

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
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, impairment of acquired intangible assets, 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 debt securities 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 debt securities for cash flow, liquidity, and debt service purposes.
- 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, liquidity, 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, 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 December 31, 2015		Quarter Ended December 31, 2014	
	% of		% of	
	Amounts	Revenues	Amounts	Revenues
GAAP operating income	\$ 34,070	17.3%	\$ 19,125	9.9%
Restructuring and reorganization charges	1,252	0.6%	4,928	2.5%
Stock-based compensation (1).....	5,511	2.8%	4,405	2.3%
Amortization of acquired intangible assets.....	2,704	1.4%	3,624	1.9%
Non-GAAP operating income	<u>\$ 43,537</u>	<u>22.1%</u>	<u>\$ 32,082</u>	<u>16.6%</u>

	Year Ended December 31, 2015		Year Ended December 31, 2014	
	% of		% of	
	Amounts	Revenues	Amounts	Revenues
GAAP operating income	\$ 113,140	15.0%	\$ 75,690	10.1%
Restructuring and reorganization charges	3,074	0.4%	13,969	1.9%
Stock-based compensation (1).....	21,371	2.9%	16,655	2.2%
Amortization of acquired intangible assets.....	11,983	1.6%	15,408	2.0%
Non-GAAP operating income	<u>\$ 149,568</u>	<u>19.9%</u>	<u>\$ 121,722</u>	<u>16.2%</u>

(1) Stock-based compensation included in the tables above and following excludes amounts that have been recorded in restructuring and reorganization charges.

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 December 31, 2015		Quarter Ended December 31, 2014	
	Pretax		Pretax	
	Amount (2)	EPS (4)	Amount (2)	EPS (5)
GAAP income before income taxes	\$ 29,241	\$ 0.70	\$ 16,715	\$ 0.38
Restructuring and reorganization charges	1,252		4,928	
Stock-based compensation (1).....	5,511		4,405	
Amortization of acquired intangible assets.....	2,704		3,624	
Amortization of OID	1,607		1,487	
Non-GAAP income before income taxes (3)	<u>\$ 40,315</u>	<u>\$ 0.77</u>	<u>\$ 31,159</u>	<u>\$ 0.61</u>

	Year Ended December 31, 2015		Year Ended December 31, 2014	
	Pretax		Pretax	
	Amount (2)	EPS (4)	Amount (2)	EPS (5)
GAAP income before income taxes	\$ 96,341	\$ 1.87	\$ 61,522	\$ 1.10
Restructuring and reorganization charges	3,074		13,969	
Stock-based compensation (1).....	21,371		16,655	
Amortization of acquired intangible assets.....	11,983		15,408	
Amortization of OID	6,246		5,781	
Non-GAAP income before income taxes (3)	<u>\$ 139,015</u>	<u>\$ 2.62</u>	<u>\$ 113,335</u>	<u>\$ 2.12</u>

- (2) These items (on a pretax basis) are calculated in accordance with GAAP, and are reflected as part of the results of operations in the accompanying Unaudited Condensed Consolidated Statements of Income.
- (3) Non-GAAP EPS is calculated by taking the non-GAAP income before income taxes and deducting from this amount non-GAAP income taxes calculated by using the non-GAAP effective income tax rate for the period, and then dividing the result of this calculation by the outstanding diluted shares for the period.
- (4) For the fourth quarter and year ended December 31, 2015, the GAAP effective income tax rate was approximately 19% and 35%, respectively, the non-GAAP effective income tax rate was approximately 35% and 37%, respectively, and the outstanding diluted shares were 34.0 million and 33.4 million, respectively. The fourth quarter 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 is included in each of the quarters of 2015 for non-GAAP purposes; however, the fourth quarter GAAP tax rate reflects the entire benefit of the full year impact of the R&D tax credits, as the legislation was not passed until December.
- (5) For the fourth quarter and year ended December 31, 2014, the GAAP effective income tax rate was approximately 24% and 40%, respectively, the non-GAAP effective income tax rate was approximately 34% and 37%, respectively, and the outstanding diluted shares were 33.4 million and 33.7 million, respectively. The fourth quarter difference between the GAAP and the non-GAAP effective income tax rates relates primarily to the timing of the 2014 R&D tax credit legislation. The anticipated quarterly benefit of the credits is included in each of the quarters of 2014 for non-GAAP purposes; however, the fourth quarter GAAP tax rate reflects the entire benefit of the full year impact of the R&D tax credits, as the legislation was not passed until December.

Non-GAAP Adjusted EBITDA:

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

	Quarter Ended December 31,		Year Ended December 31,	
	2015	2014	2015	2014
GAAP operating income.....	\$ 34,070	\$ 19,125	\$ 113,140	\$ 75,690
Restructuring and reorganization charges	1,252	4,928	3,074	13,969
Depreciation	3,508	3,605	14,776	14,084
Amortization of acquired intangible assets (6)	2,704	3,624	11,983	15,408
Amortization of other intangible assets (6).....	3,762	4,152	14,547	15,820
Stock-based compensation (1).....	5,511	4,405	21,371	16,655
Adjusted EBITDA	<u>\$ 50,807</u>	<u>\$ 39,839</u>	<u>\$ 178,891</u>	<u>\$ 151,626</u>
Adjusted EBITDA as a percentage of revenues.....	<u>26%</u>	<u>21%</u>	<u>24%</u>	<u>20%</u>

