

CONSOLIDATED FINANCIAL STATEMENTS

Billing Services Group Limited
Years Ended December 31, 2016 and 2015
With Independent Auditor's Report

Billing Services Group Limited
Consolidated Financial Statements
Years Ended December 31, 2016 and 2015

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Independent Auditor's Report

Board of Directors
Billing Services Group Limited

We have audited the accompanying consolidated financial statements of Billing Services Group Limited, which comprise the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Billing Services Group Limited

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Billing Services Group Limited as of December 31, 2016, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Billing Services Group Limited as of and for the year ended December 31, 2015, were audited by another auditor who expressed an unmodified opinion on those statements on March 30, 2016.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

San Antonio, Texas
March 28, 2017

Billing Services Group Limited

Consolidated Balance Sheets (In thousands, except shares)

		December 31	
	Notes	2016	2015
Assets			
Current assets:			
Cash and cash equivalents		\$ 15,111	\$ 7,427
Restricted cash	8	1,655	9,317
Accounts receivable		4,323	5,720
Purchased receivables		744	2,277
Income tax receivable		-	534
Prepaid expenses and other current assets		355	245
Deferred taxes – current	5	942	2,803
Total current assets		23,130	28,323
Property, equipment and software		48,593	47,953
Less accumulated depreciation		44,462	43,340
Net property, equipment and software	2	4,131	4,613
Intangible assets, net of accumulated amortization of \$75,229 and \$74,702 at December 31, 2016 and 2015, respectively	3	6,427	7,400
Goodwill	3	25,275	25,278
Other assets, net		65	165
Total assets		\$ 59,028	\$ 65,779

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Billing Services Group Limited
Consolidated Balance Sheets (continued)
(In thousands, except shares)

	<u>Notes</u>	<u>December 31</u>	
		<u>2016</u>	<u>2015</u>
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade accounts payable		\$ 2,206	\$ 2,934
Third-party payables		10,284	9,545
Accrued liabilities	8	6,270	24,193
Income tax payable		22	-
Term loan note payable	4	178	-
Total current liabilities		<u>18,960</u>	36,672
Deferred taxes – noncurrent	5	2,865	2,203
Other liabilities		89	84
Total liabilities		<u>21,914</u>	38,959
Shareholders' equity:			
Common stock, \$0.59446 par value; 350,000,000 shares authorized; 282,415,748 shares issued and outstanding at December 31, 2016 and 2015		167,885	167,885
Additional paid-in capital (deficit)		(175,577)	(175,606)
Retained earnings		45,779	34,866
Accumulated other comprehensive loss		(973)	(325)
Total shareholders' equity		<u>37,114</u>	26,820
Total liabilities and shareholders' equity		<u>\$ 59,028</u>	<u>\$ 65,779</u>

See accompanying notes.

Billing Services Group Limited

Consolidated Statements of Income and Comprehensive Income (In thousands, except per share amounts)

	Notes	Years Ended December 31	
		2016	2015
Operating revenues		\$ 30,151	\$ 36,358
Cost of services		14,165	17,824
Gross profit		15,986	18,534
Selling, general and administrative expenses		10,296	12,227
Depreciation and amortization expense	2, 3	2,012	2,572
Impairment charge	1	-	195
Operating income		3,678	3,540
Other income (expense):			
Interest expense	4	(5)	(93)
Interest income		84	97
All other income, net		9,555	5,457
Total other income, net		9,634	5,461
Income before income taxes		13,312	9,001
Income tax expense	5	(2,399)	(325)
Net income		10,913	8,676
Other comprehensive loss		(648)	(289)
Comprehensive income		\$ 10,265	\$ 8,387

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Billing Services Group Limited

Consolidated Statements of Income and Comprehensive Income (continued) *(In thousands, except per share amounts)*

	Notes	Years Ended December 31	
		2016	2015
Net income per basic and diluted share:			
Basic net income per share	6	\$ 0.04	\$ 0.03
Diluted net income per share	6	\$ 0.04	\$ 0.03
Basic weighted-average shares outstanding		282,416	282,416
Diluted weighted-average shares outstanding		289,806	288,622

See accompanying notes.

