
BILLING SERVICES GROUP LIMITED
2015 ANNUAL REPORT







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2015 Annual Report

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MESSAGE FROM THE CHAIRMAN

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Patrick D. Heneghan



TO OUR SHAREHOLDERS

Exciting developments during the past year have cleared the way for aggressive implementation of our business plan. Three events were pivotal:

- the complete payoff of all outstanding debt;
- the substantial wind-down of class action litigation involving two of the largest LECs which provide billing and collection services for us; and
- settlement (in May 2016) of litigation with the Federal Trade Commission ("FTC") related to services we discontinued in 2012.

As a result of these developments, the Company's collective focus has returned fully to strategies and tactics to enhance shareholder value. The momentum has changed in our favor.

The management team has once again exceeded expectations. The intensive efforts to reduce debt to zero (from a \$265 million peak 10 years ago) cannot be overstated. The similarly exhaustive management of indemnification obligations under class action litigation minimized the Company's liabilities and affirmed the adequacy of existing reserves to cover remaining obligations. Closure of the FTC litigation was a crucial step to allow management to focus with virtual exclusivity on growth of the business.

FINANCIAL RESULTS

In 2015, the Company generated \$6.4 million of EBITDA and \$0.03 of earnings per share on \$36.4 million of revenues. While the EBITDA and revenue figures are below the comparable amounts in 2014, the results demonstrate the enduring profitability of the core business serving the landline phone industry.

Our challenge, as noted in prior reports, is to capitalize on more opportunities in the wireless communications market to offset the shrinking volume of transactions in the landline market. There are abundant opportunities to provide services to the wireless sector, and we have enjoyed solid growth in the BSG Wireless business over the past three years.

In 2015, we continued our leadership in the industry by enhancing our Find and Connect product with new, innovative and user friendly features for our customers. In addition, we laid the foundation for a new product line by introducing a unique location data management system prototype that will be ready for customers in 2016.

OUR ORGANIZATION

The Company has surmounted many challenges over the past several years due to a durable and efficient business model designed by thoughtful employees, managed by talented executives and overseen by a highly informed Board.

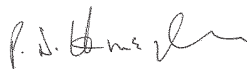
Our employees deserve credit for embracing continuous improvements in our technology platform which have allowed us to reduce headcount and other expenses. There is substantial leverage available through the technology platform, so that increasing revenue may not require any substantial additions to expense. Our employees are individually inspiring, committed to our niche businesses and proud to work at BSG.

Management is focused on increasing shareholder value. There are opportunities to expand into complementary services, particularly for the wireless sector. Some of those opportunities would involve internal development; others would involve combination with an existing business. The events described in the first paragraph of my statement enable us to preserve all options.

The Board remains highly engaged in its oversight of the development and execution of business strategies. Our newest director, Jason Wolff, has further expanded the expertise and skill set of a highly capable Board.

We thank you for your confidence in our team.

Sincerely,

A handwritten signature in black ink, appearing to read "P. D. Heneghan", with a stylized flourish at the end.

Patrick D. Heneghan
Non-Executive Chairman

DIRECTORS, OFFICERS & ADVISORS

DIRECTORS

Patrick D. Heneghan, Chairman
Leighton W. Smith, Vice Chairman
Norman M. Phipps, CEO, CFO, and Executive Director
Greg M. Carter
Denham H.N. Eke
Jason R. Wolff (effective November 2, 2015)

OFFICERS

Norman M. Phipps, Chief Executive Officer
and Chief Financial Officer

COMPANY SECRETARY

Katherine Aleman (until February 22, 2016)
Diane Perinchief (effective from February 23, 2016)
c/o Appleby Services (Bermuda) Limited
Canon's Court
22 Victoria Street
Hamilton, HM 12, Bermuda

ASSISTANT COMPANY SECRETARY

Appleby Services (Bermuda) Limited
Canon's Court
22 Victoria Street
Hamilton, HM 12, Bermuda

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton, HM 12, Bermuda

NOMINATED ADVISOR AND BROKER

finnCap Limited
60 New Broad Street
London EC2M 1JJ, United Kingdom

UK LEGAL ADVISOR

Reed Smith LLP
The Broadgate Tower
20 Primrose Street
London EC2A 2RS, United Kingdom

