



FOR IMMEDIATE RELEASE

PRESS RELEASE

CSG SYSTEMS INTERNATIONAL REPORTS RESULTS FOR SECOND QUARTER 2019

GREENWOOD VILLAGE, COLO. (August 7, 2019) — CSG (NASDAQ: CSGS), the trusted partner to simplify the complexity of [business transformation in the digital age](#), today reported results for the quarter ended June 30, 2019.

Key Highlights:

- Second quarter 2019 financial results:
 - Total revenues were **\$245.9 million** and total non-GAAP adjusted revenues were **\$228.1 million**.
 - GAAP operating income was **\$30.3 million**, or **12.3%** of total revenues, and non-GAAP operating income was **\$40.1 million**, or **17.6%** of non-GAAP adjusted revenues.
 - GAAP earnings per diluted share (EPS) was **\$0.60** and non-GAAP EPS was **\$0.85**.
 - Cash flows from operations were **\$15.6 million**.
- CSG declared its quarterly cash dividend of **\$0.2225** per share of common stock, or a total of approximately **\$7 million**, to shareholders.
- During the quarter, CSG repurchased approximately **144,000 shares** of its common stock for approximately **\$7 million** (weighted-average price of **\$45.39** per share) under its stock repurchase program.

“We continue to deliver strong results at a time that our customers are reinventing the way that they do business,” said Bret Griess, president and chief executive officer for CSG. “This quarter offers a great example of how we help our clients become more operationally efficient, monetize their offerings and services, and improve their agility, flexibility and cost structure with our cloud-based solutions. We are realizing the benefits of our strategy by delivering improved organic revenue growth and expanded margins.”

Financial Overview (unaudited)

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

	Quarter Ended June 30,			Six Months Ended June 30,		
	2019	2018	Percent Changed	2019	2018	Percent Changed
GAAP Results:						
Revenues	\$ 245,856	\$ 213,033	15%	\$ 490,649	\$ 414,737	18%
Operating Income.....	30,338	24,087	26%	62,431	49,854	25%
Operating Margin Percentage	12.3%	11.3%		12.7%	12.0%	
EPS	\$ 0.60	\$ 0.46	30%	\$ 1.19	\$ 0.88	35%
Non-GAAP Results:						
Adjusted Revenues	\$ 228,078	\$ 213,033	7%	\$ 455,739	\$ 414,737	10%
Operating Income.....	40,145	35,578	13%	81,458	70,877	15%
Adjusted Operating Margin Percentage.....	17.6%	16.7%		17.9%	17.1%	
EPS	\$ 0.85	\$ 0.73	16%	\$ 1.67	\$ 1.42	18%

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

GAAP Results: Total revenues for the second quarter of 2019 were \$245.9 million, a 15% increase when compared to revenues of \$213.0 million for the second quarter of 2018, and a slight increase when compared to \$244.8 million for the first quarter of 2019. The year-over-year increase in revenues can be mainly attributed to the acquisition of Forte on October 1, 2018, and the continued growth in our cloud solutions and managed services arrangements.

GAAP operating income for the second quarter of 2019 was \$30.3 million, or 12.3% of total revenues, compared to \$24.1 million, or 11.3% of total revenues, for the second quarter of 2018, and \$32.1 million, or 13.1% of total revenues, for the first quarter of 2019.

GAAP EPS for the second quarter of 2019 was \$0.60, as compared to \$0.46 for the second quarter of 2018, and \$0.59 for the first quarter of 2019. The year-over-year increase in GAAP EPS is reflective of the higher operating income for the quarter.

Non-GAAP Results: Non-GAAP adjusted revenues for the second quarter of 2019 were \$228.1 million, a 7% increase when compared to \$213.0 million for the second quarter of 2018, and relatively consistent with the \$227.7 million for the first quarter of 2019.

Non-GAAP operating income for the second quarter of 2019 was \$40.1 million, or 17.6% of total non-GAAP adjusted revenues, compared to \$35.6 million, or 16.7% of total non-GAAP adjusted revenues for the second quarter of 2018, and \$41.3 million, or 18.1% of total non-GAAP adjusted revenues for the first quarter of 2019.

Non-GAAP EPS for the second quarter of 2019 was \$0.85, compared to \$0.73 for the second quarter of 2018, and \$0.82 for the first quarter of 2019.

The increases in non-GAAP adjusted revenues and non-GAAP EPS between years are primarily due to the factors discussed above.

