

CSG Systems International Reports Results for First Quarter 2014

ENGLEWOOD, Colo.--(BUSINESS WIRE)-- CSG Systems International, Inc. (Nasdaq: CSGS), a leading global provider of interactive transaction-driven solutions and services, today reported results for the quarter ended March 31, 2014.

Key Financial Highlights:

- First quarter 2014 results:
 - **Total revenues** were **\$188.0 million**.
 - Non-GAAP **operating income** was **\$29.9 million**, or **15.9%** of total revenues and GAAP operating income was **\$20.9 million**, or **11.1%** of total revenues.
 - Non-GAAP **earnings per diluted share (EPS)** was **\$0.52**. GAAP EPS was **\$0.28**.
- Cash flows from operations for the quarter were negative **\$(8.6) million**.
- CSG paid its quarterly cash dividend of **\$0.15** per share of common stock, or a total of approximately **\$5 million**, to shareholders on March 27, 2014.

"We had another solid quarter, generating strong revenues and earnings, in particular in our processing business," said Peter Kalan, president and chief executive officer of CSG International. "We continue to help our clients navigate a rapidly-moving and changing landscape. Our focus on helping them drive down their operational costs, introduce new revenue-generating services and create loyal and committed customer relationships continues to position us as a trusted and valued partner."

Financial Overview (unaudited)

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

	<u>Quarter Ended March 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>Percent Change</u>
Revenues	\$188,028	\$180,632	4%
Non-GAAP Results:			
Operating Income	\$ 29,905	\$ 27,648	8%
Operating Income Margin	15.9%	15.3%	-
EPS	\$ 0.52	\$ 0.48	8%
GAAP Results:			
Operating Income	\$ 20,914	\$ 18,035	16%
Operating Income Margin	11.1%	10.0%	-
EPS	\$ 0.28	\$ 0.46	(39)%

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.csgi.com.

Results of Operations

Revenues: Total revenues for the first quarter of 2014 were \$188.0 million, a 4% increase when compared to revenues of \$180.6 million for the first quarter of 2013, and a 3% decrease when compared to the \$194.5 million for the fourth quarter of 2013. The year-over-year increase in revenues is primarily due to a strong first quarter of processing revenues, driven in large part by special project work and continued growth in various ancillary products and services. Sequential quarterly revenues decreased, as CSG typically experiences seasonally stronger software and services revenues in the fourth quarter.

Non-GAAP EPS	\$2.05 - \$2.17
GAAP EPS	\$1.31 - \$1.41
Non-GAAP Adjusted EBITDA	\$152 - \$158 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 one-hour conference call on May 6, 2014, at 5:00 p.m. ET, to discuss CSG's first quarter results for 2014. The call will be carried live and archived on the Internet. A link to the conference call is available at www.csqi.com. In addition, to reach the conference by phone, dial (800) 762-8779 and ask the operator for the CSG International conference call and Liz Bauer, chairperson.

Additional Information

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

About CSG International

[CSG Systems International, Inc. \(NASDAQ: CSGS\)](http://www.csqi.com) is a market-leading business support solutions and services company serving the majority of the top 100 global communications service providers, including leaders in fixed, mobile and next-generation networks such as AT&T, Comcast, DISH, Orange, Reliance, SingTel Optus, Telecom New Zealand, Telefonica, Time Warner Cable, T-Mobile, Verizon, Vivo and Vodafone. With over 30 years of experience and expertise in voice, video, data and content services, CSG International offers a broad portfolio of licensed and Software-as-a-Service (SaaS)-based products and solutions that help clients compete more effectively, improve business operations and deliver a more impactful customer experience across a variety of touch points. For more information, visit our website at www.csqi.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 over forty percent of its revenues from its three largest clients;
- Continued market acceptance of CSG's products and services;
- 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)