BERMUDIAN LEGAL ADVISOR

Appleby (Bermuda) Limited
Canon's Court
22 Victoria Street
Hamilton, HM 12, Bermuda

INDEPENDENT AUDITORS

Padgett, Stratemann & Company, LLP
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San Antonio, TX, 78216, United States

BRANCH REGISTRAR

Capita Registrars (Jersey) Limited
12 Castle Street
St. Helier, Jersey JE2 3RT, United Kingdom

DEPOSITORY INTEREST REGISTRAR

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham, Kent BR3 4TU, United Kingdom

FINANCIAL HIGHLIGHTS

All amounts in US\$

YEAR ENDED DECEMBER 31,

| | 2015 | 2014 |
|-----------------------|----------------|----------------|
| Revenues | \$36.4 million | \$42.4 million |
| EBITDA ⁽¹⁾ | \$6.4 million | \$8.8 million |
| Net income | \$8.7 million | \$2.1 million |
| Debt at end of period | \$0 | \$6.3 million |

⁽¹⁾ EBITDA (a non-GAAP measure) is computed as earnings before interest, income taxes, depreciation, amortization and other non-cash and nonrecurring expenses

- Generated \$6.4 million of EBITDA
(2014: \$8.8 million)
- Recorded net income of \$0.03 per share
(2014: \$0.01 per share)
- Improved gross margin by 3.0 percentage points
(51.0% in 2015 vs. 48.0% in 2014)
- Repaid \$6.3 million of debt, resulting in zero debt at year end
(December 31, 2014 balance: \$6.3 million)

BSG WIRELESS **OPERATIONAL HIGHLIGHTS**

- Extended the 'Find & Connect' feature set to include product usage and user notification capabilities
- Delivered branded versions of our extended hotspot finder and connection product suite to channel partner Deutsche Telekom, as a key component of their recently launched 'Business Wi-Fi' product line
- Extended penetration of the North American Multiple System Operator ("MSO") market by deploying the latest release of our hotspot finder product for iOS and Android at four Tier 1 cable MSOs in North America
- Delivered our new Analytics product to our first customer, a Tier 1 operator, in conjunction with technology partner Tutela Technologies
- Deployed a white label reporting portal for the largest telecommunications provider in the UK. This solution allows us to sell the same white label capabilities to other customers

EXECUTIVE & NON-EXECUTIVE DIRECTORS & **DIVIDEND POLICY**

NORMAN M. PHIPPS

Executive Director

Norman M. Phipps joined BSG as CFO in 2003 and was named CEO in 2012. He brings nearly 30 years of executive experience to the company. Prior to joining BSG, Mr. Phipps was with Avery Communications, Inc., one of four predecessor companies that joined together in December 2003 to form Billing Services Group. Mr. Phipps' prior experience includes executive management and operational positions at a communications equipment manufacturer in which Mr. Phipps sold a controlling interest to a NYSE-listed company in 2000. Mr. Phipps has also run a private investment fund and served in management positions at CIBC World Markets and Citicorp, where he was responsible for lending or investing at all levels of the capital structure in leveraged credits. Mr. Phipps became an Executive Director effective May 31, 2012.

PATRICK D. HENEGHAN

Non-Executive Director

Patrick D. Heneghan is the founder (retired) of Heneghan PR. In recent years he has been involved in some of Ireland's most high-profile public relations issues, including the Beef Industry Tribunal, the Tribunal of Inquiry into Certain Planning Matters, the restructuring of Irish Steel and the crisis in the Catholic Church. He has advised Irish Distillers Group (including the takeover by Pernod Ricard), Irish Food Processors and Mutual of America. He was formerly Public Relations Manager and a Director of the tobacco firm P.J. Carroll & Co. Ltd., where he was responsible for Ireland's largest public relations and marketing programs, including the Irish Open Golf Championship and the Irish Open Tennis Championship. He is a Fellow of the Public Relations Institute of Ireland, a founding member of the US-Ireland Council for Commerce & Industry and a former Director of the state-owned National Concert Hall.

