



INTERNATIONAL

August 3, 2016

CSG Systems International Reports Results for Second Quarter 2016

ENGLEWOOD, Colo.--(BUSINESS WIRE)-- CSG Systems International, Inc. (Nasdaq: CSGS), the trusted global partner to launch and monetize digital services, today reported results for the quarter ended June 30, 2016.

Key Highlights:

- ┆ Second quarter 2016 financial results:
 - ┆ Total revenues were **\$190.3 million**.
 - ┆ GAAP operating income was **\$29.4 million**, or **15.4%** of total revenues and non-GAAP operating income was **\$42.4 million**, or **22.3%** of total revenues.
 - ┆ GAAP earnings per diluted share (EPS) was **\$0.33**. Non-GAAP EPS was **\$0.70**.
 - ┆ Cash flows from operations were **\$40.1 million**.
- ┆ CSG declared its quarterly cash dividend of **\$0.185** per share of common stock, or a total of approximately **\$6 million**, to shareholders.
- ┆ During the second quarter, CSG converted over **600,000** customer accounts onto its cloud-based Advanced Convergent Platform (ACP).

"We continue to deliver very solid, steady results in a time when there is a lot of change going on in the communications industry," said Bret Griess, president and chief executive officer for CSG International. "We grew revenues four percent and non-GAAP earnings per share fifteen percent over last year's second quarter results. This success can be attributed to our continued market share gains in the Broadband, Cable and Satellite business, our continued focus on driving profitable revenue growth and our solid business model."

Financial Overview (unaudited)

(in thousands, except per share amounts and percentages):

	<u>Quarters Ended June 30,</u>			<u>Six Months Ended June 30,</u>		
	<u>2016</u>	<u>2015</u>	<u>Percent Changed</u>	<u>2016</u>	<u>2015</u>	<u>Percent Changed</u>
Revenues	\$190,252	\$182,641	4%	\$ 376,478	\$ 368,272	2%
GAAP Results:						
Operating Income	\$ 29,374	\$ 26,156	12%	\$ 70,665	\$ 48,049	47%
Operating Income Margin	15.4%	14.3%	—	18.8%	13.0%	—
EPS	\$ 0.33	\$ 0.39	(15%)	\$ 0.97	\$ 0.67	45%
Non-GAAP Results:						
Operating Income	\$ 42,375	\$ 34,922	21%	\$ 86,647	\$ 65,728	32%
Operating Income Margin	22.3%	19.1%	—	23.0%	17.8%	—
EPS	\$ 0.70	\$ 0.61	15%	\$ 1.47	\$ 1.13	30%

For additional information and reconciliations regarding CSG's use of non-GAAP financial measures, please refer to the attached Exhibit 2 and the Investor Relations section of CSG's website at www.csqi.com.

Results of Operations

Revenues: Total revenues for the second quarter of 2016 were \$190.3 million, a 4% increase when compared to revenues of \$182.6 million for the second quarter of 2015, and a 2% increase when compared to revenues of \$186.2 million for the first quarter of 2016. The year-over-year increase is attributed to the growth in CSG's cloud and related solutions revenues,

resulting primarily from the conversion of new customer accounts onto ACP over the past year, while the sequential quarterly increase is primarily due to the normal fluctuations in project level work completed between quarters and the timing of maintenance renewals.

GAAP Results: GAAP operating income for the second quarter of 2016 was \$29.4 million, or 15.4% of total revenues, compared to \$26.2 million, or 14.3%, for the second quarter of 2015, and \$41.3 million, or 22.2% of total revenues, for the first quarter of 2016. GAAP EPS for the second quarter of 2016 was \$0.33, as compared to \$0.39 for the second quarter of 2015, and \$0.64 for the first quarter of 2016.

The year-over-year improvement in GAAP operating margin is mainly attributed to the higher revenues and operational cost improvements, which more than offset the negative impact of the restructuring and reorganization charges incurred this quarter. However, year-over-year GAAP EPS declined which can be primarily attributed to the negative impact of the loss on the repurchase of the 2010 Convertible Notes in the second quarter of 2016.

The sequential quarterly decreases in GAAP operating margin and GAAP EPS can be primarily attributed to restructuring and reorganization charges.