Balance Sheet and Cash Flows

Cash, cash equivalents and short-term investments as of June 30, 2019 were \$131.5 million compared to \$141.9 million as of March 31, 2019 and \$162.9 million as of December 31, 2018. CSG had net cash flows from operations for the second quarters ended June 30, 2019 and 2018 of \$15.6 million and negative \$(3.6) million, respectively, and had non-GAAP free cash flow of \$6.0 million and negative \$(18.1) million, respectively. Cash flows from operating activities for both the second quarter of 2019 and 2018 were negatively impacted by an increase in accounts receivable, primarily related to the timing of a recurring client payment that was delayed and received subsequent to the quarter-end.

Summary of 2019 Financial Guidance

CSG is maintaining its financial guidance for the full year 2019 as follows:

GAAP Measures:	
Revenues	\$965 - \$995 million
Operating Margin Percentage.....	11.9% - 12.2%
EPS	\$2.16 - \$2.33
Cash Flows from Operating Activities	\$125 - \$150 million
Non-GAAP Measures:	
Adjusted Revenues	\$903 - \$920 million
Adjusted Operating Margin Percentage.....	17.0% - 17.5%
EPS	\$3.15 - \$3.31

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 7, 2019 at 5:00 p.m. EDT, to discuss CSG's second quarter results for 2019. 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 1-888-254-3590 and ask the operator for the CSG conference call and Liz Bauer, chairperson.

Additional Information

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

About CSG

CSG is a provider of software and services that help companies around the world monetize and digitally enable the customer experience. For more than 35 years, CSG has simplified the complexity of business, providing revenue management and digital monetization, payments, and customer engagement solutions to help our customers tackle any business challenge and thrive in an ever-changing marketplace.

Operating across more than 120 countries worldwide, CSG manages billions of critical customer interactions annually. CSG is the trusted partner driving digital innovation for hundreds of leading global brands, including Arrow Electronics, AT&T, Charter Communications, Comcast, DISH, Eastlink, Formula One, iflix, MTN, and Telstra.

To learn more, visit our website at csgi.com and connect with us on [LinkedIn](#), [Twitter](#) and [Facebook](#).

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 forty percent of its revenues from its two 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 its dependency on software solution sales, which are subject to greater volatility;
- Increasing competition in CSG's market from companies of greater size and with broader presence;
- 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.

For more information, contact:

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

	June 30, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 113,777	\$ 139,277
Short-term investments.....	17,674	23,603
Total cash, cash equivalents and short-term investments.....	131,451	162,880
Settlement assets.....	88,575	124,627
Trade accounts receivable:		
Billed, net of allowance of \$2,861 and \$3,115.....	265,795	235,827
Unbilled.....	39,275	37,227
Income taxes receivable.....	7,206	6,720
Other current assets.....	40,326	32,286
Total current assets.....	572,628	599,567
Non-current assets:		
Property and equipment, net of depreciation of \$102,018 and \$93,278.....	84,354	81,813
Operating lease right-of-use assets.....	94,028	-
Software, net of amortization of \$122,441 and \$119,381.....	33,322	36,400
Goodwill.....	256,890	255,816
Acquired client contracts, net of amortization of \$87,760 and \$82,692.....	60,230	65,456
Client contract costs, net of amortization of \$30,169 and \$43,051.....	39,724	37,289
Deferred income taxes.....	10,442	11,087
Other assets.....	28,099	26,934
Total non-current assets.....	607,089	514,795
Total assets.....	\$ 1,179,717	\$ 1,114,362
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt.....	\$ 8,438	\$ 7,500
Operating lease liabilities.....	22,279	-
Client deposits.....	36,369	36,889
Trade accounts payable.....	44,874	45,386
Accrued employee compensation.....	51,434	61,107
Settlement liabilities.....	87,194	123,613
Deferred revenue.....	48,277	40,236
Income taxes payable.....	430	218
Other current liabilities.....	36,289	35,442
Total current liabilities.....	335,584	350,391
Non-current liabilities:		
Long-term debt, net of unamortized discounts of \$12,327 and \$14,549.....	349,860	352,326
Operating lease liabilities.....	77,993	-
Deferred revenue.....	15,463	17,527
Income taxes payable.....	2,684	2,284
Deferred income taxes.....	11,204	8,205
Other non-current liabilities.....	12,605	22,605
Total non-current liabilities.....	469,809	402,947
Total liabilities.....	805,393	753,338
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; 33,062 and 33,158 shares outstanding.....	696	693
Common stock warrants; 439 warrants vested; 1,425 issued.....	9,082	9,082
Additional paid-in capital.....	446,512	441,417
Treasury stock, at cost; 35,172 and 34,779 shares.....	(858,186)	(842,360)
Accumulated other comprehensive income (loss):		
Unrealized gains on short-term investments, net of tax.....	30	2
Cumulative foreign currency translation adjustments.....	(42,908)	(42,937)
Accumulated earnings.....	819,098	795,127
Total stockholders' equity.....	374,324	361,024
Total liabilities and stockholders' equity.....	\$ 1,179,717	\$ 1,114,362