LEIGHTON W. SMITH

Non-Executive Director

Leighton W. Smith, Admiral, United States Navy, retired from the U.S. Navy on October 1, 1996. Admiral Smith was President of Leighton Smith Associates, Inc., consulting for a variety of companies and corporations for over fifteen years. Admiral Smith was a Senior Fellow at the Center for Naval Analysis. He is a former chairman of the board of trustees of both the Naval Aviation Museum Foundation and U.S. Naval Academy Alumni Association, and sits on the boards of several publicly traded corporations. Admiral Smith was previously the Commander in Chief, U.S. Naval Forces Europe and Commander in Chief Allied Forces Southern Europe and concurrently assumed command of the NATO-led Implementation Force in Bosnia. Admiral Smith has received numerous awards and decorations, including being made an Honorary Knight of the British Empire.

EXECUTIVE & NON-EXECUTIVE DIRECTORS & **DIVIDEND POLICY** (Continued)

GREG M. CARTER

Non-Executive Director

Greg M. Carter is the President and Chief Executive Officer of Kleenhanz, LLC, a privately-held company that produces alcohol-free hand cleaning and sanitization products sold at both the wholesale and retail levels. Mr. Carter served as BSG's Chief Executive Officer from May 1, 2008 to May 31, 2012. Mr. Carter began his telecommunications career in 1988 when he joined Teleconnect, an Iowa-based long distance, database marketing and operator services company. In 1991, Mr. Carter joined BSG's predecessor company, US Long Distance, and served in numerous sales and marketing management roles. Mr. Carter has also served as Vice President of Sales for Billing Concepts (dba Aptis Software), Qwest Communications, and nii communications. Mr. Carter served as an Executive Director until May 31, 2012, at which point he became a Non-Executive Director.

DENHAM H. N. EKE

Non-Executive Director

Denham H. N. Eke is the Managing Director of Burnbrae Group Limited, a private international asset management company. Mr. Eke began his career in stockbroking with Sheppards & Chase before moving into corporate planning for Hogg Robinson plc, a major multinational insurance broker. He is a director of many years' standing of both public and private companies involved in the financial services, property, mining, and manufacturing sectors. He is Chairman of Webis Holdings PLC, Chief Executive Officer of Manx Financial Group PLC, Chief Finance Officer of West African Minerals Corporation Limited, Chief Finance Officer of Life Science Developments Limited and Chief Finance Officer of Port Erin Biopharma Investments Limited - all quoted on the London AIM market.

JASON R. WOLFF

Non-Executive Director

Jason R. Wolff is the President of Frontier Radio Management, a private investment vehicle which he established in order to make value-oriented investments. Frontier and its affiliates currently own and operate twenty-three radio stations in California, Arizona and Hawaii as well as television stations in Arizona, California and Idaho. Prior to founding Frontier Mr. Wolff spent nearly ten years as a direct investor, working for traditional private equity funds, hedge funds and private family investment groups. Most recently Mr. Wolff was based in London as a partner and director of an \$800 million private equity fund which was focused on the communications and media sectors. Previously Mr. Wolff was an investment analyst at The Baupost Group, where he was responsible for a broad range of liquid and illiquid investments.

DIVIDEND POLICY

It is not the Directors' current intention that the company will pay a dividend for the financial year ended December 31, 2015. The declaration and payment by the company of any future dividends and the amount of any such dividends will depend upon the company's results, financial condition, future prospects, profits being available for distribution, limitations under any financing arrangements and any other factors deemed by the Directors to be relevant at the time, subject always to the requirement of the Companies Act 1981 of Bermuda.

REPORT ON DIRECTORS' REMUNERATION

The remuneration of the Executive Director is determined by the Remuneration Committee which consists of two Non-Executive Directors. The role of the Committee is to review the scale and structure of the remuneration of the Executive Director and other senior executives and the terms of their respective employment agreements.

REMUNERATION POLICY

The objectives of the remuneration policy are to ensure that the salaries and incentives are aligned with the performance of the company and the interests of shareholders and to enable the company to attract, retain and motivate the Executive Director, senior executives and employees of the highest caliber. In framing the remuneration policy, full consideration has been given to Principle B of Section 1 of the Combined Code.