Non-GAAP Results: Non-GAAP operating income for the second quarter of 2016 was \$42.4 million, or 22.3% of total revenues, compared to \$34.9 million, or 19.1%, for the second quarter of 2015, and \$44.3 million, or 23.8% of total revenues for the first quarter of 2016. Non-GAAP EPS for the second quarter of 2016 was \$0.70, compared to \$0.61 for the second quarter of 2015, and \$0.77 for the first quarter of 2016. Year-over-year improvements in both non-GAAP operating margin and non-GAAP EPS can be mainly attributed to higher revenues and operational cost improvements.

Balance Sheet and Cash Flows

Cash, cash equivalents and short-term investments at June 30, 2016 were \$286.7 million, compared to \$385.2 million at March 31, 2016 and \$240.9 million at December 31, 2015. The quarterly decrease is mainly due to the repurchase of \$66 million aggregate principal amount of the \$150 million of 2010 Convertible Notes for approximately \$126 million in April, leaving \$44 million aggregate principal amount of the 2010 Convertible Notes outstanding as of June 30, 2016.

CSG generated net cash flows from operations for the quarter and six months ended June 30, 2016 of \$40.1 million and \$50.8 million, respectively, and non-GAAP free cash flow of \$36.5 million and \$41.9, respectively.

2016 Financial Guidance

CSG is adjusting its financial guidance for the full year 2016 as follows:

	<u>As of August 3, 2016</u>	<u>Previous</u>
Revenues	\$745 - \$760 million	\$735 - \$760 million
GAAP EPS	\$1.76 - \$1.86	\$1.74 - \$1.84
Non-GAAP EPS	No change	\$2.59 - \$2.69
GAAP Net Income	\$58 - \$62 million	\$57 - \$61 million
Non-GAAP Adjusted EBITDA	\$184 - \$188 million	\$177 - \$182 million
Cash Flows From Operating Activities	No change	\$110 - \$130 million

For additional information and reconciliations regarding CSG's use of non-GAAP financial measures, please refer to the attached Exhibit 2 and the Investor Relations section of CSG's website at www.csqi.com.

Conference Call

CSG will host a conference call on Wednesday, August 3, 2016, at 5:00 p.m. ET, to discuss CSG's second quarter results for 2016. The call will be carried live and archived on the Internet. A link to the conference call is available at <http://ir.csqi.com>. In addition, to reach the conference by phone, dial 1-800-533-7619 and ask the operator for the CSG International conference call and Liz Bauer, chairperson.

Additional Information

For information about CSG, please visit CSG's web site at www.csqi.com. Additional information can be found in the Investor Relations section of the web site.

About CSG International

[CSG International](#) (NASDAQ: CSGS) is the trusted global partner to help clients launch and monetize communications and entertainment services in the digital age. Leveraging 30 years of experience and expertise in voice, video, data and content services, CSG delivers market-leading revenue management and customer interaction solutions in licensed and managed service models. The company drives business transformation initiatives for the majority of the top 100 global communications service providers, including AT&T, Charter Communications, Comcast, DISH, ESPN, Media-Saturn, Orange, Reliance, SingTel Optus, Telefonica, Vodafone, Vivo and Verizon. For more information, visit our website at www.csgi.com.

Forward-Looking Statements

This news release contains forward-looking statements as defined under the Securities Act of 1933, as amended, that are based on assumptions about a number of important factors and involve risks and uncertainties that could cause actual results to differ materially from what appears in this news release. Some of these key factors include, but are not limited to the following items:

- CSG derives approximately sixty percent of its revenues from its three largest clients;
- Continued market acceptance of CSG's products and services;
- Timing and success of previously announced client customer account migrations to CSG's billing platform;
- CSG's ability to continuously develop and enhance products in a timely, cost-effective, technically-advanced and competitive manner;
- CSG's ability to deliver its solutions in a timely fashion within budget, particularly large and complex software implementations;
- CSG's dependency on the global telecommunications industry, and in particular, the North American telecommunications industry;
- CSG's ability to meet its financial expectations as a result of increased dependency on software sales, which are subject to greater volatility;
- Increasing competition in CSG's market from companies of greater size and with broader presence in the communications sector;
- CSG's ability to successfully integrate and manage acquired businesses or assets to achieve expected strategic, operating and financial goals;
- CSG's ability to protect its intellectual property rights;
- CSG's ability to maintain a reliable, secure computing environment;
- CSG's ability to conduct business in the international marketplace;
- CSG's ability to comply with applicable U.S. and International laws and regulations; and
- Fluctuations in credit market conditions, general global economic and political conditions, and foreign currency exchange rates.

This list is not exhaustive and readers are encouraged to review the additional risks and important factors described in CSG's reports on Forms 10-K and 10-Q and other filings made with the SEC.