Billing Services Group Limited

Consolidated Statements of Changes in Shareholders' Equity (In thousands)

	<u>Number of Shares</u>	<u>Common Stock</u>	<u>Additional Paid-In Capital (Deficit)</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
Shareholders' equity, December 31, 2014	282,416	\$ 167,885	\$ (175,690)	\$ 26,190	\$ (36)	\$ 18,349
Stock-based compensation expense	-	-	84	-	-	84
Net income	-	-	-	8,676	-	8,676
Translation adjustment	-	-	-	-	(289)	(289)
Shareholders' equity, December 31, 2015	282,416	167,885	(175,606)	34,866	(325)	26,820
Stock-based compensation expense	-	-	29	-	-	29
Net income	-	-	-	10,913	-	10,913
Translation adjustment	-	-	-	-	(648)	(648)
Shareholders' equity, December 31, 2016	282,416	\$ 167,885	\$ (175,577)	\$ 45,779	\$ (973)	\$ 37,114

See accompanying notes.

Billing Services Group Limited
Consolidated Statements of Cash Flows
(In thousands)

	Years Ended December 31	
	2016	2015
Operating activities		
Net income	\$ 10,913	\$ 8,676
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,380	1,913
Amortization of intangibles and other assets	632	649
Amortization of deferred finance costs	-	10
Stock-based compensation expense	29	84
Expense (benefit) in provision for deferred taxes	2,523	(157)
Nonrecurring expense	-	16,691
Changes in operating assets and liabilities:		
Decrease in accounts receivable	1,397	1,329
Decrease in income taxes receivable, net	556	460
(Increase) decrease in prepaid expenses and other assets	(10)	41
(Decrease) increase in trade accounts payable	(728)	492
Increase (decrease) in third-party payables	744	(26,836)
Decrease in accrued liabilities	(17,923)	(2,151)
Net cash (used in) provided by operating activities	(487)	1,201
Investing activities		
Purchases of property, equipment and software	(898)	(1,500)
Net receipts on purchased receivables	1,533	149
Intangible assets, net	344	128
Net cash provided by (used in) investing activities	979	(1,223)

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Billing Services Group Limited

Consolidated Statements of Cash Flows (continued) (In thousands)

	Years Ended December 31	
	2016	2015
Financing activities		
Payments on long-term debt	\$ -	\$ (6,281)
Borrowings on term loan note payable	178	-
Restricted cash	7,662	4,982
Net cash provided by (used in) financing activities	7,840	(1,299)
Effect of exchange rate changes	(648)	(289)
Net increase (decrease) in cash and cash equivalents	7,684	(1,610)
Cash and cash equivalents at beginning of year	7,427	9,037
Cash and cash equivalents at end of year	\$ 15,111	\$ 7,427
Supplemental cash flow information		
Cash paid during the year for:		
Interest	\$ -	\$ 93
Taxes	\$ 350	\$ 967

See accompanying notes.

Billing Services Group Limited

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

1. Organization and Summary of Significant Accounting Policies

Organization

Billing Services Group Limited (the “Company” or “BSG Limited”) commenced operations effective with the completion of its admission to AiM (a market operated by the London Stock Exchange plc) on June 15, 2005. The Company was formed to succeed to the business of Billing Services Group, LLC and its subsidiaries. Through its operating entities, the Company provides clearing and financial settlement products, innovative Wi-Fi roaming solutions to mobile carriers and network operators and third-party verification services to the telecommunications, cable and utilities industries. The Company was incorporated and registered in Bermuda on May 13, 2005.

Principles of Consolidation

The Company’s consolidated financial statements include the accounts of the Company and its subsidiaries, Billing Services Group North America, Inc. (“BSG North America”) and BSG Wireless Limited (“BSG Wireless”), and their respective subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include all cash and highly liquid investments with original maturities of three months or less. The Company holds cash and cash equivalents at several major financial institutions in amounts that often exceed Federal Deposit Insurance Corporation insured limits for United States deposit accounts.

Restricted Cash

Restricted cash represents deposits made under the deposit account security and control agreement (the “Deposit Agreement”) discussed in Note 8.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2016 and 2015

1. Organization and Summary of Significant Accounting Policies (continued)

Accounts Receivable

The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Losses are charged against the allowance when management believes the uncollectibility of a receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management and is based on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. Management believes all receivables to be collectible, and there is no need for an allowance as of December 31, 2016 and 2015.

