

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 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. 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 September 30, 2017		Quarter Ended September 30, 2016	
	Amounts	% of	Amounts	% of
		Revenues		Revenues
GAAP operating income	\$ 28,376	14.2%	\$ 36,598	19.3%
Restructuring and reorganization charges (1) ...	1,618	0.8%	(185)	(0.1%)
Stock-based compensation (1)	4,700	2.4%	5,364	2.9%
Amortization of acquired intangible assets	1,758	0.9%	2,116	1.1%
Non-GAAP operating income	<u>\$ 36,452</u>	<u>18.3%</u>	<u>\$ 43,893</u>	<u>23.2%</u>

	Nine Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	Amounts	% of	Amounts	% of
		Revenues		Revenues
GAAP operating income	\$ 79,637	13.6%	\$ 107,263	19.0%
Restructuring and reorganization charges (1) ...	4,597	0.8%	(601)	(0.1%)
Stock-based compensation (1)	16,344	2.8%	17,352	3.1%
Amortization of acquired intangible assets	5,206	0.9%	6,526	1.1%
Non-GAAP operating income	<u>\$ 105,784</u>	<u>18.1%</u>	<u>\$ 130,540</u>	<u>23.1%</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 nine months ended September 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 September 30, 2017		Quarter Ended September 30, 2016	
	Amounts	EPS (3)	Amounts	EPS (3)
	GAAP net income	\$ 14,580	\$ 0.44	\$ 17,894
GAAP income tax provision (2)	8,806		12,265	
GAAP income before income taxes	23,386		30,159	
Restructuring and reorganization charges (1)	1,618		(185)	
Stock-based compensation (1)	4,700		5,364	
Amortization of acquired intangible assets	1,758		2,116	
Loss on repurchase of convertible notes	-		332	
Amortization of OID	634		1,062	
Non-GAAP income before income taxes	32,096		38,848	
Non-GAAP income tax provision (2)	(11,016)		(14,374)	
Non-GAAP net income	<u>\$ 21,080</u>	<u>\$ 0.64</u>	<u>\$ 24,474</u>	<u>\$ 0.75</u>

	Nine Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	Amounts	EPS (3)	Amounts	EPS (3)
GAAP net income	\$ 46,398	\$ 1.41	\$ 50,235	\$ 1.52
GAAP income tax provision (2)	19,641		30,303	
GAAP income before income taxes.....	66,039		80,538	
Restructuring and reorganization charges (1)	4,597		(601)	
Stock-based compensation (1).....	16,344		17,352	
Amortization of acquired intangible assets	5,206		6,526	
Loss on repurchase of convertible notes.....	-		8,651	
Amortization of OID	2,147		3,856	
Non-GAAP income before income taxes.....	94,333		116,322	
Non-GAAP income tax provision (2).....	(32,394)		(43,039)	
Non-GAAP net income	<u>\$ 61,939</u>	<u>\$ 1.89</u>	<u>\$ 73,283</u>	<u>\$ 2.22</u>

(2) For the third quarter and nine months ended September 30, 2017 the GAAP effective income tax rates were approximately 38% and 30%, respectively, and the non-GAAP effective income tax rates were approximately 34% for both periods. The difference between the GAAP and non-GAAP effective income tax rates 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 this item is 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.

For the third quarter and nine months ended September 30, 2016 the GAAP effective income tax rates were approximately 41% and 38%, respectively, and the non-GAAP effective income tax rates were approximately 37% for both periods.