CSG SYSTEMS INTERNATIONAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS-UNAUDITED
(in thousands, except per share amounts)

June 30, December 31,
2016 2015

ASSETS

Current assets:		
Cash and cash equivalents	\$ 135,117	\$ 132,631
Short-term investments	151,615	108,305
Total cash, cash equivalents and short-term investments	286,732	240,936
Trade accounts receivable:		
Billed, net of allowance of \$3,726 and \$3,600	178,914	178,854
Unbilled	34,518	41,110
Income taxes receivable	6,006	4,038
Other current assets	32,826	35,153
Total current assets	538,996	500,091
Non-current assets:		
Property and equipment, net of depreciation of \$118,446 and \$112,282	32,748	35,992
Software, net of amortization of \$99,031 and \$95,094	31,805	35,095
Goodwill	209,662	219,724
Client contracts, net of amortization of \$91,447 and \$87,890	37,580	39,738
Deferred income taxes	12,025	17,462
Other assets	13,912	14,629
Total non-current assets	337,732	362,640
Total assets	\$ 876,728	\$ 862,731

LIABILITIES, CURRENT PORTION OF LONG-TERM DEBT CONVERSION OBLIGATION**AND
STOCKHOLDERS' EQUITY**

Current liabilities:		
Current portion of long-term debt, net of unamortized discounts of \$1,469 and \$8,632	\$ 53,603	\$ 148,868
Client deposits	32,991	33,694
Trade accounts payable	26,660	43,392
Accrued employee compensation	57,909	59,607
Deferred revenue	51,616	41,907
Income taxes payable	260	8,962
Other current liabilities	20,934	22,980
Total current liabilities	243,973	359,410
Non-current liabilities:		
Long-term debt, net of unamortized discounts of \$25,322 and \$4,738	332,178	130,262
Deferred revenue	7,940	9,828
Income taxes payable	4,271	4,413
Deferred income taxes	50	182
Other non-current liabilities	13,143	12,791
Total non-current liabilities	357,582	157,476
Total liabilities	601,555	516,886
Current portion of long-term debt conversion obligation	33,894	-
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; 32,438 and 32,555 shares outstanding	673	672
Common stock warrants; 2,851 and 2,851 warrants issued and outstanding	7,310	7,310
Additional paid-in capital	396,133	503,254
Treasury stock, at cost, 34,865 and 34,601 shares	(823,963)	(814,437)
Accumulated other comprehensive income (loss):		
Unrealized gain (loss) on short-term investments, net of tax	560	(97)
Cumulative foreign currency translation adjustments	(35,328)	(26,288)
Accumulated earnings	695,894	675,431
Total stockholders' equity	241,279	345,845
Total liabilities, current portion of long-term debt conversion obligation and stockholders' equity	\$ 876,728	\$ 862,731

CSG SYSTEMS INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME-UNAUDITED
(in thousands, except per share amounts)

	<u>Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u>	<u>June 30,</u>	<u>June 30,</u>	<u>June 30,</u>
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:				
Cloud and related solutions	\$149,992	\$141,289	\$299,806	\$285,122
Software and services	21,152	22,437	40,330	45,070
Maintenance	19,108	18,915	36,342	38,080
Total revenues	<u>190,252</u>	<u>182,641</u>	<u>376,478</u>	<u>368,272</u>
Cost of revenues (exclusive of depreciation, shown separately below):				
Cloud and related solutions	70,195	64,767	136,428	134,027
Software and services	11,461	16,559	24,827	37,668
Maintenance	11,127	10,470	21,011	20,367
Total cost of revenues	<u>92,783</u>	<u>91,796</u>	<u>182,266</u>	<u>192,062</u>
Other operating expenses:				
Research and development	24,281	25,897	47,907	51,626
Selling, general and administrative	34,980	34,572	69,031	68,014
Depreciation	3,509	3,850	7,025	7,545
Restructuring and reorganization charges	5,325	370	(416)	976
Total operating expenses	<u>160,878</u>	<u>156,485</u>	<u>305,813</u>	<u>320,223</u>
Operating income	<u>29,374</u>	<u>26,156</u>	<u>70,665</u>	<u>48,049</u>
Other income (expense):				
Interest expense	(4,473)	(2,537)	(7,478)	(5,905)
Amortization of original issue discount	(1,136)	(1,547)	(2,794)	(3,063)
Interest and investment income, net	523	229	991	396
Loss on repurchase of convertible notes	(5,108)	-	(8,319)	-
Other, net	(1,895)	145	(2,686)	(320)
Total other	<u>(12,089)</u>	<u>(3,710)</u>	<u>(20,286)</u>	<u>(8,892)</u>
Income before income taxes	17,285	22,446	50,379	39,157
Income tax provision	(6,448)	(9,652)	(18,038)	(17,005)
Net income	<u>\$ 10,837</u>	<u>\$ 12,794</u>	<u>\$ 32,341</u>	<u>\$ 22,152</u>
Weighted-average shares outstanding:				
Basic	30,942	30,798	30,852	31,170
Diluted	32,811	33,095	33,241	33,217
Earnings per common share:				
Basic	\$ 0.35	\$ 0.42	\$ 1.05	\$ 0.71
Diluted	0.33	0.39	0.97	0.67
Cash dividends declared per common share	\$ 0.19	\$ 0.18	\$ 0.37	\$ 0.35