Purchased Receivables

The Company offers advance funding arrangements to certain customers. Under the terms of the arrangements, the Company purchases the customer's accounts receivable for an amount equal to the face amount of the call record value submitted to the local exchange carriers ("LECs") by the Company, less various deductions, including financing fees, LEC charges, rejects and other similar charges. The Company advances 40% to 72% of the purchased receivable to the customer and charges financing fees at rates up to 8% per annum over prime (prime was 3.75% and 3.50% per annum at December 31, 2016 and 2015, respectively) until the funds are received from the LECs. The face amount of the call record value is recorded as purchased receivables in the consolidated balance sheets.

Concentration of Credit Risk and Significant Customers

At December 31, 2016, ten customers represented approximately 37% of accounts receivable, and seven customers represented 100% of outstanding purchased receivables. At December 31, 2015, ten customers represented approximately 42% of accounts receivable, and nine customers represented 100% of outstanding purchased receivables. Credit risk with respect to trade accounts receivable generated through billing services is limited as the Company collects substantially all of its fees through receipt of cash directly from the LECs. For the year ended December 31, 2016, twenty customers represented approximately 72% of consolidated revenues. For the year ended December 31, 2015, twenty customers represented approximately 65% of consolidated revenues.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2016 and 2015

1. Organization and Summary of Significant Accounting Policies (continued)

Property, Equipment and Software

Property, equipment and software are primarily composed of furniture and fixtures, telecommunication equipment, computer equipment and software and leasehold improvements, including capitalized interest, which are recorded at cost. The cost of additions and substantial improvements to property and equipment, including software being developed for internal use, is capitalized. The cost of maintenance and repairs of property and equipment is charged to operating expenses. Property, equipment and software are depreciated using the straight-line method over their estimated useful lives, which range from three to seven years. Leasehold improvements are depreciated over the shorter of the remaining lease term or the estimated useful life of the asset. Upon disposition, the cost and related accumulated depreciation are removed from the accounts, and the resulting gain or loss is reflected in selling, general and administrative expenses for that period.

Impairment of Long-Lived Assets

The Company reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, and the effects of obsolescence, demand, competition and other economic factors. The Company recognized an impairment loss of \$0 and \$0.2 million during the years ended December 31, 2016 and 2015, respectively.

Capitalized Software Costs

The Company capitalizes the cost of internal-use software that has a useful life in excess of one year. These costs consist of payments made to third parties and the salaries of employees working on such software development. Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2016 and 2015

1. Organization and Summary of Significant Accounting Policies (continued)

The Company also develops software used in providing services. The related software development costs are capitalized once technological feasibility of the software has been established. Costs incurred prior to establishing technological feasibility are expensed as incurred. Technological feasibility is established when the Company has completed all planning and high-level design activities that are necessary to determine that the software can be developed to meet design specifications, including functions, features and technical performance requirements. Capitalization of costs ceases when the software is available for use.

Capitalized software development costs for completed software development projects, including capitalized interest, are transferred to computer software, and are then depreciated using the straight-line method over their estimated useful lives, which generally range from four to seven years. When events or changes in circumstances indicate that the carrying amount of capitalized software may not be recoverable, the Company assesses the recoverability of such assets based on estimates of future undiscounted cash flows compared to net book value. If the future undiscounted cash flow estimates are less than net book value, net book value would then be reduced to estimated fair value, which generally approximates discounted cash flows. The Company also evaluates the amortization periods of capitalized software assets to determine whether events or circumstances warrant revised estimates of useful lives.

For the years ended December 31, 2016 and 2015, the Company capitalized \$0.5 million and \$1.2 million of software development costs, respectively. During 2016 and 2015, the Company transferred \$0.9 million and \$1.0 million, respectively, of software development costs to computer software. Depreciation expense on computer software was \$1.0 million and \$1.5 million for the years ended December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, the Company had undepreciated software costs of \$3.3 million and \$3.4 million, respectively.

Intangible Assets and Goodwill

The Company classifies intangible assets as definite-lived, indefinite-lived or goodwill. The Company accounts for its intangible assets and goodwill in accordance with the provisions of Accounting Standards Codification (“ASC”) 350, *Intangibles – Goodwill and Other*.

Definite-lived intangible assets consist of customer and local exchange carrier contracts, both of which are amortized over the respective lives of the agreements. The Company periodically reviews the appropriateness of the amortization periods related to its definite-lived assets. These assets are recorded at amortized cost.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2016 and 2015

1. Organization and Summary of Significant Accounting Policies (continued)

The Company tests for possible impairment of definite-lived intangible assets whenever events or changes in circumstances, such as a reduction in operating cash flow or a material change in the manner for which the asset is intended to be used, indicate that the carrying amount of the asset may not be recoverable. If such indicators exist, the Company compares the undiscounted cash flows related to the asset to the carrying value of the asset. If the carrying value is greater than the undiscounted cash flow amount, an impairment charge is recorded in amortization expense in the consolidated statements of operations for amounts necessary to reduce the carrying value of the asset to fair value.