	<u>March</u> <u>31,</u> <u>2014</u>	<u>December</u> <u>31,</u> <u>2013</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 65,454	\$ 82,686
Short-term investments	117,558	128,151
Total cash, cash equivalents, and short-term investments	<u>183,012</u>	<u>210,837</u>
Trade accounts receivable:		
Billed, net of allowance of \$3,104 and \$2,359	195,736	178,511
Unbilled	39,541	38,365
Deferred income taxes	9,398	15,085
Income taxes receivable	4,625	3,815
Other current assets	29,461	28,762
Total current assets	<u>461,773</u>	<u>475,375</u>
Non-current assets:		
Property and equipment, net of depreciation of \$132,028 and \$129,522	33,681	35,061
Software, net of amortization of \$80,057 and \$77,504	43,287	43,565
Goodwill	234,362	233,599
Client contracts, net of amortization of \$80,339 and \$75,382	52,064	55,191
Deferred income taxes	8,958	7,447
Income taxes receivable	1,846	1,930
Other assets	18,444	16,812
Total non-current assets	<u>392,642</u>	<u>393,605</u>
Total assets	<u>\$ 854,415</u>	<u>\$ 868,980</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Current maturities of long-term debt	\$ 16,875	\$ 15,000
Client deposits	31,571	30,431
Trade accounts payable	31,994	33,376
Accrued employee compensation	36,802	58,434
Deferred revenue	50,373	47,131
Income taxes payable	2,515	2,814
Other current liabilities	24,345	19,620
Total current liabilities	<u>194,475</u>	<u>206,806</u>
Non-current liabilities:		
Long-term debt, net of unamortized original issue discount of \$18,547 and \$19,950	245,828	250,050
Deferred revenue	7,875	9,221
Income taxes payable	1,613	1,909
Deferred income taxes	18,894	20,274
Other non-current liabilities	14,451	14,616
Total non-current liabilities	<u>288,661</u>	<u>296,070</u>
Total liabilities	<u>483,136</u>	<u>502,876</u>
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; 34,085 shares and 33,745 shares outstanding	661	658

Additional paid-in capital	472,766	473,190
Treasury stock, at cost, 32,030 shares	(738,372)	(738,372)
Accumulated other comprehensive income (loss):		
Unrealized gain on short-term investments, net of tax	60	41
Unrealized loss on change in fair value of interest rate swaps, net of tax	-	(98)
Cumulative foreign currency translation adjustments	2,578	1,674
Accumulated earnings	633,586	629,011
Total stockholders' equity	371,279	366,104
Total liabilities and stockholders' equity	<u>\$ 854,415</u>	<u>\$ 868,980</u>

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

	<u>Quarter Ended</u>	
	<u>March 31,</u>	<u>March 31,</u>
	<u>2014</u>	<u>2013</u>
Revenues:		
Processing and related services	\$ 142,358	\$ 134,634
Software and services	24,856	25,364
Maintenance	20,814	20,634
Total revenues	<u>188,028</u>	<u>180,632</u>
Cost of revenues (exclusive of depreciation, shown separately below):		
Processing and related services	68,427	61,577
Software and services	25,320	21,439
Maintenance	8,357	10,338
Total cost of revenues	<u>102,104</u>	<u>93,354</u>
Other operating expenses:		
Research and development	25,007	28,545
Selling, general and administrative	35,299	34,797
Depreciation	3,486	5,000
Restructuring charges	1,218	901
Total operating expenses	<u>167,114</u>	<u>162,597</u>
Operating income	<u>20,914</u>	<u>18,035</u>
Other income (expense):		
Interest expense	(2,772)	(2,929)
Amortization of original issue discount	(1,404)	(1,299)
Interest and investment income, net	213	155
Other, net	51	(418)
Total other	<u>(3,912)</u>	<u>(4,491)</u>
Income before income taxes	17,002	13,544
Income tax (provision) benefit	(7,311)	1,354
Net income	<u>\$ 9,691</u>	<u>\$ 14,898</u>
Weighted-average shares outstanding:		
Basic	32,319	32,133
Diluted	34,035	32,527
Earnings per common share:		
Basic	\$ 0.30	\$ 0.46
Diluted	0.28	0.46
Cash dividends declared per common share	\$ 0.15	\$ -

