

# **Purpose Acquisitions Company Limited**

## **Report and Financial Statements**

30 June 2016

COMPANIES HOUSE

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**Directors**

S Cohen  
K Kaye

**Secretary**

L Biondi

**Auditors**

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Four Brindley Place  
Birmingham  
United Kingdom  
B1 2HZ

**Bankers**

The Royal Bank of Scotland  
Corporate Banking  
East Midlands  
PO Box 7895  
6th Floor  
Cumberland Place  
Nottingham  
United Kingdom  
NG1 7ZS

**Solicitors**

Eversheds  
1 Royal Standard Place  
Nottingham  
England  
NG1 6FZ

**Registered Office**

Cardinal House, Abbeyfield Court  
Abbeyfield Road  
Nottingham  
England  
NG7 2SZ

## Directors' report for the year ended 30 June 2016

The directors present their report together with the unaudited financial statements of Purpose Acquisitions Company Limited (the "Company") for the year ended 30 June 2016.

The Company qualifies as a small company in accordance with sections 381 to 383 of the Companies Act 2006 (the "Act") and the Directors' Report has therefore been prepared taking into consideration the entitlement to small companies exemptions provided in sections 414B (as incorporated to the Act by the Strategic Report and Directors' Report Regulations 2013) of the Act.

### Principal activities and review of the business

The Company is dormant and did not trade during the year.

### Directors and their interests

The directors who served the company during the period and up to the date of this report were as follows:

S Cohen	(appointed 27 June 2016)
E Erickson	(resigned 8 July 2016)
K Kaye	
M Prior	(resigned 20 June 2016)

The directors have no declarable interest in the shares of the Company or of any other group company.

On behalf of the Board



K Kaye  
Director

Date: 21 October 2016

Address of registered office:

Cardinal House, Abbeyfield Court  
Abbeyfield Road  
Nottingham  
United Kingdom  
NG7 2SZ

## Statement of comprehensive income

For the year ended 30 June 2016

	Notes	2016 £	2015 £
Impairment of investment		-	(2,983,851)
<b>Operating loss</b>		-	(2,983,851)
Interest payable and similar charges		-	-
<b>Loss on ordinary activities before tax</b>		-	(2,983,851)
Tax		-	-
<b>Loss and total comprehensive income for the financial year</b>		-	(2,983,851)

## Balance sheet

as at 30 June 2016

	Notes	2016 £	2015 £
<b>Net assets</b>		<u>-</u>	<u>-</u>
<b>Capital and reserves</b>			
Called up share capital	2	2,983,851	2,983,851
Profit and loss account		<u>(2,983,851)</u>	<u>(2,983,851)</u>
<b>Shareholders' funds</b>		<u>-</u>	<u>-</u>

For the year ended 30 June 2016 the Company was entitled to exemption from audit under section 480 of the Companies Act 2006 (the "Act") relating to dormant companies.

### Directors' statements:

- The members have not required the Company to obtain an audit of its accounts for the year in question in accordance with section 476 of the Act; and
- The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.

These accounts have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

The financial statements were approved by the Board of Directors for issuance and signed on its behalf by:



K Kaye  
Director

Date: 21 OCTOBER 2016

The accompanying notes on pages 6 and 7 are an integral part of these financial statements.

## Statement of changes in equity

For the year ended 30 June 2016

	<i>Called up share capital</i> £	<i>Profit and loss account</i> £	<i>Total</i> £
At 1 July 2015	2,983,851	(2,983,851)	-
At 30 June 2016	<u>2,983,851</u>	<u>(2,983,851)</u>	<u>-</u>

## Notes to the financial statements

as at 30 June 2016

Purpose Acquisitions Company Limited is a Company domiciled and incorporated in the United Kingdom.

### 1. Accounting policies

#### *Basis of preparation*

The financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting standards.

The company has elected to retain its accounting policies for reported assets, liabilities and equity, at the date of transition to FRS102, until there is any change to those balances, or the company undertakes any new transactions.

