

Billing Services Group Limited

Consolidated Balance Sheets (In thousands, except shares)

		December 31	
	Notes	2015	2014
Assets			
Current assets:			
Cash and cash equivalents		\$ 7,427	\$ 9,037
Restricted cash	8	9,317	14,299
Accounts receivable		5,720	7,049
Purchased receivables		2,277	2,426
Income tax receivable		534	994
Prepaid expenses and other current assets		245	286
Deferred taxes – current	5	2,803	904
Total current assets		28,323	34,995
Property, equipment and software		47,953	46,536
Less accumulated depreciation		43,340	41,510
Net property, equipment and software	2	4,613	5,026
Deferred finance costs, net of accumulated amortization of \$347 and \$337 at December 31, 2015 and 2014, respectively		-	10
Intangible assets, net of accumulated amortization of \$74,702 and \$74,083 at December 31, 2015 and 2014, respectively	3	7,400	8,174
Goodwill	3	25,278	25,281
Other assets, net		165	165
Total assets		\$ 65,779	\$ 73,651

Continued on following page

Billing Services Group Limited

Consolidated Balance Sheets (continued) (In thousands, except shares)

	Notes	December 31	
		2015	2014
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable		\$ 2,934	\$ 2,442
Third-party payables		9,545	19,450
Accrued liabilities	8	24,193	26,344
Current portion of long-term debt	4	-	6,281
Total current liabilities		36,672	54,517
Deferred taxes – noncurrent	5	2,203	461
Other liabilities		84	324
Total liabilities		38,959	55,302
Shareholders' equity:			
Common stock, \$0.59446 par value; 350,000,000 shares authorized; 282,415,748 shares issued and outstanding at December 31, 2015 and 2014		167,771	167,771
Additional paid-in capital (deficit)		(175,492)	(175,576)
Retained earnings		34,866	26,190
Accumulated other comprehensive loss		(325)	(36)
Total shareholders' equity		26,820	18,349
Total liabilities and shareholders' equity		\$ 65,779	\$ 73,651

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	
		2015	2014
Operating revenues		\$ 36,358	\$ 42,429
Cost of services		17,824	22,044
Gross profit		18,534	20,385
Selling, general and administrative expenses		12,143	11,555
Depreciation and amortization expense	2, 3	2,572	3,183
Impairment charge	1	195	-
Stock-based compensation expense	10	84	79
Operating income		3,540	5,568
Other income (expense):			
Interest expense	4	(93)	(424)
Interest income		97	117
All other income (expense), net		5,457	(2,399)
Total other income (expense), net		5,461	(2,706)
Income before income taxes		9,001	2,862
Income tax expense	5	(325)	(778)
Net income		8,676	2,084
Other comprehensive loss		(289)	(306)
Comprehensive income		\$ 8,387	\$ 1,778

Continued on following page

Billing Services Group Limited

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

	Notes	Years Ended December 31	
		2015	2014
Net income per basic and diluted share:			
Basic net income per share	6	\$ 0.03	\$ 0.01
Diluted net income per share	6	\$ 0.03	\$ 0.01
Basic weighted-average shares outstanding		282,416	282,416
Diluted weighted-average shares outstanding		288,622	291,526

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, 2013	282,416	\$ 167,771	\$ (175,655)	\$ 24,106	\$ 270	\$ 16,492
Stock-based compensation expense	-	-	79	-	-	79
Net income	-	-	-	2,084	-	2,084
Translation adjustment	-	-	-	-	(306)	(306)
Shareholders' equity, December 31, 2014	282,416	167,771	(175,576)	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	\$ 167,771	\$ (175,492)	\$ 34,866	\$ (325)	\$ 26,820

See accompanying notes.

Billing Services Group Limited

Consolidated Statements of Cash Flows (In thousands)

	Years Ended December 31	
	2015	2014
Operating activities		
Net income	\$ 8,676	\$ 2,084
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,913	2,361
Amortization of intangibles and other assets	649	772
Amortization of deferred finance costs	10	50
Stock-based compensation expense	84	79
Disposal of assets, net	-	158
(Benefit) expense in provision for deferred taxes	(157)	530
Nonrecurring expense	16,691	-
Changes in operating assets and liabilities:		
Decrease in accounts receivable	1,329	851
Decrease (increase) in income taxes receivable, net	460	(1,709)
Decrease in prepaid expenses and other assets	41	127
Increase (decrease) in trade accounts payable	492	(2,381)
(Decrease) increase in third-party payables	(26,836)	1,207
Decrease in accrued liabilities	(2,151)	(134)
Decrease in other liabilities	-	(53)
Net cash provided by operating activities	1,201	3,942
Investing activities		
Purchases of property, equipment and software	(1,500)	(898)
Net receipts on purchased receivables	149	1,413
Intangible assets, net	128	(91)
Net cash (used in) provided by investing activities	(1,223)	424

Continued on following page

Billing Services Group Limited

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

	Years Ended December 31	
	2015	2014
Financing activities		
Payments on long-term debt	\$ (6,281)	\$ (9,698)
Restricted cash	4,982	1,960
Net cash used in financing activities	(1,299)	(7,738)
Effect of exchange rate changes	(289)	(306)
Net decrease in cash and cash equivalents	(1,610)	(3,678)
Cash and cash equivalents at beginning of year	9,037	12,715
Cash and cash equivalents at end of year	\$ 7,427	\$ 9,037
Supplemental cash flow information		
Cash paid during the year for:		
Interest	\$ 93	\$ 422
Taxes	\$ 967	\$ 2,047

See accompanying notes.

