

# GTEL Holdings, Inc. and Subsidiaries

Consolidated Financial Statements as of and for the  
Years Ended December 31, 2016 and 2015, and  
Independent Auditors' Report

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
GTEL Holdings, Inc. and Subsidiaries:

We have audited the accompanying consolidated financial statements of GTEL Holdings, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income (loss), stockholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditors' 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 audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the Company'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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, 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.

*Deloitte + Touche LLP*

April 28, 2017

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**GTEL HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2016 AND 2015**

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	2016	2015
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 32,601,754	\$ 14,719,592
Accounts receivable—less allowance for doubtful accounts of \$4,799,611 and \$5,839,487 for 2016 and 2015, respectively	26,114,847	36,702,082
Prepaid expenses and other current assets	25,253,355	14,506,830
Prepaid license fees	920,353	1,132,642
Income tax receivable	<u>6,622,649</u>	<u>5,035,594</u>
Total current assets	91,512,958	72,096,740
PROPERTY AND EQUIPMENT—Net	73,656,230	66,721,589
PREPAID LICENSE FEES	2,398,087	3,287,108
OTHER INTANGIBLE ASSETS—Net	507,627,941	548,759,663
GOODWILL—Net	333,944,215	381,374,206
OTHER ASSETS	<u>552,861</u>	<u>1,148,151</u>
TOTAL	<u>\$1,009,692,292</u>	<u>\$1,073,387,457</u>

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**GTEL HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 6,150,000	\$ 6,150,000
Accounts payable	18,990,001	17,799,594
Accrued liabilities	42,607,520	26,962,860
Commissions payable	21,755,605	23,580,108
Deferred revenue	<u>16,251,026</u>	<u>15,612,253</u>
Total current liabilities	105,754,152	90,104,815
DEFERRED TAX LIABILITY	140,190,881	163,977,754
OTHER LONG TERM LIABILITY	875,830	3,908,732
LONG-TERM DEBT	<u>756,208,182</u>	<u>764,825,707</u>
Total liabilities	<u>1,003,029,045</u>	<u>1,022,817,008</u>
COMMITMENTS AND CONTINGENCIES (Note 11)		
STOCKHOLDER'S EQUITY:		
Common stock, \$0.01 par value—1,000 shares authorized, issued, and outstanding	100	100
Additional paid-in capital	96,590,662	95,781,862
Accumulated deficit	<u>(89,927,515)</u>	<u>(45,211,513)</u>
Total stockholder's equity	<u>6,663,247</u>	<u>50,570,449</u>
TOTAL	<u>\$1,009,692,292</u>	<u>\$1,073,387,457</u>

See notes to consolidated financial statements.

(Concluded)

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**GTEL HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
NET REVENUE	<u>\$ 536,441,095</u>	<u>\$ 560,366,089</u>
OPERATING EXPENSES:		
Cost of revenues—exclusive of depreciation and amortization expenses	261,422,329	289,967,968
General and administrative—exclusive of bad debt and billing arrangement and depreciation and amortization expenses	126,275,974	112,873,722
Bad debt and billing arrangement expenses—net of recoveries	484,785	(6,100,302)
Depreciation and amortization expense	144,342,576	130,688,924
Loss on disposal of property and equipment	<u>680,245</u>	<u>354,509</u>
Total operating expenses	<u>533,205,909</u>	<u>527,784,821</u>
INCOME FROM OPERATIONS	<u>3,235,186</u>	<u>32,581,268</u>
INTEREST EXPENSE	<u>52,803,735</u>	<u>53,334,874</u>
OTHER INCOME (EXPENSES):		
Interest income	14,544	15,969
Transaction-related expenses	(2,410,079)	(2,976,413)
Sponsor fees	(2,073,231)	(2,056,953)
Other expense	<u>-</u>	<u>(21,177)</u>
Total other expenses	<u>(4,468,766)</u>	<u>(5,038,574)</u>
LOSS BEFORE TAXES	(54,037,315)	(25,792,180)
INCOME TAX BENEFIT	<u>(9,321,313)</u>	<u>(1,118,163)</u>
NET LOSS	(44,716,002)	(24,674,017)
OTHER COMPREHENSIVE INCOME (LOSS)	<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE LOSS	<u>\$ (44,716,002)</u>	<u>\$ (24,674,017)</u>

See notes to consolidated financial statements.

