



**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 costs.....	X	X
Stock-based compensation	X	X
Amortization of acquired intangible assets	X	X
Amortization of original issue discount ("OID")	—	X
Gain (loss) on extinguishment of debt	—	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 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 costs 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 costs typically include expenses related to legal, accounting, and other professional services. The exclusion of these costs 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. 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 extinguishment of debt are a result of the refinancing of CSG's credit agreement and/or repurchase of CSG's convertible notes. These activities are not considered reflective of CSG's recurring core business operating results. Any resulting gain or loss is generally 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 extinguishment of debt, 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, 2018		Quarter Ended March 31, 2017	
	Amounts	% of Revenues	Amounts	% of Revenues
GAAP operating income	\$ 25,767	12.8%	\$ 27,013	14.0%
Restructuring and reorganization charges (1)	900	0.4%	248	0.1%
Acquisition-related costs.....	2,355	1.2%	-	-%
Stock-based compensation (1).....	4,570	2.3%	5,670	3.0%
Amortization of acquired intangible assets	1,707	0.8%	1,714	0.9%
Non-GAAP operating income	<u>\$ 35,299</u>	<u>17.5%</u>	<u>\$ 34,645</u>	<u>18.0%</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 March 31, 2018		Quarter Ended March 31, 2017	
	Amounts	EPS (3)	Amounts	EPS (3)
GAAP net income	\$ 14,014	\$ 0.42	\$ 20,237	\$ 0.62
GAAP income tax provision (2)	6,190		2,113	
GAAP income before income taxes.....	20,204		22,350	
Restructuring and reorganization charges (1)	900		248	
Acquisition-related costs.....	2,355		-	
Stock-based compensation (1).....	4,570		5,670	
Amortization of acquired intangible assets	1,707		1,714	
Loss on extinguishment of debt.....	810		-	
Amortization of OID	652		888	
Non-GAAP income before income taxes.....	31,198		30,870	
Non-GAAP income tax provision (2).....	(8,423)		(10,588)	
Non-GAAP net income	<u>\$ 22,775</u>	<u>\$ 0.69</u>	<u>\$ 20,282</u>	<u>\$ 0.62</u>

- (2) For the quarter ended March 31, 2018 the GAAP and non-GAAP effective income tax rates were approximately 31% and 27%, respectively.

For the quarter ended March 31, 2017 the GAAP and non-GAAP effective income tax rates were approximately 9% and 34%, respectively. The difference between the GAAP and non-GAAP effective income tax rate relates primarily to the timing treatment of the net income tax benefit from Comcast's exercise of their vested stock warrants in January 2017. The net income tax benefit from the exercise of the warrants was spread ratably across 2017 in the non-GAAP effective income tax rate; however, the entire amount of the benefit was recorded as a discrete item, as required by GAAP, in the first quarter.

- (3) The outstanding diluted shares for the quarter ended March 31, 2018 and 2017 were 33.1 million and 32.6 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 March 31,	
	2018	2017
GAAP net income	\$ 14,014	\$ 20,237
GAAP income tax provision	6,190	2,113
Interest expense (4)	4,266	4,306
Amortization of OID	652	888
Loss on extinguishment of debt	810	-
Interest and investment income and other, net.....	(165)	(531)
GAAP operating income	25,767	27,013
Restructuring and reorganization charges (1)	900	248
Stock-based compensation (1)	4,570	5,670
Amortization of acquired intangible assets (5)	1,707	1,714
Amortization of other intangible assets (5)	2,258	5,176
Amortization of client contract costs (5)	5,478	-
Acquisition-related costs	2,355	-
Depreciation	3,914	3,315
Non-GAAP adjusted EBITDA	<u>\$ 46,949</u>	<u>\$ 43,136</u>
Non-GAAP adjusted EBITDA as a percentage of revenues	<u>23%</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 March 31,	
	2018	2017
Amortization of acquired intangible assets	\$ 1,707	\$ 1,714
Amortization of other intangible assets	2,258	5,176
Amortization of client contract costs	5,478	-
Amortization of deferred financing costs	503	581
Total amortization	<u>\$ 9,946</u>	<u>\$ 7,471</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 March 31,	
	2018	2017
Cash flows from operating activities	\$ 29,855	\$ 29,964
Purchases of property and equipment	(12,235)	(9,557)
Non-GAAP free cash flow	<u>\$ 17,620</u>	<u>\$ 20,407</u>

Non-GAAP Financial Measures – 2018 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 2018 full year financial guidance, is as follows:

	2018 Guidance
GAAP operating income margin	12.8%
Restructuring and reorganization charges (6)	0.4%
Acquisition-related costs (7).....	0.3%
Stock-based compensation (8)	2.3%
Amortization of acquired intangible assets (9).....	1.1%
Non-GAAP operating income margin ("approximately 17%")	<u>16.9%</u>

- (6) This represents the pretax impact of restructuring and reorganization charges of an estimated \$3 million on CSG's operating income margin as a percentage of the midpoint of 2018 revenue guidance.
- (7) This represents the pretax impact of acquisition-related costs of an estimated \$2 million on CSG's operating income margin as a percentage of the midpoint of 2018 revenue guidance.
- (8) This represents the pretax impact of stock-based compensation expense of an estimated \$20 million on CSG's operating income margin as a percentage of the midpoint of 2018 revenue guidance.
- (9) 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 2018 revenue guidance.

Non-GAAP EPS:

The reconciliation of GAAP EPS to non-GAAP EPS as included in CSG's 2018 full year financial guidance is as follows (in thousands, except per share amounts):

	2018 Guidance Range			
	Low Range		High Range	
	Amounts	EPS (11)	Amounts	EPS (11)
GAAP net income	\$ 62,200	\$ 1.89	\$ 66,600	\$ 2.02
GAAP income tax provision (10)	26,700		27,900	
GAAP income before income taxes.....	88,900		94,500	
Restructuring and reorganization charges	3,400		3,400	
Acquisition-related costs.....	2,400		2,400	
Stock-based compensation	19,700		19,700	
Amortization of acquired intangible assets	9,000		9,000	
Loss on extinguishment of debt.....	800		800	
Amortization of OID	2,700		2,700	
Non-GAAP income before income taxes.....	126,900		132,500	
Non-GAAP income tax provision (10).....	(34,300)		(35,800)	
Non-GAAP net income	<u>\$ 92,600</u>	<u>\$ 2.81</u>	<u>\$ 96,700</u>	<u>\$ 2.93</u>

- (10) For 2018, the estimated effective income tax rate for GAAP and non-GAAP purposes are expected to be approximately 30% and 27%, respectively.
- (11) The weighted-average diluted shares outstanding are expected to be approximately 33 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 2018 full year financial guidance at the mid-point (in thousands, except percentages):

	2018
GAAP net income	\$ 64,400
GAAP income tax provision.....	27,300
Interest expense.....	17,800
Amortization of OID	2,700
Loss on extinguishment of debt.....	800
Interest and investment income and other, net.....	(3,200)
GAAP operating income	109,800
Restructuring and reorganization charges	3,400
Acquisition-related costs	2,400
Stock-based compensation	19,700
Amortization of acquired intangible assets.....	9,000
Amortization of other intangible assets	8,900
Amortization of client contract costs.....	20,400
Depreciation	19,500
Non-GAAP adjusted EBITDA	<u>\$ 193,100</u>
Non-GAAP adjusted EBITDA as a percentage of revenues	<u>23%</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):

	2018
Cash flows from operating activities	\$ 140,000
Purchases of property and equipment.....	(40,000)
Non-GAAP free cash flow	<u>\$ 100,000</u>