The Company's indefinite-lived intangible assets consist of trademarks, which were originally recorded at their acquisition date fair value. The Company's indefinite-lived intangible assets are not subject to amortization but are tested for impairment at least annually. The Company tests its indefinite-lived intangible assets for impairment annually on October 1, or more frequently when events or changes in circumstances indicate that impairment may have occurred.

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. Goodwill is not subject to amortization, but is tested for impairment at least annually. Impairment may exist when the carrying amount of the reporting unit exceeds its estimated fair value. Assessing the recoverability of goodwill requires the Company to make estimates and assumptions about sales, operating margins, growth rates and discount rates based on its budgets, business plans, economic projections, anticipated future cash flows and marketplace data. There are inherent uncertainties related to these factors and management's judgment in applying these factors.

The Company tests goodwill for impairment using a two-step process. The first step, used to screen for potential impairment, compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying value, goodwill of the reporting unit is considered not impaired, and the second step of the impairment test is not necessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of goodwill. After a goodwill impairment loss is recognized, the adjusted carrying amount of goodwill becomes its new accounting basis. Subsequent reversal of a previously recognized goodwill impairment loss is prohibited.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2016 and 2015

1. Organization and Summary of Significant Accounting Policies (continued)

Third-Party Payables

The Company provides clearing and financial settlement solutions to telecommunications and other service providers through billing agreements with LECs and through direct billing with end-user consumers.

For its LEC billing transactions, the Company receives individual call records from telecommunications and other service providers and processes and sorts the records for transmittal to various LECs, which maintain the critical database of end-user names and addresses of the billed parties. Invoices to end-users are generated by the LECs, and the collected funds are remitted to the Company, which in turn remits these funds to its customers, net of fees, reserves, taxes and other charges.

For its direct billing transactions, the Company receives individual call records from telecommunications and other service providers, processes the records and generates and submits invoices to end-users for payment. Funds are collected by the Company, which in turn remits these funds to its customers, net of fees, reserves, taxes and other charges.

Reserves represent cash withheld from customers to satisfy future obligations on behalf of the customers. These obligations consist of bad debt, customer service, indemnification obligations and other miscellaneous charges. The Company records trade accounts receivable and service revenue for fees charged to process the call records. When the Company collects funds from the LECs and end-user consumers, the Company's trade receivables are reduced by the amount corresponding to the processing fees, which are retained by the Company. In certain instances, the Company also retains a reserve from its customers' settlement proceeds to cover the LECs' billing fees and other charges. The remaining funds due to customers are recorded as liabilities and reported in third-party payables in the consolidated balance sheets.

Revenue Recognition

For its LEC billing business, the Company provides its services to telecommunications and other service providers through billing arrangements with network operators. Revenue is recognized when its customers' records are processed and accepted by the Company. For its Wi-Fi roaming solutions, third-party verification and direct billing businesses, the Company recognizes revenue when services are rendered.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2016 and 2015

1. Organization and Summary of Significant Accounting Policies (continued)

Earnings Per Share

The Company computes earnings per share under the provisions of ASC 260, *Earnings Per Share*, whereby basic earnings per share are computed by dividing net income or loss attributable to common shareholders by the weighted-average number of shares of common stock outstanding during the applicable period. Diluted earnings per share are determined in the same manner as basic earnings per share except that the number of shares is increased to assume exercise of potentially dilutive stock options using the treasury stock method, unless the effect of such increase would be anti-dilutive.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses and gains and losses be included in net income. Although certain changes in assets and liabilities, such as translation gains and losses, are reported as a separate component of the equity section on the balance sheet, such items, along with net income, are components of comprehensive income.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as current and noncurrent based on their characteristics. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2016 and 2015

1. Organization and Summary of Significant Accounting Policies (continued)

U.S. generally accepted accounting principles (“GAAP”) requires that the Company recognize the impact of a tax position that is more likely than not to be disallowed upon examination, including resolution of any appeals or litigation processes, based upon the technical merits of the position. Tax positions taken related to the Company’s tax status and federal and state filing requirements have been reviewed, and management is of the opinion that they would more likely than not be sustained by examination. Accordingly, the Company has not recorded an income tax liability for uncertain tax benefits. As of December 31, 2016, the Company’s tax years 2013 and thereafter remain subject to examination for federal tax purposes, and 2010 and thereafter remain subject to examination for state tax purposes.