DIRECTORS' REMUNERATION

The normal remuneration arrangements for the Executive Director and senior executives consist of base salary, annual performance-related bonuses and non-qualified share options. In addition, they receive private medical insurance and contributions to a 401(k) plan at the company's discretion.

No Director is involved in deciding his own remuneration. The remuneration of the Non-Executive Directors is determined by the Board. In 2015, our Chairman received \$72,000 and each Non-Executive Director received \$60,000 calculated on a full year of service. All Directors have service contracts and certain senior executives of the company have employment agreements.

AUDITABLE INFORMATION

Executive Director remuneration for the year ended December 31, 2015 was as follows:

| | 2015 Salary | 2015 Bonus | 2015 Medical Insurance | 2015 401(k) | 2015 Total | 2014 Total |
|------------------|----------------|---------------|---------------------------|----------------|---------------|---------------|
| Norman M. Phipps | \$500,000 | \$60,000 | \$15,840 | \$13,250 | \$589,090 | \$583,050 |

Share Option Plan

| | Options at 01-Jan-15 | Cancelled/ Forfeited in 2015 | Issued in 2015 | Exercised in 2015 | Options at 31-Dec-15 | Exercise Price | Earliest Exercise Date ⁽¹⁾ | Option Termination Date |
|---------------------|----------------------------|------------------------------------|----------------------|-------------------------|----------------------------|-------------------|---|-------------------------------|
| Norman M. Phipps | 2,000,000 | - | - | - | 2,000,000 | 10.34 p | 18-Aug-10 | 18-Aug-18 |
| Patrick D. Heneghan | 456,511 | - | - | - | 456,511 | 10.34 p | 18-Aug-10 | 18-Aug-18 |
| Leighton W. Smith | 456,511 | - | - | - | 456,511 | 10.34 p | 18-Aug-10 | 18-Aug-18 |

⁽¹⁾ Subject to the provisions of the plan, including but not limited to provisions covering a change in control

CORPORATE GOVERNANCE STATEMENT

The Board met for regular business five times during the period under review. In addition, further meetings are held if circumstances require. The Board has agreed to a schedule of items that are specifically reserved for its consideration, which is reviewed on an annual basis. The schedule includes setting and monitoring strategy, reviewing trading performance, guiding business development, examining acquisition possibilities and approving reports to shareholders. In addition, the Board approves the annual budget and any budget updates. Procedures are established to ensure that appropriate information is communicated to the Board in a timely manner to enable it to fulfill its duties.

Details of the Directors are set out on pages 9 and 10. At December 31, 2015, the Board was comprised of one Executive and five Non-Executive Directors. The Board has separate roles for Chairman and Chief Executive.

The Board has established an Audit Committee, which in 2015 included Leighton W. Smith (Chairman) and Patrick D. Heneghan. The Audit Committee meets at least two times a year. It is responsible for meeting the auditors, reviewing the annual report and accounts and the interim results before their submission to the Board, ensuring that the financial performance of the company is properly reported on and monitored, reviewing the recommendations of the auditors on accounting policies, internal control and other findings and making recommendations to the Board on the scope of the audit and the appointment of the auditors. The Audit Committee met three times during the period of review, with all meetings being fully attended.

The Board has established a Remuneration Committee, which includes Leighton W. Smith (Chairman) and Patrick D. Heneghan. The Remuneration Committee meets as necessary to assess the performance of the Executive Director and senior executives and to review the scale and structure of their remuneration, having due regard to the interests of the shareholders. The Committee also approves any performance-based company incentive plans and the granting of share options. The Remuneration Committee met twice during the period of review, with both meetings being fully attended.

The Board established a Nomination Committee, which includes Patrick D. Heneghan (Chairman) and Leighton W. Smith. The Nomination Committee meets when necessary to consider and make recommendations to the Board concerning the composition of the Board, including proposed appointees to the Board and whether to fill any vacancies that may arise or to change the number of Board members. The Nomination Committee is chaired by Patrick D. Heneghan except when it is dealing with the appointment of a successor to the Chairmanship of the company. The Nomination Committee did not meet during the period of review.

From time to time, the Board establishes special committees to address particular business issues. Such committees are not intended to be permanent.