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

	Quarter Ended		Six Months Ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Revenues	\$ 245,856	\$ 213,033	\$ 490,649	\$ 414,737
Cost of revenues (exclusive of depreciation, shown separately below).....	132,234	109,492	261,197	210,588
Other operating expenses:				
Research and development	30,645	30,953	63,236	60,332
Selling, general and administrative	45,372	40,624	91,290	81,272
Depreciation.....	5,441	4,548	10,554	8,462
Restructuring and reorganization charges	1,826	3,329	1,941	4,229
Total operating expenses	215,518	188,946	428,218	364,883
Operating income	30,338	24,087	62,431	49,854
Other income (expense):				
Interest expense	(4,498)	(4,480)	(9,058)	(8,746)
Amortization of original issue discount.....	(700)	(661)	(1,390)	(1,313)
Interest and investment income, net.....	417	770	936	1,581
Loss on extinguishment of debt	-	-	-	(810)
Other, net.....	1,280	1,008	(231)	362
Total other	(3,501)	(3,363)	(9,743)	(8,926)
Income before income taxes	26,837	20,724	52,688	40,928
Income tax provision	(7,458)	(5,607)	(14,058)	(11,797)
Net income	\$ 19,379	\$ 15,117	\$ 38,630	\$ 29,131
Weighted-average shares outstanding:				
Basic	32,093	32,589	32,111	32,558
Diluted.....	32,458	32,908	32,448	33,005
Earnings per common share:				
Basic.....	\$ 0.60	\$ 0.46	\$ 1.20	\$ 0.89
Diluted.....	0.60	0.46	1.19	0.88

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

	Six Months Ended	
	June 30, 2019	June 30, 2018
Cash flows from operating activities:		
Net income.....	\$ 38,630	\$ 29,131
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	10,554	8,462
Amortization	24,625	20,957
Amortization of original issue discount	1,390	1,313
Asset impairment.....	365	1,001
Gain on short-term investments and other	(170)	(108)
Loss on extinguishment of debt.....	-	810
Deferred income taxes	4,181	4,944
Stock-based compensation	8,500	10,213
Subtotal	88,075	76,723
Changes in operating assets and liabilities, net of acquired amounts:		
Trade accounts receivable, net.....	(31,751)	(11,369)
Other current and non-current assets and liabilities.....	(16,222)	(13,995)
Income taxes payable/receivable.....	(315)	1,828
Trade accounts payable and accrued liabilities.....	(17,328)	(27,772)
Deferred revenue.....	5,970	799
Net cash provided by operating activities	28,429	26,214
Cash flows from investing activities:		
Purchases of software, property and equipment.....	(17,858)	(26,715)
Purchases of short-term investments.....	(22,542)	(44,345)
Proceeds from sale/maturity of short-term investments	28,753	116,866
Acquisition of and investments in business, net of cash acquired	(4,000)	(68,636)
Net cash used in investing activities	(15,647)	(22,830)
Cash flows from financing activities:		
Proceeds from issuance of common stock	1,115	1,134
Payment of cash dividends	(14,808)	(14,375)
Repurchase of common stock	(20,741)	(18,319)
Proceeds from long-term debt	-	150,000
Payments on long-term debt.....	(3,750)	(121,875)
Payments of deferred financing costs	-	(1,490)
Net cash used in financing activities	(38,184)	(4,925)
Effect of exchange rate fluctuations on cash	(98)	(1,031)
Net decrease in cash and cash equivalents	(25,500)	(2,572)
Cash and cash equivalents, beginning of period.....	139,277	122,243
Cash and cash equivalents, end of period	<u>\$ 113,777</u>	<u>\$ 119,671</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 8,110	\$ 7,744
Income taxes	10,244	4,778