CSG SYSTEMS INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS-UNAUDITED

(in thousands)

	Quarter Ended	
	March 31, 2014	March 31, 2013
Cash flows from operating activities:		
Net income	\$ 9,691	\$ 14,898
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation	3,486	5,000
Amortization	8,590	9,736
Amortization of original issue discount	1,404	1,299
Loss on short-term investments and other	453	867
Gain on disposition of business operations	(222)	-
Deferred income taxes	2,772	6,447
Excess tax benefit of stock-based compensation awards	(1,974)	(537)
Stock-based employee compensation	3,783	3,610
Subtotal	27,983	41,320
Changes in operating assets and liabilities:		
Trade accounts receivable, net	(18,029)	12,763
Other current and non-current assets	(3,448)	(3,342)
Income taxes payable/receivable	707	(8,641)
Trade accounts payable and accrued liabilities	(17,464)	(29,450)
Deferred revenue	1,673	9,894
Net cash provided by (used in) operating activities	(8,578)	22,544
Cash flows from investing activities:		
Purchases of property and equipment	(4,499)	(4,492)
Purchases of short-term investments	(40,531)	(23,220)
Proceeds from sale/maturity of short-term investments	50,855	29,500
Acquisition of and investments in client contracts	(1,509)	(407)
Proceeds from the disposition of business operations	630	-
Net cash provided by investing activities	4,946	1,381
Cash flows from financing activities:		
Proceeds from issuance of common stock	340	610
Payment of cash dividends	(5,162)	-
Repurchase of common stock	(6,518)	(11,343)
Payments on long-term debt	(3,750)	(3,750)
Excess tax benefit of stock-based compensation awards	1,974	537
Net cash used in financing activities	(13,116)	(13,946)
Effect of exchange rate fluctuations on cash	(484)	(108)
Net increase (decrease) in cash and cash equivalents	(17,232)	9,871
Cash and cash equivalents, beginning of period	82,686	133,747
Cash and cash equivalents, end of period	\$ 65,454	\$ 143,618
Supplemental disclosures of cash flow information:		
Net cash paid during the period for -		
Interest	\$ 3,322	\$ 3,378
Income taxes	3,755	611

EXHIBIT 1

CSG SYSTEMS INTERNATIONAL, INC. SUPPLEMENTAL REVENUE ANALYSIS

Revenues by Geography

Quarter Ended Quarter Ended Quarter Ended

	March 31, 2014	December 31, 2013	March 31, 2013
Americas	86%	84%	85%
Europe, Middle East and Africa	10%	12%	11%
Asia Pacific	4%	4%	4%
Total Revenues	100%	100%	100%

Revenues by Significant Customers: 10% or more of Revenues

	Quarter Ended March 31, 2014	Quarter Ended December 31, 2013	Quarter Ended March 31, 2013
Comcast	21%	20%	20%
DISH	15%	15%	15%
Time Warner	11%	10%	11%

ACP Customer Accounts (in thousands, at end of period)

	March 31, 2014	December 31, 2013	March 31, 2013
Cable/Satellite Customer Accounts	49,811	49,489	49,151

**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:

<u>Non-GAAP Exclusions</u>	<u>Operating Income</u>	<u>EPS</u>
Restructuring 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 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, divestitures of businesses, and facility consolidations and abandonments. 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 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 March 31, 2014		Quarter Ended March 31, 2013	
	Amounts	% of Revenues	Amounts	% of Revenues
GAAP operating income	\$ 20,914	11.1%	\$ 18,035	10.0%
Restructuring charges	1,218	0.7%	901	0.5%
Stock-based compensation	3,783	2.0%	3,610	2.0%
Amortization of acquired intangible assets	3,990	2.1%	5,102	2.8%
Non-GAAP operating income	<u>\$ 29,905</u>	<u>15.9%</u>	<u>\$ 27,648</u>	<u>15.3%</u>