#### *Group financial statements*

The Company has taken advantage of the exemption to not prepare group financial statements for its group under section 401 of the Companies Act 2006 on the grounds that:

- the Company and all of its subsidiaries are included in the group financial statements of Sterling Mid-Holdings Limited drawn up to 30 June 2016; and
- that the group financial statements of Sterling Mid-Holdings Limited are drawn up in a manner equivalent to group financial statements drawn up in accordance with the provisions of the Seventh Directive.

Consequently, the financial statements only contain information about Purpose Acquisitions Company Limited as an individual company and do not contain group financial information as the parent of a group. These financial statements are available on request from the Company Secretary at 74 E Swedesford Road, Malvern, PA 19355.

### 2. Called up share capital and reserves

		2016		2015
<i>Allotted, called up and fully paid</i>	<i>No.</i>	<i>£</i>	<i>No.</i>	<i>£</i>
Ordinary shares of £1	2,983,851	2,983,851	2,983,851	2,983,851
		<u>2,983,851</u>		<u>2,983,851</u>

The Company's other reserves are as follows:

The profit and loss reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

### 3. Related party transactions

The Company is a wholly owned subsidiary of Sterling Mid-Holdings Limited, the group financial statements of which are publicly available.

Accordingly, the Company has taken advantage of the exemption in section 33 of FRS 102 from disclosing transactions with 100% members or investees of the Sterling Mid-Holdings Limited group.

## Notes to the financial statements

as at 30 June 2016

### 4. Ultimate parent undertaking and controlling party

The company's immediate parent undertaking is MEM Holding Limited, a company incorporated in the United Kingdom.

The largest and smallest group for which financial statements are drawn up which incorporate the results of the Company is that headed by Sterling Mid-Holdings Limited, a company incorporated in the Bailiwick of Jersey. Copies of the group financial statements, which include the results of the Company, are available from 74 E Swedesford Road, Malvern, PA 19355.

The Company's ultimate parent undertaking and controlling party is Lone Star Fund VIII (Bermuda), L.P. a Bermuda limited partnership which is controlled by its general partner, Lone Star Partners VIII, L.P., a Bermuda limited partnership, which is controlled by its general partner Lone Star Management Co, VIII Ltd, a Bermuda exempted limited company.



Part of Group Filing  
requirements -  
to be attached +  
filed with  
Purpose Acquisitions  
Company Limited

**Sterling Mid-Holdings Limited**  
**(Successor to DFC Global Corp)**  
**Annual Financial Report**  
**For the fiscal year ended June 30, 2016**



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1700 Market Street  
Philadelphia, PA  
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## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Sterling Mid-Holdings Limited

We have audited the accompanying consolidated financial statements of Sterling Mid-Holdings Limited and subsidiaries (Successor to DFC Global Corp) (the "Company"), which comprise the consolidated balance sheets as of June 30, 2016 and 2015, and the related consolidated statements of operations, comprehensive 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 Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the 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 financial statements.

We believe that the audit 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 Sterling Mid-Holdings Limited and its subsidiaries as of June 30, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We have also audited the adjustments to the 2014 consolidated financial statements of the Company to reflect the effects of the retrospective adjustments to the acquisition date fair values for the June 13, 2014 acquisition of DFC Global Corp. by the Company discussed in Notes 3 and 13 to the consolidated financial statements ("the business combination"). Our procedures included audit procedures to evaluate management's judgments and estimates regarding the fair values ascribed to all assets acquired and liabilities assumed, and the resultant goodwill recognized in connection with the business combination. In our opinion, such retrospective adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2014 consolidated financial statements of the Company other than with respect to the retrospective adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2014 consolidated financial statements taken as a whole.

## Predecessor Auditors' Opinion on 2014 Financial Statements

The consolidated financial statements of the Company for the periods from June 14, 2014 to June 30, 2014 (Sterling Mid-Holdings Limited), and July 1, 2013 to June 13, 2014 (DFC Global Corp.), before the effects of the retrospective adjustments to the acquisition date fair values for the June 13, 2014 acquisition of DFC Global Corp. by the Company, discussed in Notes 3 and 13 to the consolidated financial statements, were audited by other auditors whose report, dated October 13, 2014, expressed an unmodified opinion on those statements.



September 28, 2016

## **Report of Independent Auditors**

Board of Directors  
Sterling Mid-Holdings Ltd.

