143,755
Randy R. Wiese Executive Vice President and Chief Financial Officer(2)	2006						