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 March 31, 2014		Quarter Ended March 31, 2013	
	Pretax Amount (1)	EPS (3)	Pretax Amount (1)	EPS (4)
GAAP income before income taxes	\$ 17,002	\$ 0.28	\$ 13,544	\$ 0.46
Restructuring charges	1,218		901	
Stock-based compensation	3,783		3,610	
Amortization of acquired intangible assets	3,990		5,102	
Amortization of OID	1,404		1,299	
Non-GAAP income before income taxes (2)	<u>\$ 27,397</u>	<u>\$ 0.52</u>	<u>\$ 24,456</u>	<u>\$ 0.48</u>

- (1) 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.
- (2) 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.
- (3) For the first quarter of 2014, the GAAP effective income tax rate was 43%, the non-GAAP effective income tax rate was approximately 36%, and the outstanding diluted shares were 34.0 million. The difference between the GAAP and the non-GAAP effective income tax rates relates to the timing of the 2014 R&D tax credit legislation. The anticipated quarterly benefit of the credits is included for non-GAAP purposes, but cannot be reflected for GAAP purposes until the legislation is actually passed.

(4) For the first quarter of 2013, the GAAP effective income tax rate was a negative ten percent, the non-GAAP effective income tax rate was approximately 36%, and the outstanding diluted shares were 32.5 million. The negative ten percent GAAP effective income tax rate is a result of the recognition of the 2012 R&D tax credits of approximately \$6 million, or approximately \$0.18 per diluted share, in the first quarter of 2013. These credits were recognized for GAAP purposes in the first quarter of 2013 since the credit legislation was passed by Congress in January 2013. The effective income tax rate for non-GAAP purposes of approximately 36% for the first quarter of 2013 excludes the impact of these tax credits, as they were reflected in the 2012 non-GAAP effective income tax rate.

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 March 31,	
	2014	2013
GAAP operating income	\$20,914	\$18,035
Restructuring charges	1,218	901
Depreciation	3,486	5,000
Amortization of acquired intangible assets (5)	3,990	5,102
Amortization of other intangible assets (5)	4,007	4,016
Stock-based compensation	3,783	3,610
Non-GAAP Adjusted EBITDA	<u>\$37,398</u>	<u>\$36,664</u>
Non-GAAP Adjusted EBITDA as a percentage of revenues	<u>20%</u>	<u>20%</u>

	Quarter Ended March 31,	
	2014	2013
Net income	\$ 9,691	\$14,898
Interest expense (6)	2,772	2,929
Amortization of OID	1,404	1,299
Interest and investment income and other, net	(264)	263
Income tax provision (benefit)	7,311	(1,354)
Depreciation	3,486	5,000
Amortization of acquired intangible assets (5)	3,990	5,102
Amortization of other intangible assets (5)	4,007	4,016
Stock-based compensation	3,783	3,610
Restructuring charges	1,218	901
Non-GAAP Adjusted EBITDA	<u>\$37,398</u>	<u>\$36,664</u>

	Quarter Ended March 31,	
	2014	2013
Cash flows from operating activities	\$ (8,578)	\$22,544
Income tax provision (benefit)	7,311	(1,354)
Changes in operating assets and liabilities and deferred taxes	33,789	12,329
Interest expense (6)	2,772	2,929
Interest and investment income and other, net	(264)	263
Restructuring charges	1,218	19
Other	1,150	(66)
Non-GAAP Adjusted EBITDA	<u>\$37,398</u>	<u>\$36,664</u>

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

	Quarter Ended	
	March 31,	
	2014	2013
Amortization of acquired intangible assets	\$3,990	\$ 5,102
Amortization of other intangible assets	4,007	4,016
Amortization of deferred financing costs	593	618
Total amortization	<u>\$8,590</u>	<u>\$ 9,736</u>