We have audited the accompanying consolidated financial statements of Sterling Mid-Holdings Ltd. (Successor), before the effects of the adjustments to the Successor's consolidated financial statements to retrospectively apply the adjustments to provisional amounts recognized in connection with the acquisition of DFC Global Corp (Predecessor) by Sterling Mid-Holdings Ltd. (Successor) on June 13, 2014 described in Notes 3 and 13, and DFC Global Corp (Predecessor) (collectively, the "Company"), which comprise the consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for the period from June 14, 2014 to June 30, 2014 (Successor) and the period from July 1, 2013 to June 13, 2014 (Predecessor), 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 conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above, before the effects of the adjustments described above, present fairly, in all material respects, the consolidated results of operations and cash flows of Sterling Mid-Holdings Ltd. for the period from June 14, 2014 through June 30, 2014 (Successor), and of DFC Global Corp for the period from July 1, 2013 through June 13, 2014 (Predecessor) in conformity with U.S. generally accepted accounting principles.

We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively apply the adjustments to provisional amounts recognized in connection with the acquisition of DFC Global Corp (Predecessor) by Sterling Mid-Holdings Ltd. (Successor) on June 13, 2014 described in Notes 3 and 13, and accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have properly applied. Those adjustments were audited by other auditors.

*Ernst & Young LLP*

Philadelphia, Pennsylvania  
October 13, 2014

**PART 1. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**STERLING MID-HOLDINGS LIMITED.**  
**(SUCCESSOR TO DFC GLOBAL CORP)**  
**CONSOLIDATED BALANCE SHEETS (In millions)**

	<u>June 30, 2015</u>	<u>June 30, 2016</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 138.0	\$ 148.1
Restricted cash (Includes \$0 and \$3.1 in variable interest entities -see note 10)	4.5	7.6
Consumer loans, net:		
Consumer loans	152.0	234.5
Less: Allowance for consumer loan losses	(19.6)	(27.6)
Consumer loans, net (Includes \$0 and \$150.2 in variable interest entities -see note 10)	132.4	206.9
Pawn loans, net of an allowance of \$1.2 and \$0.2	109.3	97.8
Loans in default, net of an allowance of \$43.2 and \$62.8 (Includes \$0 and \$17.2 in variable interest entities -see note 10)	21.6	27.9
Other receivables	29.6	25.7
Prepaid expenses and other current assets	57.4	45.6
Current deferred tax asset	4.0	—
Total current assets	496.8	559.6
Long term consumer loans, net of an allowance of \$1.7 (Includes \$0 and \$41.8 in variable interest entities -see note 10)	—	41.8
Property and equipment, net of accumulated depreciation of \$34.1 and \$63.8	97.6	90.8
Goodwill and other intangibles, net	806.4	769.9
Debt issuance costs, net of accumulated amortization of \$6.8 and \$14.7	28.7	30.9
Non-current deferred tax asset, net	11.4	14.9
Other	17.2	14.5
<b>Total Assets</b>	<b>\$ 1,458.1</b>	<b>\$ 1,522.4</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	32.6	23.2
Income taxes payable	0.5	8.3
Accrued expenses and other liabilities (Includes \$0 and \$0.8 in variable interest entities -see note 10)	136.2	101.2
Current portion of long-term debt	45.2	63.3
Current deferred tax liability	0.2	—
Total current liabilities	214.7	196.0
Fair value of derivatives	—	0.9
Long-term deferred tax liability	8.2	10.7
Reserve for uncertain tax positions	36.7	31.6
Long-term debt (Includes \$0 and \$100.0 in variable interest entities -see note 10)	892.2	1,036.8
Other non-current liabilities	37.4	28.2
Stockholders' equity:		
Common stock, £1.00 par value: 10,000 shares authorized; 201 and 801 shares issued and outstanding at June 30, 2015 and June 30, 2016, respectively.	—	—
Additional paid-in capital	781.8	951.8
Accumulated deficit	(374.8)	(625.9)
Accumulated other comprehensive loss	(138.1)	(107.7)
Total stockholders' equity	268.9	218.2
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 1,458.1</b>	<b>\$ 1,522.4</b>

See accompanying notes to consolidated financial statements.