CSG SYSTEMS INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS-UNAUDITED
(in thousands)

	<u>Six Months Ended</u>	
	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Cash flows from operating activities:		
Net income	\$ 32,341	\$ 22,152
Adjustments to reconcile net income to net cash provided by operating activities-		

Depreciation	7,025	7,545
Amortization	13,040	15,175
Amortization of original issue discount	2,794	3,063
Loss on short-term investments and other	3	122
Loss on repurchase of convertible notes	8,319	-
Gain on disposition of business operations	(6,611)	-
Deferred income taxes	78	(3,758)
Excess tax benefit of stock-based compensation awards	(3,440)	(1,809)
Stock-based compensation	12,086	10,473
Changes in operating assets and liabilities, net of acquired amounts:		
Trade accounts receivable, net	5,705	5,398
Other current and non-current assets	(1,866)	(3,452)
Income taxes payable/receivable	(7,971)	(24)
Trade accounts payable and accrued liabilities	(18,758)	(5,635)
Deferred revenue	8,020	9,262
Net cash provided by operating activities	<u>50,765</u>	<u>58,512</u>
Cash flows from investing activities:		
Purchases of property and equipment	(8,863)	(11,425)
Purchases of short-term investments	(102,110)	(73,917)
Proceeds from sale/maturity of short-term investments	61,833	94,794
Acquisition of and investments in client contracts	(4,461)	(4,526)
Proceeds from the disposition of business operations	8,850	-
Net cash provided by (used in) investing activities	<u>(44,751)</u>	<u>4,926</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock	715	740
Payment of cash dividends	(12,265)	(11,238)
Repurchase of common stock	(19,494)	(62,861)
Payments on acquired asset financing	-	(829)
Proceeds from long-term debt	230,000	150,000
Payments on long-term debt	(3,750)	(123,750)
Repurchase of convertible notes	(198,367)	-
Payments of deferred financing costs	(6,744)	(2,692)
Excess tax benefit of stock-based compensation awards	3,440	1,809
Net cash used in financing activities	<u>(6,465)</u>	<u>(48,821)</u>
Effect of exchange rate fluctuations on cash	<u>2,937</u>	<u>(1,384)</u>
Net increase in cash and cash equivalents	2,486	13,233
Cash and cash equivalents, beginning of period	<u>132,631</u>	<u>81,712</u>
Cash and cash equivalents, end of period	<u>\$ 135,117</u>	<u>\$ 94,945</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for-		
Interest	\$ 4,619	\$ 4,343
Income taxes	25,923	20,761

EXHIBIT 1
CSG SYSTEMS INTERNATIONAL, INC.
SUPPLEMENTAL REVENUE ANALYSIS

Revenues by Geography

<u>Quarter Ended</u> <u>June 30,</u> <u>2016</u>	<u>Quarter Ended</u> <u>March 31,</u> <u>2016</u>	<u>Quarter Ended</u> <u>June 30,</u> <u>2015</u>
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Americas	85%	87%	85%
Europe, Middle East and Africa	9%	8%	10%
Asia Pacific	6%	5%	5%
Total Revenues	<u>100%</u>	<u>100%</u>	<u>100%</u>

Revenues by Significant Customers: 10% or more of Revenues

	Quarter Ended June 30, 2016	Quarter Ended March 31, 2016	Quarter Ended June 30, 2015
Comcast	25%	25%	23%
Charter/Time Warner	22%	21%	21%
DISH	14%	14%	15%