EXHIBIT 1
CSG SYSTEMS INTERNATIONAL, INC.
SUPPLEMENTAL REVENUE ANALYSIS

Revenues by Geography

	Quarter Ended June 30, 2019	Quarter Ended March 31, 2019	Quarter Ended June 30, 2018
Americas	87%	86%	85%
Europe, Middle East and Africa	9%	10%	10%
Asia Pacific	4%	4%	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, 2019	Quarter Ended March 31, 2019	Quarter Ended June 30, 2018
Comcast.....	23%	22%	25%
Charter	20%	19%	21%

Components of Revenues

	Quarter Ended June 30, 2019	Quarter Ended March 31, 2019	Quarter Ended June 30, 2018
Cloud and related solutions	\$ 222,183	\$ 219,590	\$ 187,401
Software and services	12,173	13,028	13,331
Maintenance	11,500	12,175	12,301
Total revenues	<u>\$ 245,856</u>	<u>\$ 244,793</u>	<u>\$ 213,033</u>

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 adjusted revenues, non-GAAP operating income, non-GAAP adjusted operating margin percentage, 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	Adjusted Revenues	Operating Income	Adjusted Operating Margin Percentage	EPS
Transaction fees	X	—	X	—
Restructuring and reorganization charges	—	X	X	X
Acquisition-related expenses:				
Amortization of acquired intangible assets	—	X	X	X
Earn-out compensation	—	X	X	X
Transaction-related costs	—	X	X	X
Stock-based compensation	—	X	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:

- Transaction fees are primarily comprised of interchange and other payment-related fees paid, in conjunction with the delivery of service to clients under CSG's payment services contracts, to third-party payment processors and financial institutions by CSG. Because CSG controls the integrated service provided under its payment services client contracts, these transaction fees are presented gross, and not netted against revenues; however, other payments companies who do not provide and/or control an integrated service present their revenues net of transaction fees. The exclusion of these fees in calculating CSG's non-GAAP adjusted revenues provides management and investors an additional means to use to compare CSG's current revenues with historical and future periods, as well as with other payments companies.
- 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 expenses include amortization of acquired intangible assets, earn-out compensation, and transaction-related costs. Transaction-related costs, which typically include expenses related to legal, accounting, and other professional services, are direct and incremental expenses related to business acquisitions, and thus, are not considered reflective of CSG's recurring core business operating results. The total amount of acquisition-related expenses can vary significantly between periods based on the number and size of acquisition activities, previously acquired intangible assets becoming fully amortized, and ultimate realization of earn-out compensation. In addition, the timing of these expenses may not directly correlate with underlying performance of the CSG's operations. Therefore, the exclusion of

acquisition-related expenses 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.
- 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, acquisition-related expenses, 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 software, property and equipment.

Non-GAAP Financial Measures

Non-GAAP Adjusted Revenues:

The reconciliations of GAAP revenues to non-GAAP adjusted revenues for the indicated periods are as follows (in thousands):

	Quarters Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
GAAP revenues	\$ 245,856	\$ 213,033	\$ 490,649	\$ 414,737
Less: Transaction fees	(17,778)	-	(34,910)	-
Non-GAAP adjusted revenues (1)	<u>\$ 228,078</u>	<u>\$ 213,033</u>	<u>\$ 455,739</u>	<u>\$ 414,737</u>

- (1) Non-GAAP adjusted revenues are defined as GAAP revenues less transaction fees. Transaction fees are primarily comprised of interchange and other payment-related fees paid, in conjunction with the delivery of service to clients under CSG's payment services contracts, to third-party payment processors and financial institutions by CSG. Because CSG controls the integrated service provided under its payment services client contracts, these transaction fees are presented gross, and not netted against revenues; however, other payments companies who do not provide and/or control an integrated service present their revenues net of transaction fees.

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):

	Quarters Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
GAAP operating income	\$ 30,338	\$ 24,087	\$ 62,431	\$ 49,854
Restructuring and reorganization charges (2)	1,826	3,329	1,941	4,229
Acquisition-related expenses:				
Amortization of acquired intangible assets	3,174	2,496	6,355	4,203
Earn-out compensation	-	-	1,260	-
Transaction-related costs	-	3	-	2,358
Stock-based compensation (2)	4,807	5,663	9,471	10,233
Non-GAAP operating income	<u>\$ 40,145</u>	<u>\$ 35,578</u>	<u>\$ 81,458</u>	<u>\$ 70,877</u>
Non-GAAP adjusted revenues	\$ 228,078	\$ 213,033	\$ 455,739	\$ 414,737
Non-GAAP adjusted operating margin percentage	17.6%	16.7%	17.9%	17.1%