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## **GTEL HOLDINGS, INC. AND SUBSIDIARIES**

### **CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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	<b>Common Stock</b>	<b>Additional Paid-In Capital</b>	<b>Retained Earnings (Accumulated Deficit)</b>	<b>Total</b>
BALANCE—December 31, 2014	\$100	\$94,873,862	\$(20,537,496)	\$ 74,336,466
Capital contribution	-	100,000	-	100,000
Stock-based compensation	-	808,000	-	808,000
Net loss	<u>-</u>	<u>-</u>	<u>(24,674,017)</u>	<u>(24,674,017)</u>
BALANCE—December 31, 2015	100	95,781,862	(45,211,513)	50,570,449
Stock-based compensation	-	808,800	-	808,800
Net loss	<u>-</u>	<u>-</u>	<u>(44,716,002)</u>	<u>(44,716,002)</u>
BALANCE—December 31, 2016	<u>\$100</u>	<u>\$96,590,662</u>	<u>\$(89,927,515)</u>	<u>\$ 6,663,247</u>

See notes to consolidated financial statements.

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# **GTEL HOLDINGS, INC. AND SUBSIDIARIES**

## **CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (44,716,002)	\$ (24,674,017)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	144,342,576	130,688,924
Amortization of deferred financing costs	1,745,996	1,764,336
Amortization of discount on long term debt	1,384,507	1,398,396
Loss on disposal of property and equipment	680,245	354,509
Stock based compensation	808,800	808,000
Deferred income taxes	(23,786,873)	(19,844,328)
Changes in assets and liabilities, which provided cash:		
Accounts receivable	10,587,235	(3,264,215)
Prepaid expenses and other current assets	(10,746,525)	(1,966,451)
Prepaid license fees	(486,164)	(1,138,165)
Income tax receivable	(1,587,055)	(311,635)
Other assets	595,290	1,298,925
Accounts payable	5,838,534	(1,006,684)
Accrued liabilities	15,271,745	(784,519)
Commissions payable	(1,824,503)	(6,506,474)
Other non-current liabilities	(3,908,732)	(1,216,476)
Deferred revenue	638,773	(663,888)
Net cash provided by operating activities	<u>94,837,847</u>	<u>74,936,238</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(42,072,144)	(34,773,115)
Internal software development costs	(5,224,000)	(4,628,446)
Cash paid for acquisitions—net of cash acquired	-	(5,423,222)
Purchases of other intangible assets	<u>(17,911,513)</u>	<u>(20,404,995)</u>
Net cash used in investing activities	<u>(65,207,657)</u>	<u>(65,229,778)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Advances on revolving credit facility	-	10,000,000
Payments on revolving credit facility	-	(10,000,000)
Repayment of long-term debt	(11,748,028)	(6,150,000)
Capital contribution	<u>-</u>	<u>100,000</u>
Net cash used in financing activities	<u>(11,748,028)</u>	<u>(6,050,000)</u>
<b>NET INCREASE IN CASH</b>	<b>17,882,162</b>	<b>3,656,460</b>
<b>CASH:</b>		
Beginning of year	<u>14,719,592</u>	<u>11,063,132</u>
End of year	<u>\$ 32,601,754</u>	<u>\$ 14,719,592</u>

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## **GTEL HOLDINGS, INC. AND SUBSIDIARIES**

### **CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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	<b>2016</b>	<b>2015</b>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 49,673,232</u>	<u>\$ 49,978,828</u>
Cash paid for taxes	<u>\$ 15,633,105</u>	<u>\$ 19,666,302</u>
SUPPLEMENTAL INFORMATION ABOUT NON-CASH TRANSACTIONS—		
Amounts payable for property and equipment	<u>\$ 579,689</u>	<u>\$ 5,227,815</u>
Amounts payable for other intangible assets	<u>\$ 1,248,745</u>	<u>\$ -</u>
See notes to consolidated financial statements.		(Concluded)

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