These financial statements together with the accompanying notes to consolidated financial statements were approved and authorized for issuance by the Board of Directors on the date below and were signed on its behalf by:

S Howard

Director

A handwritten signature in black ink, appearing to be 'S Howard', with a stylized 'S' and a horizontal line extending to the right.

Date: 27.01.2017

**STERLING MID-HOLDINGS LIMITED.**  
**(SUCCESSOR TO DFC GLOBAL CORP)**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In millions)

	Predecessor	Successor		
	July 1, 2013 - June 13, 2014	June 14, 2014 - June 30, 2014	Year Ended June 30, 2015	Year Ended June 30, 2016
<b>Revenues:</b>				
Consumer lending	\$ 602.0	\$ 20.0	\$ 390.4	\$ 405.4
Check cashing	112.2	5.3	107.0	96.7
Pawn service fees and sales	92.6	4.3	72.9	57.4
Money transfer fees	34.3	1.3	31.2	27.0
Gold sales	38.2	1.7	46.6	44.1
Other	70.6	3.6	65.7	53.1
Total revenues	949.9	36.2	713.8	683.7
<b>Operating expenses:</b>				
Salaries and benefits	238.7	11.6	215.6	181.7
Provision for loan losses	180.8	4.0	97.2	121.6
Occupancy	71.3	3.7	71.1	52.3
Purchased gold costs	36.2	1.7	35.5	36.7
Advertising	53.0	2.0	35.4	28.9
Depreciation and amortization	26.6	1.3	25.0	21.4
Maintenance and repairs	20.4	1.1	24.4	17.3
Bank charges and armored carrier service	20.8	1.1	18.5	15.7
Returned checks, net and cash shortages	9.3	—	11.6	10.3
Other	90.7	4.7	82.1	63.6
Total operating expenses	747.8	31.2	616.4	549.5
Operating margin	202.1	5.0	97.4	134.2
<b>Corporate and other expenses:</b>				
Corporate expenses	99.9	5.5	100.7	92.9
Other depreciation and amortization	16.2	1.1	18.5	15.7
Interest expense, net	107.3	4.3	95.9	108.0
Goodwill and other intangible assets impairment charge	134.2	—	28.0	—
Unrealized foreign exchange (gain) loss	(0.1)	(0.1)	31.3	91.2
Loss (gain) on derivatives not designated as hedges	—	1.9	(16.1)	—
(Proceeds from) provision for litigation settlements	22.0	(0.3)	2.2	4.1
Loss on store closings	1.0	5.7	5.6	7.0
Other expense, net	29.9	23.2	142.3	57.5
Loss before income taxes	(208.3)	(36.3)	(311.0)	(242.2)
Income tax provision	8.2	21.5	6.0	8.9
Net loss	\$ (216.5)	\$ (57.8)	\$ (317.0)	\$ (251.1)

See accompanying notes to consolidated financial statements.



**STERLING MID-HOLDINGS LIMITED.**  
**(SUCCESSOR TO DFC GLOBAL CORP)**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**(In millions)**

	Predecessor		Successor	
	July 1, 2013 - June 13, 2014	June 14, 2014 - June 30, 2014	Year Ended June 30, 2015	Year Ended June 30, 2016
Net loss	\$ (216.5)	\$ (57.8)	\$ (317.0)	\$ (251.1)
Other comprehensive income (loss):				
Foreign currency translation adjustment <sup>(1)</sup>	46.3	16.6	(154.7)	31.0
Fair value adjustments for derivatives, net <sup>(2)</sup>	5.3	—	—	(0.6)
Amortization of accumulated other comprehensive income related to de-designated cash flow hedges <sup>(3)</sup>	0.7	—	—	—
Other comprehensive income (loss)	\$ 52.3	\$ 16.6	\$ (154.7)	\$ 30.4
Comprehensive loss	\$ (164.2)	\$ (41.2)	\$ (471.7)	\$ (220.7)

- (1) The ending balance of the foreign currency translation adjustments included in accumulated other comprehensive income on the balance sheet were gains (losses) of \$46.3 million, \$16.6 million, and \$(138.1) million and \$(107.1) million as of the Predecessor period ended June 13, 2014 and the Successor period ended June 30, 2014, June 30, 2015 and June 30, 2016 respectively.
- (2) Net of \$1.4 million of tax for the Predecessor period ended June 13, 2014 and \$0.3 million of tax for the Successor period ended June 30, 2016. The ending balance of the unrealized derivatives, net included in accumulated other comprehensive income on the balance sheets were losses of \$5.2 million for the Predecessor period ended June 13, 2014 and 0.6 million for the Successor period ended June 30, 2016.
- (3) Net of \$0.3 million of tax for the Predecessor period ended June 13, 2014.