- (2) 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 June 30, 2019		Quarter Ended June 30, 2018	
	Amounts	EPS (3)	Amounts	EPS (3)
GAAP net income	\$ 19,379	\$ 0.60	\$ 15,117	\$ 0.46
GAAP income tax provision (3)	7,458		5,607	
GAAP income before income taxes.....	26,837		20,724	
Restructuring and reorganization charges (2)	1,826		3,329	
Acquisition-related costs:				
Amortization of acquired intangible assets	3,174		2,496	
Transaction-related costs	-		3	
Stock-based compensation (2).....	4,807		5,663	
Loss on extinguishment of debt.....	-		-	
Amortization of OID	700		661	
Non-GAAP income before income taxes.....	37,344		32,876	
Non-GAAP income tax provision (3).....	(9,709)		(8,877)	
Non-GAAP net income	<u>\$ 27,635</u>	<u>\$ 0.85</u>	<u>\$ 23,999</u>	<u>\$ 0.73</u>

	Six Months Ended June 30, 2019		Six Months Ended June 30, 2018	
	Amounts	EPS (4)	Amounts	EPS (4)
GAAP net income	\$ 38,630	\$ 1.19	\$ 29,131	\$ 0.88
GAAP income tax provision (3)	14,058		11,797	
GAAP income before income taxes.....	52,688		40,928	
Restructuring and reorganization charges (2)	1,941		4,229	
Acquisition-related expenses:				
Amortization of acquired intangible assets	6,355		4,203	
Earn-out compensation	1,260		-	
Transaction-related costs	-		2,358	
Stock-based compensation (2).....	9,471		10,233	
Loss on extinguishment of debt.....	-		810	
Amortization of OID	1,390		1,313	
Non-GAAP income before income taxes.....	73,105		64,074	
Non-GAAP income tax provision (3).....	(19,007)		(17,300)	
Non-GAAP net income	<u>\$ 54,098</u>	<u>\$ 1.67</u>	<u>\$ 46,774</u>	<u>\$ 1.42</u>

- (3) For the second quarter and six months ended June 30, 2019 the GAAP effective income tax rates were approximately 28% and 27%, respectively, and the non-GAAP effective income tax rates were approximately 26% for both periods. For the second quarter and six months ended June 30, 2018, the GAAP effective income tax rates were approximately 27% and 29%, respectively, and the non-GAAP effective income tax rates were approximately 27% for both periods.
- (4) The outstanding diluted shares for the second quarter and six months ended June 30, 2019 were 32.5 million and 32.4 million, respectively, and for the second quarter and six months ended June 30, 2018 were 32.9 million and 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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
GAAP net income	\$ 19,379	\$ 15,117	\$ 38,630	\$ 29,131
GAAP income tax provision	7,458	5,607	14,058	11,797
Interest expense (5)	4,498	4,480	9,058	8,746
Amortization of OID	700	661	1,390	1,313
Loss on extinguishment of debt	-	-	-	810
Interest and investment income and other, net.....	(1,697)	(1,778)	(705)	(1,943)
GAAP operating income	30,338	24,087	62,431	49,854
Restructuring and reorganization charges (2).....	1,826	3,329	1,941	4,229
Acquisition-related expenses:				
Amortization of acquired intangible assets (6)	3,174	2,496	6,355	4,203
Earn-out compensation	-	-	1,260	-
Transaction-related costs	-	3	-	2,358
Stock-based compensation (2)	4,807	5,663	9,471	10,233
Amortization of other intangible assets (6).....	2,666	2,323	5,040	4,581
Amortization of client contract costs (6)	6,419	5,784	12,398	11,262
Depreciation	5,441	4,548	10,554	8,462
Non-GAAP adjusted EBITDA	<u>\$ 54,671</u>	<u>\$ 48,233</u>	<u>\$ 109,450</u>	<u>\$ 95,182</u>
Non-GAAP adjusted EBITDA as a percentage of non-GAAP adjusted revenues	<u>24%</u>	<u>23%</u>	<u>24%</u>	<u>23%</u>

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

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Amortization of acquired intangible assets	\$ 3,174	\$ 2,496	\$ 6,355	\$ 4,203
Amortization of other intangible assets	2,666	2,323	5,040	4,581
Amortization of client contract costs	6,419	5,784	12,398	11,262
Amortization of deferred financing costs	417	408	832	911
Total amortization	<u>\$ 12,676</u>	<u>\$ 11,011</u>	<u>\$ 24,625</u>	<u>\$ 20,957</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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Cash flows from operating activities	\$ 15,603	\$ (3,641)	\$ 28,429	\$ 26,214
Purchases of software, property and equipment	(9,572)	(14,480)	(17,858)	(26,715)
Non-GAAP free cash flow	<u>\$ 6,031</u>	<u>\$ (18,121)</u>	<u>\$ 10,571</u>	<u>\$ (501)</u>