The Company and its subsidiaries are subject to federal income taxes in the United States and United Kingdom and various state income taxes.

Stock-Based Compensation

Under the fair value recognition provisions of ASC 718-10, *Compensation – Stock Compensation*, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense on a straight-line basis over the vesting period. Determining the fair value of stock-based awards at the grant date requires assumptions and judgments about expected volatility and forfeiture rates, among other factors.

Foreign Currency

Results of operations of the Company, as appropriate, are translated into U.S. dollars using the average exchange rates during the year. The assets and liabilities of those entities are translated into U.S. dollars using the exchange rates at the balance sheet date. The related translation adjustments are recorded in a separate component of shareholders’ equity, “Accumulated other comprehensive income.” Foreign currency transaction gains and losses are included in the statement of operations.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2016 and 2015

1. Organization and Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

New Accounting Standards and Disclosures

Leases

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases*. The guidance in this ASU supersedes the current leasing guidance. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements, with certain practical expedients available. The Company is currently evaluating the impact of its pending adoption of the new standard on its consolidated financial statements and related disclosures.

Deferred Taxes

In November 2015, FASB issued ASU No. 2015-17, *Income Taxes: Balance Sheet Classification of Deferred Taxes*. The standard requires that deferred tax assets and liabilities be classified as noncurrent on the balance sheet rather than being separated into current and noncurrent. ASU 2015-17 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted and the standard may be applied either retrospectively or on a prospective basis to all deferred tax assets and liabilities. The Company has not yet adopted ASU 2015-17, but expects it to have no impact on the Company’s results of operations.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2016 and 2015

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue

In May 2014, FASB issued ASU No. 2014-09, *Revenue From Contracts With Customers*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2017. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the effects the adoption of the standard will have on the consolidated financial statements and related disclosures.

Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or retained earnings.

Subsequent Events

Subsequent events were evaluated through March 29, 2017, the date at which the consolidated financial statements were available to be issued.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2016 and 2015

2. Property, Equipment and Software

Property, equipment and software consisted of the following:

	December 31	
	2016	2015
	<i>(In thousands)</i>	
Furniture and fixtures	\$ 269	\$ 275
Telecommunication equipment	1,839	1,839
Computer equipment	6,659	6,399
Computer software	37,654	36,689
Software development, including \$196 of capitalized interest at December 31, 2015	-	579
Leasehold improvements	2,172	2,172
	48,593	47,953
Less accumulated depreciation	44,462	43,340
Net property, equipment and software	\$ 4,131	\$ 4,613

Depreciation expense was \$1.4 million and \$1.9 million for the years ended December 31, 2016 and 2015, respectively.

3. Intangible Assets

Definite-lived intangible assets consist of customer and local exchange carrier contracts, which are amortized over their respective estimated lives. The weighted-average amortization period is approximately ten years.

Indefinite-lived intangible assets consist of trademarks. Trademarks are not subject to amortization but are tested for impairment at least annually.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2016 and 2015

3. Intangible Assets (continued)

The following table presents the gross carrying amount and accumulated amortization for each major category of intangible assets:

	2016		2015		Amortization Period
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	
	<i>(In thousands)</i>				
Customer contracts	\$ 70,350	\$ 69,456	\$ 70,602	\$ 69,372	10 years
Local exchange carrier contracts	6,640	5,773	6,640	5,330	15 years
Trademarks	4,666	-	4,860	-	N/A
	\$ 81,656	\$ 75,229	\$ 82,102	\$ 74,702	

Total amortization expense from definite-lived intangibles was \$0.6 million for each of the years ended December 31, 2016 and 2015. The estimate of amortization expense for the five succeeding fiscal years for definite-lived intangibles is \$0.6 million for 2017 and 2018 and \$0.2 million each for 2019 through 2021.