EXHIBIT 2 CSG SYSTEMS INTERNATIONAL, INC. DISCLOSURES FOR NON-GAAP FINANCIAL MEASURES

Use of Non-GAAP Financial Measures and Limitations

To supplement its condensed consolidated financial statements presented in accordance with generally accepted accounting principles (GAAP), CSG uses non-GAAP operating income, non-GAAP EPS, non-GAAP adjusted EBITDA, and non-GAAP free cash flow. CSG believes that these non-GAAP financial measures, when reviewed in conjunction with its GAAP financial measures, provide investors with greater transparency to the information used by CSG's management in its financial and operational decision making. CSG uses these non-GAAP financial measures for the following purposes:

- Certain internal financial planning, reporting, and analysis;
- Forecasting and budgeting;
- Certain management compensation incentives; and
- Communications with CSG's Board of Directors, stockholders, financial analysts, and investors.

These non-GAAP financial measures are provided with the intent of providing investors with the following information:

- A more complete understanding of CSG's underlying operational results, trends, and cash generating capabilities;
- Consistency and comparability with CSG's historical financial results; and
- Comparability to similar companies, many of which present similar non-GAAP financial measures to investors.

Non-GAAP financial measures are not measures of performance under GAAP, and therefore should not be considered in isolation or as a substitute for GAAP financial information. Limitations with the use of non-GAAP financial measures include the following items:

- Non-GAAP financial measures are not based on any comprehensive set of accounting rules or principles;
- The way in which CSG calculates non-GAAP financial measures may differ from the way in which other companies calculate similar non-GAAP financial measures;
- Non-GAAP financial measures do not include all items of income and expense that affect CSG's operations and that are required by GAAP to be included in financial statements;
- Certain adjustments to CSG's non-GAAP financial measures result in the exclusion of items that are recurring and will be reflected in CSG's financial statements in future periods; and
- Certain charges excluded from CSG's non-GAAP financial measures are cash expenses, and therefore do impact CSG's

cash position.

CSG compensates for these limitations by relying primarily on its GAAP results and using non-GAAP financial measures as a supplement only. Additionally, CSG provides specific information regarding the treatment of GAAP amounts considered in preparing the non-GAAP financial measures and reconciles each non-GAAP financial measure to the most directly comparable GAAP measure.

Non-GAAP Financial Measures: Basis of Presentation

The table below outlines the exclusions from CSG's non-GAAP financial measures:

Non-GAAP Exclusions	Operating Income	EPS
Restructuring and reorganization charges	X	X
Acquisition-related charges	X	X
Stock-based compensation	X	X
Amortization of acquired intangible assets	X	X
Amortization of original issue discount ("OID")	—	X
Gain (loss) on repurchase of convertible notes	—	X
Unusual income tax matters	—	X

CSG believes that excluding certain items in calculating its non-GAAP financial measures provides meaningful supplemental information regarding CSG's performance and these items are excluded for the following reasons:

- Restructuring and reorganization charges are infrequent expenses that result from cost reduction initiatives and/or significant changes to CSG's business, to include such things as involuntary employee terminations, changes in management structure, divestitures of businesses, facility consolidations and abandonments, and fundamental reorganizations impacting operational focus and direction. These charges are not considered reflective of CSG's recurring core business operating results. The exclusion of these items in calculating CSG's non-GAAP financial measures allows management and investors an additional means to compare CSG's current financial results with historical and future periods.
- Acquisition-related charges relate to direct and incremental expenses related to business acquisitions, and thus, are not considered reflective of CSG's recurring core business operating results. These charges typically include expenses related to legal, accounting, and other professional services. The exclusion of these charges in calculating CSG's non-GAAP financial measures allows management and investors an additional means to compare CSG's current financial results with historical and future periods.
- Stock-based compensation results from CSG's issuance of equity awards to its employees under incentive compensation programs. The amount of this incentive compensation in any period is not generally linked to the level of performance by employees or CSG, but instead is more dependent on CSG's stock price at the date the equity award is granted, and the employee service period over which the equity awards vest. The exclusion of these expenses in calculating CSG's non-GAAP financial measures allows management and investors an additional means to evaluate the non-cash expense related to compensation included in CSG's results of operations, and therefore, the exclusion of this item allows investors to further evaluate the cash generating capabilities of CSG's business.
- Amortization of acquired intangible assets is the result of business acquisitions. A portion of the purchase price in an acquisition is allocated to acquired intangible assets (e.g., software, client relationships, etc.), which are then amortized to expense over their estimated useful lives. This annual amortization expense is generally unchanged from the initial estimates, regardless of performance of the acquired business in any one period. Also, the value assigned to acquired intangible assets in a business combination is based on various estimates and valuation techniques, and does not necessarily represent the costs CSG would incur to develop such capabilities internally. Additionally, amortization of acquired intangible assets can be inconsistent in amount and frequency, and can be significantly affected by the timing and size of an acquisition. The exclusion of these expenses in calculating CSG's non-GAAP financial measures allows management and investors an additional means to evaluate the non-cash expense related to acquisitions included in CSG's results of operations, and therefore, the exclusion of this item allows investors to further evaluate the cash generating capabilities of CSG's business.
- The convertible notes OID is the result of allocating a portion of the principal balance of the debt at issuance to the equity component of the instrument, as required under current accounting rules. This OID is then amortized to interest expense over the life of the respective convertible debt instrument. The interest expense related to the amortization of the OID is a