COMMUNICATION WITH SHAREHOLDERS

The Board encourages regular dialogue with shareholders. All shareholders will be invited to the AGM at which Directors will be available for questions. The notice of AGM will be sent to all shareholders at least 20 working days before the meeting. Other information about the company is available on the company's website at www.bsgclearing.com.

INTERNAL CONTROL

The Directors are responsible for the company's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and it can only provide the Directors with reasonable and not absolute assurance against material misstatement or loss.

CORPORATE GOVERNANCE STATEMENT

(Continued)

The Board recognizes the importance of both financial and non-financial controls and has reviewed the company's control environment, including the Company's Service Organization Control 1 Reports and any related shortfalls during the period. Specific controls are subject to continuous review as the company implements new systems and practices. The company seeks to continuously assess the risks to which it is exposed and to take appropriate steps to mitigate or eliminate those risks wherever possible. The independent auditors' responsibilities are to express an opinion on the financial statements. The independent auditors are not engaged to perform an audit of the company's internal control over financial reporting. Their audits include consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. They report their findings to the Audit Committee and the Board. No weaknesses in internal controls have resulted in any material losses, contingencies or uncertainty which would require disclosure as recommended by the guidance for Directors on reporting on internal controls.

HEALTH AND SAFETY

It is the objective of the company to ensure the health and safety of its employees and of any other persons who could be affected by its operations. It is the company's policy to provide working environments which are safe and without risk to health and provide information, instruction, training and supervision to ensure the health and safety of its employees.

INVESTMENT APPRAISAL

The Board approves proposals for the acquisition of new businesses.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT **OF THE ANNUAL REPORT**

The Directors are responsible for preparing the Annual Report in accordance with applicable law and generally accepted accounting principles ("GAAP") in the United States. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgments and estimates that are responsible and prudent;
- state whether the financial statements comply with GAAP in the United States; and
- prepare the financial statements on a going concern basis.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

REPORT OF INDEPENDENT AUDITORS



Padgett Stratemann

Independent Auditor's Report

To the Board of Directors
Billing Services Group Limited
San Antonio, Texas

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Billing Services Group Limited, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 audits. We conducted our audits 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 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 evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2015 and 2014, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Padgett, Stratemann & Co., L.L.P.

San Antonio, Texas
March 30, 2016

AUSTIN

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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)

| | | December 31 | |
|---|--------------|--------------------|-------------|
| | Notes | 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)

| | | Years Ended December 31 | |
|--|-------|-------------------------|-----------|
| | Notes | 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)

| | | Years Ended December 31 | |
|---|--------------|--------------------------------|-------------|
| | Notes | 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)

| | Number of Shares | Common Stock | Additional Paid-In Capital (Deficit) | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|------------------------|-------------------|---|----------------------|--|------------------|
| 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 undepriciated 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 |
| | <u>47,953</u> | <u>46,536</u> |
| Less accumulated depreciation | <u>43,340</u> | <u>41,510</u> |
| Net property, equipment and software | <u>\$ 4,613</u> | <u>\$ 5,026</u> |

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 | | |
|-------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization | Amortization Period |
| | <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 |
| | <u>\$ 82,102</u> | <u>\$ 74,702</u> | <u>\$ 82,257</u> | <u>\$ 74,083</u> | |

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 |
| | <u>\$ -</u> | <u>\$ -</u> |

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 |
| | <u>482</u> | <u>248</u> |
| Deferred expense (benefit): | | |
| Federal | (166) | 521 |
| State | 9 | 9 |
| | <u>(157)</u> | <u>530</u> |
| Total income tax expense | <u>\$ 325</u> | <u>\$ 778</u> |

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 | <u>\$ 325</u> | <u>\$ 778</u> |

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:

| | | Assumptions | | | |
|-------------------|------------------------------|--------------------------------|-----------------------|----------------------------|------------------------------|
| Grant Date | Grant Date Fair Value | 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 | <u>10,729,272</u> | 6.0 pence |
| Options exercisable at December 31, 2015 | <u>6,205,835</u> | 7.9 pence |
| Options available for grant at December 31, 2015 | <u>18,609,808</u> | |

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.



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