The following table presents the change in carrying amount of goodwill for the years ended December 31, 2016 and 2015:

	Total
	<i>(In thousands)</i>
Balance as of December 31, 2014	\$ 25,281
Adjustments – 2015	(3)
Balance as of December 31, 2015	25,278
Adjustments – 2016	(3)
Balance as of December 31, 2016	\$ 25,275

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2016 and 2015

4. Debt

On June 30, 2011, the Company refinanced its debt and entered into a \$48 million credit agreement (the “Term Loan Facility”). The Term Loan Facility was secured by all of BSG North America’s assets and guarantees from most of the Company’s subsidiaries.

Interest under the Term Loan Facility was charged, at the Company’s option, at the U.S. prime rate plus a specified margin, or the London Interbank Offered Rate (“LIBOR”) plus a specified margin, and if the LIBOR option is selected, a LIBOR floor of 0.75% per annum. The margin was determined based on the Company’s leverage ratio, as defined in the credit agreement. At June 30, 2015, the interest rate on the Term Loan Facility was 3.25% per annum.

The Term Loan Facility required quarterly principal payments of \$2.4 million through June 2015 and monthly payments of \$0.5 million at each month end of July, August and September 2015. It also required mandatory prepayments relating to (i) 75% of BSG North America’s excess cash flow, as defined; and (ii) certain other occurrences for which mandatory prepayment is a usual and customary consequence in credit agreements of this nature. Outstanding loans may be prepaid at any time without prepayment premium or penalty.

During 2015, the Company did not generate any consolidated excess cash flow, as defined in the Term Loan Facility. Accordingly, no related additional principal payment was required.

The Term Loan Facility was repaid in full on September 30, 2015.

On December 1, 2016, the Company financed the purchase of computer equipment through a term loan in the amount of \$0.2 million. The term loan note requires 36 equal monthly payments of principal and interest, commencing January 1, 2017. The interest rate is fixed at 4.425% per annum. The outstanding note may be prepaid at any time without penalty.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2016 and 2015

5. Income Taxes

The components of the Company's income tax expense (benefit) are as follows:

	Years Ended December 31	
	2016	2015
	<i>(In thousands)</i>	
Current expense (benefit):		
Federal	\$ (5)	\$ 305
State	89	177
Foreign	(208)	-
	(124)	482
Deferred expense (benefit):		
Federal	2,375	(166)
State	9	9
Foreign	139	-
	2,523	(157)
Total income tax expense	\$ 2,399	\$ 325

The income tax provision differs from amounts computed by applying the U.S. federal statutory tax rate to income before income taxes as follows:

	Years Ended December 31	
	2016	2015
	<i>(In thousands)</i>	
Estimated federal tax expense at 35%	\$ 4,659	\$ 3,149
Increases (reductions) from:		
State tax, net of federal deferred tax benefit	68	124
Provision to return adjustment	43	32
Nonrecurring other income	(843)	(3,098)
Tax credits and permanent differences	(400)	(219)
Foreign tax rate differential	(913)	176
Valuation allowance	-	656
Other	(215)	(495)
Income tax expense	\$ 2,399	\$ 325

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2016 and 2015

5. Income Taxes (continued)

Deferred income taxes result from temporary differences between the bases of assets and liabilities for financial statement purposes and income tax purposes. The net deferred tax assets and liabilities reflected in the consolidated balance sheets include the following amounts:

	December 31	
	2016	2015
	<i>(In thousands)</i>	
Current deferred tax assets (liabilities):		
Reserve for bad debts	\$ 12	\$ 7
Accrued liabilities	227	2,058
State taxes	320	329
Stock-based compensation expense	472	466
Prepaid expense	(89)	(57)
Total current deferred tax asset, net	942	2,803
Noncurrent deferred tax assets (liabilities):		
Property, equipment and software	1,263	1,162
Intangible assets	(4,544)	(2,277)
Capitalized interest	(1,379)	(1,379)
Net operating loss carryforward	6,050	1,931
Valuation allowance on NOL	(5,015)	(866)
Accrued liabilities	1,337	-
Cancellation of debt deferral	(577)	(774)
Total noncurrent deferred tax liability, net	(2,865)	(2,203)
Net deferred tax (liabilities) assets	\$ (1,923)	\$ 600

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2016 and 2015

5. Income Taxes (continued)

At December 31, 2016, BSG North America had state net operating loss credit carryforwards of approximately \$0.5 million, which will expire in 2026. At December 31, 2016, BSG North America had net operating loss credit carryforwards of approximately \$0.1 million with a full valuation allowance. At December 31, 2016, BSG Wireless had a net operating loss credit carryforward of \$5.1 million, for which there is no valuation allowance. At December 31, 2016, BSG Wireless Solutions Ltd. and Connection Services Holdings Ltd., each a subsidiary of BSG Wireless, had net operating loss credit carryforwards of \$18.8 million and \$5.6 million, respectively, each with a fully offsetting valuation allowance. Both BSG Wireless Solutions Ltd. and Connection Services Holdings Ltd. are dormant entities without business operations that could allow realization of their respective net operating loss credit carryforwards.