Non-GAAP Financial Measures – 2019 Financial Guidance

Non-GAAP Adjusted Revenues:

The reconciliation of GAAP revenues to non-GAAP adjusted revenues, as included in CSG's 2019 full year financial guidance, is as follows:

	2019 Guidance Range	
	Low Range	High Range
GAAP revenues	\$ 965,000	\$ 995,000
Less: Transaction fees	(62,000)	(75,000)
Non-GAAP adjusted revenues	<u>\$ 903,000</u>	<u>\$ 920,000</u>

Non-GAAP Operating Income:

The reconciliation of GAAP operating income to non-GAAP operating income, as included in CSG's 2019 full year financial guidance, is as follows (in thousands, except percentages):

	2019 Guidance Range	
	Low Range	High Range
<u>Operating Income</u>		
GAAP operating income	\$ 114,600	\$ 121,800
Restructuring and reorganization charges	2,200	2,200
Acquisition-related expenses:		
Amortization of acquired intangible assets	12,600	12,600
Earn-out compensation	3,800	3,800
Stock-based compensation	20,300	20,300
Non-GAAP operating income	<u>\$ 153,500</u>	<u>\$ 160,700</u>
<u>Operating Margin Percentage</u>		
GAAP revenues (mid-point)	\$ 965,000	\$ 995,000
GAAP operating margin percentage	11.9%	12.2%
Non-GAAP adjusted revenues (mid-point)	\$ 903,000	\$ 920,000
Non-GAAP adjusted operating margin percentage	17.0%	17.5%

Non-GAAP EPS:

The reconciliation of GAAP EPS to non-GAAP EPS as included in CSG's 2019 full year financial guidance is as follows (in thousands, except per share amounts):

	2019 Guidance Range			
	Low Range		High Range	
	Amounts	EPS (8)	Amounts	EPS (8)
GAAP net income	\$ 70,100	\$ 2.16	\$ 75,400	\$ 2.33
GAAP income tax provision (7)	25,400		27,300	
GAAP income before income taxes	95,500		102,700	
Restructuring and reorganization charges	2,200		2,200	
Acquisition-related expenses:				
Amortization of acquired intangible assets	12,600		12,600	
Earn-out compensation	3,800		3,800	
Stock-based compensation	20,300		20,300	
Amortization of OID	2,800		2,800	
Non-GAAP income before income taxes	137,200		144,400	
Non-GAAP income tax provision (7)	(35,300)		(37,300)	
Non-GAAP net income	<u>\$ 101,900</u>	<u>\$ 3.15</u>	<u>\$ 107,100</u>	<u>\$ 3.31</u>

(7) For 2019, the estimated effective income tax rate for GAAP and non-GAAP purposes is expected to be approximately 27% and approximately 26%, respectively.

(8) The weighted-average diluted shares outstanding are expected to be approximately 32 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 2019 full year financial guidance (in thousands, except percentages):

	2019 Guidance Range	
	Low Range	High Range
GAAP net income	\$ 70,100	\$ 75,400
GAAP income tax provision	25,400	27,300
Interest expense	18,400	18,400
Amortization of OID	2,800	2,800
Interest and investment income and other, net	(2,100)	(2,100)
GAAP operating income	114,600	121,800
Restructuring and reorganization charges	2,200	2,200
Acquisition-related expenses:		
Amortization of acquired intangible assets	12,600	12,600
Earn-out compensation	3,800	3,800
Stock-based compensation	20,300	20,300
Amortization of other intangible assets	9,900	9,900
Amortization of client contract costs	19,400	19,400
Depreciation	22,700	22,700
Non-GAAP adjusted EBITDA	<u>\$ 205,500</u>	<u>\$ 212,700</u>
Non-GAAP adjusted EBITDA as a percentage of non-GAAP adjusted revenues	<u>23%</u>	<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):

	2019 Guidance Range	
	Low Range	High Range
Cash flows from operating activities	\$ 125,000	\$ 150,000
Purchases of software, property and equipment	(30,000)	(40,000)
Non-GAAP free cash flow	<u>\$ 95,000</u>	<u>\$ 110,000</u>