Billing Services Group Limited

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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, 2015 and 2014

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, 2015 and 2014.

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 20% to 75% of the purchased receivable to the customer and charges financing fees at rates up to 8% per annum over prime (prime was 3.50% and 3.25% per annum at December 31, 2015 and 2014, 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.

Financial Instruments

Due to their short maturity, the carrying amounts of accounts and purchased receivables, accounts payable and accrued liabilities approximated their fair values at December 31, 2015 and 2014. The fair value of the current portion of long-term debt approximated its face value and is based on the amounts at which the debt could be settled (either transferred or paid back) in a current transaction exclusive of transaction costs.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2015 and 2014

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

Concentration of Credit Risk and Significant Customers

At December 31, 2015, ten customers represented approximately 42% of accounts receivable, and nine customers represented 100% of outstanding purchased receivables. At December 31, 2014, ten customers represented approximately 44% of accounts receivable, and ten 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 its fees through receipt of cash directly from the LECs. For the year ended December 31, 2015, twenty customers represented approximately 65% of consolidated revenues. For the year ended December 31, 2014, twenty customers represented approximately 74% of consolidated revenues.

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 other income (expense) 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 \$0.2 million and \$0 during the years ended December 31, 2015 and 2014, respectfully.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2015 and 2014

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

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.

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, 2015 and 2014, the Company capitalized \$1.2 million and \$0.9 million of software development costs, respectively. During 2015 and 2014, the Company transferred \$1.0 million and \$0.8 million, respectively, of software development costs to computer software. Depreciation expense on computer software was \$1.5 million and \$2.3 million for the years ended December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, the Company had undepreciated software costs of \$3.4 million and \$4.4 million, respectively.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2015 and 2014

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

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.

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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2015 and 2014

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

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.

Third-Party Payables

The Company provides clearing and financial settlement solutions to telecommunications and other service providers through billing agreements with LECs, which maintain the critical database of end-user names and addresses of the billed parties. The Company receives individual call records from telecommunications and other service providers and processes and sorts the records for transmittal to various LECs. 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.

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, 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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2015 and 2014

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

Revenue Recognition

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

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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2015 and 2014

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

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.

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 loss." 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, 2015 and 2014

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

Advertising Costs

The Company records advertising expense as it is incurred.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles (“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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2015 and 2014

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

Deferred Taxes

In November 2015, FASB issued ASU No. 2015-17, *Income Taxes: Balance Sheet Classification of Deferred Taxes*, which concludes that deferred tax liabilities and assets should be classified as noncurrent in a classified statement of financial position. Current GAAP requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. This ASU will be effective for fiscal years beginning after December 15, 2016. Early adoption is permitted.

Debt Issuance Costs

In April 2015, FASB issued ASU No. 2015-03, *Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The amendments are effective for financial statements issued for fiscal years beginning after December 15, 2015 and for interim periods within fiscal years beginning after December 15, 2016.

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 has not yet selected a transition method and is currently evaluating the effects the standard will have on the consolidated financial statements.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2015 and 2014

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

Subsequent Events

Subsequent events were evaluated through March 30, 2016, the date at which the consolidated financial statements were available to be issued.

2. Property, Equipment and Software

Property, equipment and software consisted of the following:

	December 31	
	2015	2014
	<i>(In thousands)</i>	
Furniture and fixtures	\$ 275	\$ 278
Telecommunication equipment	1,839	1,839
Computer equipment	6,399	6,123
Computer software	36,689	35,752
Software development, \$196 of capitalized interest at December 31, 2015 and 2014	579	372
Leasehold improvements	2,172	2,172
	47,953	46,536
Less accumulated depreciation	43,340	41,510
Net property, equipment and software	\$ 4,613	\$ 5,026

Depreciation expense was \$1.9 million and \$2.4 million for the years ended December 31, 2015 and 2014, 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, 2015 and 2014

3. Intangible Assets (continued)

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

	2015		2014		Amortization Period
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	
	<i>(In thousands)</i>				
Customer contracts	\$ 70,602	\$ 69,372	\$ 70,689	\$ 69,195	10 years
Local exchange carrier contracts	6,640	5,330	6,640	4,888	15 years
Trademarks	4,860	-	4,928	-	N/A
	\$ 82,102	\$ 74,702	\$ 82,257	\$ 74,083	

Total amortization expense from definite-lived intangibles was \$0.6 million and \$0.7 million for the years ended December 31, 2015 and 2014, respectively. The estimate of amortization expense for the five succeeding fiscal years for definite-lived intangibles is \$0.6 million each for 2016 through 2018 and \$0.2 million for 2019 and 2020.