non-cash expense, and therefore, the exclusion of this item allows investors to further evaluate the cash interest costs of CSG's convertible notes for cash flow, liquidity, and debt service purposes.

- Gains and losses related to the repurchase of CSG's convertible notes are not considered reflective of CSG's recurring core business operating results. Any resulting gain or loss on the repurchase of CSG's convertible notes is non-cash income or expense, and therefore, the exclusion of this item allows investors to further evaluate the cash impact of these repurchases for cash flow and liquidity purposes. In addition, the exclusion of these gains and losses in calculating CSG's non-GAAP EPS allows management and investors an additional means to compare CSG's current operating results with historical and future periods.
- Unusual items within CSG's quarterly and/or annual income tax expense can occur from such things as income tax accounting timing matters, income taxes related to unusual events, or as a result of different treatment of certain items for book accounting and income tax purposes. Consideration of such items in calculating CSG's non-GAAP financial measures allows management and investors an additional means to compare CSG's current financial results with historical and future periods.

CSG also reports non-GAAP adjusted EBITDA and non-GAAP free cash flow. Management believes non-GAAP adjusted EBITDA is a useful measure to investors in evaluating CSG's operating performance, debt servicing capabilities, and enterprise valuation. CSG defines non-GAAP adjusted EBITDA as income before interest, income taxes, depreciation, amortization, stock-based compensation, foreign currency transaction adjustments, and unusual items, such as restructuring and reorganization charges, and gains and losses related to the repurchase of CSG's convertible notes, as discussed above. Additionally, management uses non-GAAP free cash flow, among other measures, to assess its financial performance and cash generating capabilities, and believes that it is useful to investors because it shows CSG's cash available to service debt, make strategic acquisitions and investments, repurchase its common stock, pay cash dividends, and fund ongoing operations. CSG defines non-GAAP free cash flow as net cash flows from operating activities less the purchases of property and equipment.

Non-GAAP Financial Measures

Non-GAAP Operating Income:

The reconciliations of GAAP operating income to non-GAAP operating income for the indicated periods are as follows (in thousands, except percentages):

	Quarter Ended June 30, 2016		Quarter Ended June 30, 2015	
	Amounts	% of	Amounts	% of
		Revenues		Revenues
GAAP operating income	\$ 29,374	15.4%	\$ 26,156	14.3%
Restructuring and reorganization charges (1)	5,325	2.8%	370	0.2%
Stock-based compensation (1)	5,461	2.9%	5,384	2.9%
Amortization of acquired intangible assets	2,215	1.2%	3,012	1.7%
Non-GAAP operating income	<u>\$ 42,375</u>	<u>22.3%</u>	<u>\$ 34,922</u>	<u>19.1%</u>

	Six Months Ended June 30, 2016		Six Months Ended June 30, 2015	
	Amounts	% of	Amounts	% of
		Revenues		Revenues
GAAP operating income	\$ 70,665	18.8%	\$ 48,049	13.0%
Restructuring and reorganization charges (1)	(416)	(0.1%)	976	0.3%
Stock-based compensation (1)	11,988	3.2%	10,473	2.8%
Amortization of acquired intangible assets	4,410	1.1%	6,230	1.7%
Non-GAAP operating income	<u>\$ 86,647</u>	<u>23.0%</u>	<u>\$ 65,728</u>	<u>17.8%</u>

(1) Stock-based compensation included in the tables above and following excludes amounts that have been recorded in restructuring and reorganization charges. In addition, restructuring and reorganization charges include the impact of the gain on disposition of business operations for the six months ended June 30, 2016.