(3) The outstanding diluted shares for the third quarter and nine months ended September 30, 2017 were 32.9 million and 32.8 million, respectively, and for the third quarter and nine months ended September 30, 2016 were 32.6 million 33.0 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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
GAAP net income	\$ 14,580	\$ 17,894	\$ 46,398	\$ 50,235
GAAP income tax provision	8,806	12,265	19,641	30,303
Interest expense (4)	4,186	4,398	12,638	11,876
Amortization of OID	634	1,062	2,147	3,856
Loss on repurchase of convertible notes	-	332	-	8,651
Interest and investment income and other, net.....	170	647	(1,187)	2,342
GAAP operating income	28,376	36,598	79,637	107,263
Restructuring and reorganization charges (1).....	1,618	(185)	4,597	(601)
Stock-based compensation (1)	4,700	5,364	16,344	17,352
Amortization of acquired intangible assets (5)	1,758	2,116	5,206	6,526
Amortization of other intangible assets (5).....	4,938	4,171	14,770	11,706
Depreciation	3,344	3,398	9,975	10,423
Non-GAAP adjusted EBITDA	<u>\$ 44,734</u>	<u>\$ 51,462</u>	<u>\$ 130,529</u>	<u>\$ 152,669</u>
Non-GAAP adjusted EBITDA as a percentage of revenues	<u>22%</u>	<u>27%</u>	<u>22%</u>	<u>27%</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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Amortization of acquired intangible assets.....	\$ 1,758	\$ 2,116	\$ 5,206	\$ 6,526
Amortization of other intangible assets	4,938	4,171	14,770	11,706
Amortization of deferred financing costs	556	594	1,694	1,689
Total amortization	<u>\$ 7,252</u>	<u>\$ 6,881</u>	<u>\$ 21,670</u>	<u>\$ 19,921</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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Cash flows from operating activities	\$ 38,334	\$ 8,741	\$ 102,822	\$ 59,506
Purchases of property and equipment.....	(4,632)	(2,679)	(23,370)	(11,542)
Non-GAAP free cash flow.....	<u>\$ 33,702</u>	<u>\$ 6,062</u>	<u>\$ 79,452</u>	<u>\$ 47,964</u>

Non-GAAP Financial Measures – 2017 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 2017 full year financial guidance, is as follows:

	2017 Guidance
GAAP operating income margin	14.00%
Restructuring and reorganization charges (6)	0.50%
Stock-based compensation (7)	2.50%
Amortization of acquired intangible assets (8).....	1.00%
Non-GAAP operating income margin (“approximately 18%”)	<u>18.00%</u>

- (6) This represents the pretax impact of restructuring and reorganization charges of an estimated \$5 million on CSG's operating income margin as a percentage of the midpoint of 2017 revenue guidance.
- (7) This represents the pretax impact of stock-based compensation expense of an estimated \$21 million on CSG's operating income margin as a percentage of the midpoint of 2017 revenue guidance.
- (8) This represents the pretax impact of amortization of acquired intangible assets expense of an estimated \$7 million on CSG's operating income margin as a percentage of the midpoint of 2017 revenue guidance.

Non-GAAP EPS:

The reconciliation of GAAP EPS to non-GAAP EPS as included in CSG's 2017 full year financial guidance is as follows (in thousands, except per share amounts):

	2017 Guidance Range			
	Low Range		High Range	
	Amounts	EPS (10)	Amounts	EPS (10)
GAAP net income	\$ 60,700	\$ 1.84	\$ 61,700	\$ 1.88
GAAP income tax provision (9)	29,400		30,200	
GAAP income before income taxes.....	90,100		91,900	
Restructuring and reorganization charges	4,800		4,800	
Stock-based compensation	20,900		20,900	
Amortization of acquired intangible assets	6,900		6,900	
Amortization of OID	2,800		2,800	
Non-GAAP income before income taxes.....	125,500		127,300	
Non-GAAP income tax provision (9).....	(43,900)		(42,000)	
Non-GAAP net income	<u>\$ 81,600</u>	<u>\$ 2.48</u>	<u>\$ 85,300</u>	<u>\$ 2.59</u>

(9) For 2017, the estimated effective income tax rate for GAAP and non-GAAP purposes are expected to be approximately 33% and 34%, respectively.

(10) The weighted-average diluted shares outstanding are expected to be 32.9 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 2017 full year financial guidance at the mid-point (in thousands, except percentages):

	2017
GAAP net income	\$ 61,200
GAAP income tax provision.....	29,800
Interest expense.....	17,000
Amortization of OID	2,800
Interest and investment income and other, net.....	(3,000)
GAAP operating income	107,800
Restructuring and reorganization charges	4,800
Stock-based compensation	20,900
Amortization of acquired intangible assets.....	6,900
Amortization of other intangible assets	21,000
Depreciation	14,200
Non-GAAP adjusted EBITDA	<u>\$ 175,600</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):

	2017
Cash flows from operating activities	\$ 120,000
Purchases of property and equipment.....	(27,500)
Non-GAAP free cash flow	<u>\$ 92,500</u>