4. Debt

Long-term debt is as follows:

	December 31	
	2015	2014
	<i>(In thousands)</i>	
Total debt outstanding	\$ -	\$ 6,281
Less current portion	-	6,281
	\$ -	\$ -

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2015 and 2014

4. Debt (continued)

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 and 2014, 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. In 2014, the Company made a \$0.1 million mandatory prepayment resulting from the sale of certain assets.

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

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2015 and 2014

5. Income Taxes

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

	Years Ended December 31	
	2015	2014
	<i>(In thousands)</i>	
Current expense:		
Federal	\$ 305	\$ 127
State	177	121
	482	248
Deferred expense (benefit):		
Federal	(166)	521
State	9	9
	(157)	530
Total income tax expense	\$ 325	\$ 778

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	
	2015	2014
	<i>(In thousands)</i>	
Estimated federal tax expense at 35%	\$ 3,149	\$ 1,002
Increases (reductions) from:		
State tax, net of federal deferred tax benefit	124	88
Provision to return adjustment	32	(152)
Nonrecurring other income	(3,098)	-
Tax credits and permanent differences	(219)	(648)
Foreign tax rate differential	176	302
Valuation allowance	656	-
Other	(495)	186
Income tax expense	\$ 325	\$ 778

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2015 and 2014

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	
	2015	2014
	<i>(In thousands)</i>	
Current deferred tax assets (liabilities):		
Reserve for bad debts	\$ 7	\$ 37
Accrued liabilities	2,058	211
State taxes	329	339
Stock-based compensation expense	466	434
Prepaid expense	(57)	(117)
Total current deferred tax asset, net	2,803	904
Noncurrent deferred tax assets (liabilities):		
Property, equipment and software	1,162	422
Intangible assets	(2,277)	498
Capitalized interest	(1,379)	(1,379)
Net operating loss carryforward	1,931	1,178
Valuation allowance on NOL	(866)	(210)
Cancellation of debt deferral	(774)	(970)
Total noncurrent deferred tax liability, net	(2,203)	(461)
Net deferred tax assets	\$ 600	\$ 443

At December 31, 2015, BSG North America had state net operating loss credit carryforwards of approximately \$0.5 million, which will expire in 2026. At December 31, 2015, BSG Wireless had a net operating loss of \$9.7 million, with a corresponding valuation allowance of \$4.3 million that has no expiration.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2015 and 2014

5. Income Taxes (continued)

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.

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:

	December 31	
	2015	2014
	<i>(In thousands, except per share amounts)</i>	
Numerator:		
Net income	\$ 8,676	\$ 2,084
Denominator:		
Weighted-average shares – basic	282,416	282,416
Effect of diluted securities:		
Options	6,206	9,110
Weighted-average shares – diluted	<u>288,622</u>	<u>291,526</u>
Net income per common share:		
Basic and diluted	<u>\$ 0.03</u>	<u>\$ 0.01</u>

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2015 and 2014

7. Commitments

The Company leases certain office space and equipment under various operating leases. Annual future minimum lease commitments as of December 31, 2015, are as follows (in thousands):

Year ending December 31:	
2016	\$ 747
2017	749
2018	580
2019	93
2020	93

Rental expense under these operating leases approximated \$0.5 million and \$0.7 million for the years ended December 31, 2015 and 2014, 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.

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 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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2015 and 2014

8. Contingencies (continued)

Included in accrued liabilities at December 31, 2015 and 2014 are approximately \$17.6 million and \$24.4 million, respectively, in reserves which are comprised of these deposits and other payables available to satisfy potential future obligations.

During 2015, the Company allocated approximately \$25.5 million 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 considers more likely than not will 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 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, 2015 and 2014, the Company’s matching contributions totaled \$0.1 million. No discretionary contributions were made in either period.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2015 and 2014

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.

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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2015 and 2014

10. Stock Option Plans (continued)

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 and 2014:

Grant Date	Grant Date Fair Value	Assumptions			
		Risk-free Interest Rate	Dividend Yield	Expected Volatility	Expected Life (years)
October 2014	1.6 pence	2.39%	0%	53.1%	5.75
April 2015	1.3 pence	1.91%	0%	41.4%	5.75
September 2015	1.2 pence	2.28%	0%	44.2%	5.75

Risk-free interest rates reflect the yield on the ten-year U.S. Treasury note. Expected dividend yield presumes no set dividend paid. 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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2015 and 2014

10. Stock Option Plans (continued)

The following is a summary of option activity:

	Options Outstanding	Weighted- Average Exercise Price
Options outstanding at December 31, 2013	10,824,272	9.3 pence
Granted	947,500	
Forfeited	(191,250)	
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
Options exercisable at December 31, 2015	6,205,835	7.9 pence
Options available for grant at December 31, 2015	18,609,808	

All of the options granted during 2015 and 2014 were granted under the BSG North America Plan.

As of December 31, 2015, 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 2016 through 2018.