Non-GAAP EPS:

The reconciliations of GAAP EPS to non-GAAP EPS for the indicated periods are as follows (in thousands, except per share amounts):

	Quarter Ended June 30, 2016		Quarter Ended June 30, 2015	
	Amounts	EPS (3)	Amounts	EPS (3)
GAAP net income	\$ 10,837	\$ 0.33	\$ 12,794	\$ 0.39
GAAP income tax provision (2)	6,448		9,652	
GAAP income before income taxes	17,285		22,446	
Restructuring and reorganization charges (1)	5,325		370	
Stock-based compensation (1)	5,461		5,384	
Amortization of acquired intangible assets	2,215		3,012	
Loss on repurchase of convertible notes	5,108		-	
Amortization of OID	1,136		1,547	
Non-GAAP income before income taxes	36,530		32,759	
Non-GAAP income tax provision (2)	(13,516)		(12,448)	
Non-GAAP net income	<u>\$ 23,014</u>	<u>\$ 0.70</u>	<u>\$ 20,311</u>	<u>\$ 0.61</u>

	Six Months Ended June 30, 2016		Six Months Ended June 30, 2015	
	Amounts	EPS (3)	Amounts	EPS (3)
GAAP net income	\$ 32,341	\$ 0.97	\$ 22,152	\$ 0.67
GAAP income tax provision (2)	18,038		17,005	
GAAP income before income taxes	50,379		39,157	
Restructuring and reorganization charges (1)	(416)		976	
Stock-based compensation (1)	11,988		10,473	
Amortization of acquired intangible assets	4,410		6,230	
Loss on repurchase of convertible notes	8,319		-	
Amortization of OID	2,794		3,063	
Non-GAAP income before income taxes	77,474		59,899	
Non-GAAP income tax provision (2)	(28,665)		(22,512)	
Non-GAAP net income	<u>\$ 48,809</u>	<u>\$ 1.47</u>	<u>\$ 37,387</u>	<u>\$ 1.13</u>

(2) For the second quarter and six months ended June 30, 2016 the GAAP effective income tax rates were 37% and 36%, respectively, and the non-GAAP effective income tax rates was approximately 37% for both periods.

For the second quarter and six months ended June 30, 2015, the GAAP effective income tax rate was 43% and the non-GAAP effective income tax rate was approximately 38%. The difference between the GAAP and the non-GAAP effective income tax rates relates primarily to the timing of the 2015 R&D tax credit legislation. The anticipated quarterly benefit of the credits was included for non-GAAP purposes, but could not be reflected for GAAP purposes until the legislation was actually passed.

(3) The outstanding diluted shares for the second quarter and six months ended June 30, 2016 were 32.8 million and 33.2 million, respectively, and for the second quarter and six months ended June 30, 2015 were 33.1 million and 33.2 million, respectively.

Non-GAAP Adjusted EBITDA:

CSG's calculation of non-GAAP adjusted EBITDA and the reconciliation of CSG's non-GAAP adjusted EBITDA measure to GAAP net income is provided below for the indicated periods (in thousands, except percentages):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
GAAP net income	\$10,837	\$12,794	\$ 32,341	\$22,152
GAAP income tax provision	6,448	9,652	18,038	17,005

Interest expense (4)	4,473	2,537	7,478	5,905
Amortization of OID	1,136	1,547	2,794	3,063
Loss on repurchase of convertible notes	5,108	-	8,319	-
Interest and investment income and other, net	1,372	(374)	1,695	(76)
GAAP operating income	29,374	26,156	70,665	48,049
Restructuring and reorganization charges (1)	5,325	370	(416)	976
Stock-based compensation (1)	5,461	5,384	11,988	10,473
Amortization of acquired intangible assets (5)	2,215	3,012	4,410	6,230
Amortization of other intangible assets (5)	3,810	3,483	7,535	7,117
Depreciation	3,509	3,850	7,025	7,545
Non-GAAP adjusted EBITDA	<u>\$49,694</u>	<u>\$42,255</u>	<u>\$101,207</u>	<u>\$80,390</u>
Non-GAAP adjusted EBITDA as a percentage of revenues	<u>26%</u>	<u>23%</u>	<u>27%</u>	<u>22%</u>

(4) Interest expense includes amortization of deferred financing costs as provided in Note 5 below.