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

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	
	March 31,	
	2014	2013
Cash flows from operating activities	\$ (8,578)	\$22,544
Purchases of property and equipment	(4,499)	(4,492)
Non-GAAP free cash flow	<u>\$(13,077)</u>	<u>\$18,052</u>

Non-GAAP Financial Measures - 2014 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 2014 full year financial guidance, is as follows:

	2014
	Guidance
GAAP operating income margin	12.0%
Restructuring charges (7)	0.5%
Stock-based compensation (8)	2.0%
Amortization of acquired intangible assets (9)	2.0%
Non-GAAP operating income margin ("approximately 16.5%")	<u>16.5%</u>

(7) This represents the pretax impact of restructuring charges of an estimated \$1 million on CSG's operating income margin as a percentage of the midpoint of 2014 revenue guidance.

(8) This represents the pretax impact of stock-based compensation expense of an estimated \$16 million on CSG's operating income margin as a percentage of the midpoint of 2014 revenue guidance.

(9) This represents the pretax impact of amortization of acquired intangible assets expense of an estimated \$16 million on CSG's operating income margin as a percentage of the midpoint of 2014 revenue guidance.

Non-GAAP EPS:

The reconciliation of GAAP EPS to non-GAAP EPS as included in CSG's 2014 full year financial guidance is as follows (in thousands, except per share amounts):

2014 Guidance Range			
Low Range		High Range	
Pretax		Pretax	
Amount (10)	EPS (12)	Amount (10)	EPS (12)

GAAP income before income taxes	\$ 73,000	\$ 1.31	\$ 78,000	\$ 1.41
Restructuring charges	1,000		1,000	
Stock-based compensation	16,000		16,000	
Amortization of acquired intangible assets	16,000		16,000	
Amortization of OID	6,000		6,000	
Non-GAAP income before income taxes (11)	<u>\$ 112,000</u>	<u>\$ 2.05</u>	<u>\$ 117,000</u>	<u>\$ 2.17</u>

(10) 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.

(11) 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.

(12) For 2014, the estimated effective income tax rate for non-GAAP purposes is expected to be approximately 36%, which assumes Congress will approve the 2014 R&D income tax credit legislation prior to the end of 2014. The weighted-average diluted shares outstanding are expected to be 34.5 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 2014 full year financial guidance at the mid-point (in thousands, except percentages):

	<u>2014</u>
GAAP operating income	\$ 91,000
Restructuring charges	1,000
Depreciation	16,000
Amortization of acquired intangible assets	16,000
Amortization of other intangible assets	15,000
Stock-based compensation	16,000
Non-GAAP Adjusted EBITDA	<u>\$ 155,000</u>
Non-GAAP Adjusted EBITDA as a percentage of revenues	<u>21%</u>

	<u>2014</u>
Net income	\$ 47,000
Interest expense	10,000
Interest and investment income and other, net	(1,000)
Amortization of OID	6,000
Income tax provision	29,000
Depreciation	16,000
Amortization of acquired of intangible assets	16,000
Amortization of other intangible assets	15,000
Stock-based compensation	16,000
Restructuring charges	1,000
Non-GAAP Adjusted EBITDA	<u>\$ 155,000</u>

	<u>2014</u>
Cash flows from operating activities (midpoint of guidance)	\$ 115,000
Income tax provision	29,000
Interest and investment income and other, net	(1,000)
Changes in operating assets and liabilities and deferred taxes	1,000
Interest expense	10,000
Restructuring charges	1,000
Non-GAAP Adjusted EBITDA	<u>\$ 155,000</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):

	2014
Cash flows from operating activities (midpoint of guidance)	\$ 115,000
Purchases of property and equipment	(30,000)
Non-GAAP free cash flow	<u>\$ 85,000</u>

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