Realization of deferred tax assets is dependent upon, among other things, the ability to generate taxable income of the appropriate character in the future. Management is of the opinion that it is more likely than not that its deferred tax assets, less applicable valuation allowances, will be realized.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2016 and 2015

6. Earnings Per Share

Earnings per share are calculated based on the weighted-average number of shares of the Company's common stock outstanding during the period.

The following is a summary of the elements used in calculating basic and diluted income per share:

	Years ended December 31	
	2016	2015
	<i>(In thousands, except per share amounts)</i>	
Numerator:		
Net income	\$ 10,913	\$ 8,676
Denominator:		
Weighted-average shares – basic	282,416	282,416
Effect of diluted securities:		
Options	7,390	6,206
Weighted-average shares – diluted	289,806	288,622
Net income per common share:		
Basic and diluted	\$ 0.04	\$ 0.03

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2016 and 2015

7. Commitments

The Company leases certain office space and equipment under various operating leases. Annual future minimum lease commitments as of December 31, 2016, are as follows (in thousands):

Year ending December 31:	
2017	\$ 727
2018	569
2019	81
2020	79
2021	77

Rental expense under these operating leases approximated \$0.7 million and \$0.5 million for the years ended December 31, 2016 and 2015, respectively.

8. Contingencies

The Company is involved in various claims, legal actions and regulatory proceedings arising in the ordinary course of business. The Company believes it is unlikely that the final outcome of any of the claims, litigation or proceedings to which the Company is a party will have a material adverse effect on the Company's consolidated financial position or results of operations; however, due to the inherent uncertainty of litigation, there can be no assurance that the resolution of any particular claim or proceeding would not have a material adverse effect on the Company's consolidated financial position and results of operations for the fiscal period in which such resolution occurs.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2016 and 2015

8. Contingencies (continued)

In June 2012, the Company executed an agreement regarding reserves (the “Reserve Agreement”), as well as a deposit account security and control agreement (the “Deposit Agreement”), with one of the largest U.S. LECs. These agreements were prompted by this LEC’s intention to settle a nationwide class action lawsuit and the resulting indemnification obligations that would be owed by the Company to the LEC as a result of the settlement. The Reserve Agreement permits this LEC to deduct funds from amounts otherwise payable to the Company to cover obligations under the Billing and Collection Agreement between the Company and the LEC. The Deposit Agreement permits this LEC to deposit amounts in an account held in the name of both the LEC and Company; however, funds can only be released at the sole direction of the LEC. The amount of restricted cash, as indicated on the consolidated balance sheets, represents the net deposits made by the LEC in connection with the Deposit Agreement.

Included in accrued liabilities at December 31, 2016 and 2015 are approximately \$2.4 million and \$17.6 million, respectively, in reserves which are comprised of these deposits and other payables available to satisfy potential future obligations.

During 2016 and 2015, the Company allocated approximately \$1.0 million and \$25.5 million, respectively, in class action settlement expenses to its customer base. These allocations included both direct end-user payments and shared expenses (*e.g.*, claims administration, counsel fees, *etc.*). These expenses had been previously paid by the local exchange carriers and withheld in the settlement process. This allocation resulted in certain customer accounts payable balances being reclassified to receivable balances and ultimately deemed uncollectible and written off for a non-cash expense of \$16.7 million. In addition, the Company established accruals in December 2015 for certain legal settlements it considered more likely than not would conclude in 2016. The net sum of these actions represents the “All other income, net” amount shown in the accompanying Consolidated Statements of Income and Comprehensive Income in 2016 and 2015.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2016 and 2015

9. Employee Benefit Plan

A Company subsidiary sponsors a 401(k) retirement plan (the “Retirement Plan”), which is offered to eligible employees. Generally, all U.S.-based employees are eligible for participation in the Retirement Plan. The Retirement Plan is a defined contribution plan, which provides that participants may make voluntary salary deferral contributions, on a pretax basis, in the form of voluntary payroll deductions, subject to annual Internal Revenue Service limitations. The Company matches a defined percentage of a participant’s contributions, subject to certain limits, and may make additional discretionary contributions. For each of the years ended December 31, 2016 and 2015, the Company’s matching contributions totaled \$0.1 million. No discretionary contributions were made in either period.