	Quarter Ended December 31,		Year Ended December 31,	
	2015	2014	2015	2014
Net income.....	\$ 23,668	\$ 12,632	\$ 62,567	\$ 36,959
Interest expense (7)	2,536	2,553	10,967	10,453
Amortization of OID.....	1,607	1,487	6,246	5,781
Interest and investment income and other, net	686	(1,630)	(414)	(2,066)
Income tax provision	5,573	4,083	33,774	24,563
Depreciation	3,508	3,605	14,776	14,084
Amortization of acquired intangible assets (6)	2,704	3,624	11,983	15,408
Amortization of other intangible assets (6)	3,762	4,152	14,547	15,820
Stock-based compensation (1)	5,511	4,405	21,371	16,655
Restructuring and reorganization charges.....	1,252	4,928	3,074	13,969
Adjusted EBITDA.....	<u>\$ 50,807</u>	<u>\$ 39,839</u>	<u>\$ 178,891</u>	<u>\$ 151,626</u>

	Quarter Ended December 31,		Year Ended December 31,	
	2015	2014	2015	2014
Cash flows from operating activities	\$ 52,613	\$ 47,745	\$ 136,959	\$ 83,651
Income tax provision	5,573	4,083	33,774	24,563
Changes in operating assets and liabilities and deferred taxes.....	(14,375)	(17,136)	(7,015)	22,222
Interest expense (7)	2,536	2,553	10,967	10,453
Interest and investment income and other, net	686	(1,630)	(414)	(2,066)
Restructuring and reorganization charges (8)	3,300	4,928	5,122	14,191
Other	474	(704)	(502)	(1,388)
Adjusted EBITDA.....	<u>\$ 50,807</u>	<u>\$ 39,839</u>	<u>\$ 178,891</u>	<u>\$ 151,626</u>

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

	Quarter Ended December 31,		Year Ended December 31,	
	2015	2014	2015	2014
Amortization of acquired intangible assets.....	\$ 2,704	\$ 3,624	\$ 11,983	\$ 15,408
Amortization of other intangible assets	3,762	4,152	14,547	15,820
Amortization of deferred financing costs	462	570	2,751	2,325
Total amortization	<u>\$ 6,928</u>	<u>\$ 8,346</u>	<u>\$ 29,281</u>	<u>\$ 33,553</u>

(7) Interest expense includes amortization of deferred financing costs as provided in Note 6 above.

(8) Restructuring and reorganization costs exclude the impact of the asset impairment for the fourth quarter and year ended December 31, 2015, and the gain on disposition of business operations for the fourth quarter and years ended December 31, 2015 and 2014, as these amounts are already excluded from cash flows from operating activities.

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 December 31,		Year Ended December 31,	
	2015	2014	2015	2014
Cash flows from operating activities	\$ 52,613	\$ 47,745	\$ 136,959	\$ 83,651
Purchases of property and equipment.....	(2,069)	(4,579)	(18,845)	(25,985)
Non-GAAP free cash flow	<u>\$ 50,544</u>	<u>\$ 43,166</u>	<u>\$ 118,114</u>	<u>\$ 57,666</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.....	16.0%
Stock-based compensation (9)	3.0%
Amortization of acquired intangible assets (10)	1.0%
Non-GAAP operating income margin ("approximately 20%")	<u>20.0%</u>

- (9) This represents the pretax impact of stock-based compensation expense of an estimated \$24 million on CSG's operating income margin as a percentage of the midpoint of 2016 revenue guidance.
- (10) 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	
	Pretax Amount (11)	EPS (13)	Pretax Amount (11)	EPS (13)
GAAP income before income taxes	\$ 98,000	\$ 1.84	\$ 103,000	\$ 1.94
Stock-based compensation	24,000		24,000	
Amortization of acquired intangible assets	9,000		9,000	
Amortization of OID	7,000		7,000	
Non-GAAP income before income taxes (12)..	\$ 138,000	\$ 2.59	\$ 143,000	\$ 2.69

- (11) These items (on a pretax basis) are calculated in accordance with GAAP, and will be reflected as part of the results of operations in CSG's Unaudited Condensed Consolidated Statements of Income.
- (12) Non-GAAP EPS is calculated by taking the non-GAAP income before income taxes and deducting from this amount non-GAAP income taxes calculated by using the non-GAAP effective income tax rate for the period, and then dividing the result of this calculation by the outstanding diluted shares for the period.
- (13) For 2016, the estimated effective income tax rate for non-GAAP purposes is expected to be approximately 37%. The weighted-average diluted shares outstanding are expected to be 33.5 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 net income and cash flows from operations are provided below for CSG's 2016 full year financial guidance at the mid-point (in thousands, except percentages):

	2016
GAAP operating income	\$ 116,500
Depreciation	15,000
Amortization of acquired intangible assets	9,000
Amortization of other intangible assets	15,000
Stock-based compensation	24,000
Non-GAAP Adjusted EBITDA	\$ 179,500
Non-GAAP Adjusted EBITDA as a percentage of revenues	24.0%

	2016
Net income	\$ 63,000
Interest expense	11,000
Amortization of OID.....	7,000
Interest income	(1,500)
Income tax provision	37,000
Depreciation.....	15,000
Amortization of acquired of intangible assets	9,000
Amortization of other intangible assets.....	15,000
Stock-based compensation	24,000
Non-GAAP Adjusted EBITDA	<u>\$ 179,500</u>

	2016
Cash flows from operating activities (midpoint of guidance)	\$ 120,000
Income tax provision	37,000
Changes in operating assets and liabilities and deferred taxes	10,000
Interest expense	11,000
Interest income	(1,500)
Other	3,000
Non-GAAP Adjusted EBITDA	<u>\$ 179,500</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):

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