(5) Amortization on the statement of cash flows is made up of the following items for the indicated periods (in thousands):

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Amortization of acquired intangible assets	\$2,215	\$3,012	\$4,410	\$6,230
Amortization of other intangible assets	3,810	3,483	7,535	7,117
Amortization of deferred financing costs	600	463	1,095	1,828
Total amortization	<u>\$6,625</u>	<u>\$6,958</u>	<u>\$13,040</u>	<u>\$15,175</u>

Non-GAAP Free Cash Flow:

CSG's calculation of non-GAAP free cash flow and the reconciliation of CSG's non-GAAP free cash flow measure to cash flows from operating activities are provided below for the indicated periods (in thousands):

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Cash flows from operating activities	\$40,091	\$39,576	\$50,765	\$58,512
Purchases of property and equipment	(3,601)	(4,730)	(8,863)	(11,425)
Non-GAAP free cash flow	<u>\$36,490</u>	<u>\$34,846</u>	<u>\$41,902</u>	<u>\$47,087</u>

Non-GAAP Financial Measures - 2016 Financial Guidance

Non-GAAP Operating Income Margin:

The reconciliation of GAAP operating income margin to non-GAAP operating income margin, as included in CSG's 2016 full year financial guidance, is as follows:

	2016 Guidance
GAAP operating income margin	16.4%
Restructuring and reorganization charges (6)	0.1%
Stock-based compensation (7)	3.0%
Amortization of acquired intangible assets (8)	1.0%
Non-GAAP operating income ("between approximately 20% and 21%")	<u>20.5%</u>

(6) This represents the pretax impact of restructuring and reorganization charges of an estimated \$1 million on CSG's operating income margin as a percentage of the midpoint of 2016 revenue guidance.

(7) This represents the pretax impact of stock-based compensation expense of an estimated \$23 million on CSG's

operating income margin as a percentage of the midpoint of 2016 revenue guidance.

- (8) This represents the pretax impact of amortization of acquired intangible assets expense of an estimated \$9 million on CSG's operating income margin as a percentage of the midpoint of 2016 revenue guidance.

Non-GAAP EPS:

The reconciliation of GAAP EPS to non-GAAP EPS as included in CSG's 2016 full year financial guidance is as follows (in thousands, except per share amounts):

	2016 Guidance Range			
	Low Range		High Range	
	Amounts	EPS (10)	Amounts	EPS (10)
GAAP net income	\$ 58,100	\$ 1.76	\$ 61,500	\$ 1.86
GAAP income tax provision (9)	32,000		34,000	
GAAP income before income taxes	90,100		95,500	
Restructuring and reorganization charges	1,000		1,000	
Stock-based compensation	23,000		23,000	
Amortization of acquired intangible assets	9,000		9,000	
Loss on repurchase of convertible notes	8,000		8,000	
Amortization of OID	5,000		5,000	
Non-GAAP income before income taxes	136,100		141,500	
Non-GAAP income tax provision (9)	(50,300)		(52,300)	
Non-GAAP net income	<u>\$ 85,800</u>	<u>\$ 2.59</u>	<u>\$ 89,200</u>	<u>\$ 2.69</u>

- (9) For 2016, the estimated effective income tax rate for GAAP and non-GAAP purposes are expected to be approximately 36% and 37%, respectively.

- (10) The weighted-average diluted shares outstanding are expected to be 33.1 million.

Non-GAAP Adjusted EBITDA:

CSG's calculation of non-GAAP adjusted EBITDA and the reconciliation of CSG's non-GAAP adjusted EBITDA measure to GAAP net income is provided below for CSG's 2016 full year financial guidance at the mid-point (in thousands, except percentages):

	2016
GAAP net income	\$ 60,000
GAAP income tax provision	33,000
Interest expense	16,000
Amortization of OID	5,000
Loss on repurchase of convertible notes	8,000
Interest and investment income and other, net	1,000
GAAP operating income	<u>123,000</u>
Restructuring and reorganization charges	1,000
Stock-based compensation	23,000
Amortization of acquired intangible assets	9,000
Amortization of other intangible assets	16,000
Depreciation	14,000
Non-GAAP adjusted EBITDA	<u>\$186,000</u>
Non-GAAP adjusted EBITDA as a percentage of revenues	<u>25%</u>

Non-GAAP Free Cash Flow:

CSG's calculation of non-GAAP free cash flow and the reconciliation of CSG's non-GAAP free cash flow measure to cash

flows from operating activities is provided below for the indicated period (in thousands):

	<u>2016</u>
Cash flows from operating activities	\$120,000
Purchases of property and equipment	<u>(20,000)</u>
Non-GAAP free cash flow	<u>\$100,000</u>

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