10. Stock Option Plans

The Company adopted a stock option plan in 2005. On August 15, 2008, the Board of Directors adopted resolutions to amend and restate both the Billing Services Group Limited Stock Option Plan and the BSG Clearing Solutions North America, Inc. Stock Option Plan (the “BSG Limited Plan” and the “BSG North America Plan,” respectively). In December 2012, the Company’s shareholders approved a resolution to amend the BSG Limited Plan and the BSG North America Plan. This resolution enables the Company’s directors, under the BSG Limited Plan and the BSG North America Plan, to grant options up to an aggregate amount of 15% of the number of common shares in issue at the time of the proposed grant. Prior to this resolution, the aggregate number of options granted was limited to 10% of the number of common shares in issue at the time of the proposed grant. In September 2015, the Board of Directors approved the cancellation and reissuance of 2,987,500 nonqualified stock options, held by 33 employees. The modification had no material effect on compensation expense recognized in 2015.

Options may be granted at the discretion of the remuneration committee to any director or employee and are generally granted with an exercise price equal to or greater than the market price of the Company’s stock at the grant date. Directors may be granted options in the BSG Limited Plan and employees may be granted options in the BSG North America Plan. Options granted under the BSG North America Plan are exercisable into shares of the Company.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2016 and 2015

10. Stock Option Plans (continued)

Outstanding options generally vest over a three-year period following the grant date. One-quarter of the total number of options typically vest on the grant date, and the remaining 75% of options vest in equal tranches on the first, second and third anniversary of the grant. Generally, an option is exercisable only if the holder is in the employment of the Company or one of its affiliates (or for a period of time following employment, subject to the discretion of the remuneration committee), or in the event of a change in control of the Company. Upon a change in control, generally, all options vest immediately. The options have a contractual life of ten years.

The fair value of the options is computed using the Black-Scholes option pricing model. The following table sets forth the assumptions used in arriving at the fair value of the options granted during 2015:

Grant Date	Grant Date Fair Value	Assumptions			
		Risk-free Interest Rate	Dividend Yield	Expected Volatility	Expected Life (years)
April 2015	1.3 pence	1.91%	0%	41.4%	5.75
September 2015	1.2 pence	2.28%	0%	44.2%	5.75

The Company estimated the risk-free interest rate in reference to the yield on U.S. Treasury securities with a maturity date commensurate with the expected term of the associated award. A decrease in the selected risk-free rate would decrease the fair value of the instrument. Expected volatility is based on implied volatility from historical market data for the Company. The expected option lives are based on a mathematical average with respect to vesting and contractual terms.

No options were granted during 2016.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2016 and 2015

10. Stock Option Plans (continued)

The following is a summary of option activity:

	Options Outstanding	Weighted- Average Exercise Price
Options outstanding at December 31, 2014	11,580,522	8.9 pence
Granted	6,696,250	
Cancelled	(2,987,500)	
Forfeited	(4,560,000)	
Options outstanding at December 31, 2015	10,729,272	6.0 pence
Granted	-	
Forfeited	(640,000)	
Options outstanding at December 31, 2016	10,089,272	6.2 pence
Options exercisable at December 31, 2016	7,389,897	7.1 pence
Options available for grant at December 31, 2016	19,249,808	

All of the options granted during 2015 were granted under the BSG North America Plan.

As of December 31, 2016, there was less than \$0.1 million of total unrecognized noncash compensation cost related to nonvested share-based compensation arrangements granted under the BSG North America Plan. That cost is expected to be recognized during 2017 and 2018.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2016 and 2015

10. Stock Option Plans (continued)

The following is a summary of nonvested option activity:

	Number of Options	Weighted- Average Exercise Price
Nonvested options outstanding at December 31, 2014	2,470,625	8.0 pence
Granted	5,022,187	
Vested	(1,551,875)	
Cancelled	(562,500)	
Forfeited	(855,000)	
Nonvested options outstanding at December 31, 2015	<u>4,523,437</u>	3.5 pence
Granted	-	
Vested	(1,372,187)	
Forfeited	(451,875)	
Nonvested options outstanding at December 31, 2016	<u><u>2,699,375</u></u>	3.5 pence