Accumulated other comprehensive income (loss), net of related tax, included unrealized losses on terminated cross-currency interest rate swaps of \$3.7 million for the Predecessor period ended June 13, 2014.

See accompanying notes to consolidated financial statements.

**STERLING MID-HOLDINGS LIMITED.**  
**(SUCCESSOR TO DFC GLOBAL CORP)**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(In millions, except share data)  
for the Predecessor period July 1, 2013 to June 13, 2014

	Common Stock Outstanding		Additional Paid-in Capital	Accumulated Deficit	Non-Controlling Interest	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount					
Balance, June 30, 2013	40,112,266	\$ —	\$ 447.3	\$ (7.3)	\$ —	\$ (15.1)	\$ 424.9
Comprehensive (loss) income							
Net loss				(216.5)			(216.5)
Other comprehensive income						52.3	52.3
Total comprehensive loss							(164.2)
Restricted stock grants	283,248						—
Stock options exercised	113,818		0.7				0.7
Vested portion of granted restricted stock and restricted stock units			18.1				18.1
Repurchase of common stock	(1,712,365)		(21.5)				(21.5)
Retirement of common stock	(101,507)						
Other stock compensation			2.8				2.8
Balance, June 13, 2014	38,695,460	\$ —	\$ 447.4	\$ (223.8)	\$ —	\$ 37.2	\$ 260.8

See accompanying notes to consolidated financial statements.

**STERLING MID-HOLDINGS LIMITED.**  
**(SUCCESSOR TO DFC GLOBAL CORP)**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY**  
(In millions, except share data)  
for the Successor period June 14, 2014 to June 30, 2016

	Common Stock Outstanding		Additional Paid-in Capital		Accumulated Deficit		Accumulated Other Comprehensive Income		Total Stockholder's Equity
	Shares	Amount							
Balance, June 14, 2014	1	\$ —	\$ —		\$ —		\$ —		\$ —
Comprehensive (loss) income									
Net loss					(57.8)				(57.8)
Other comprehensive income							16.6		16.6
Total comprehensive income (loss)									(41.2)
Capital contribution from an affiliate of Lone Star Funds	100		700.0						700.0
Balance, June 30, 2014	101	\$ —	\$ 700.0		\$ (57.8)		\$ 16.6		\$ 658.8
Comprehensive (loss) income									
Net loss					(317.0)				(317.0)
Other comprehensive income							(154.7)		(154.7)
Total comprehensive income (loss)									(154.7)
Capital contribution from an affiliate of Lone Star Funds	100		81.8						81.8
Balance, June 30, 2015	201	\$ —	\$ 781.8		\$ (374.8)		\$ (138.1)		\$ 268.9
Comprehensive (loss) income									
Net loss					\$ (251.1)				\$ (251.1)
Other comprehensive income							\$ 30.4		\$ 30.4
Total comprehensive income (loss)									\$ (220.7)
Capital contribution from an affiliate of Lone Star Funds	600		\$ 170.0						\$ 170.0
Balance, June 30, 2016	801	\$ —	\$ 951.8		\$ (625.9)		\$ (107.7)		\$ 218.2

See accompanying notes to consolidated financial statements.

**STERLING MID-HOLDINGS LIMITED**  
**(SUCCESSOR TO DFC GLOBAL CORP)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In millions)

	Predecessor	Successor		
	July 1, 2013 - June 13, 2014	June 14, 2014 - June 30, 2014	Year Ended June 30, 2015	Year Ended June 30, 2016
<b>Cash flows from operating activities:</b>				
Net loss	\$ (216.5)	\$ (57.7)	\$ (317.0)	\$ (251.1)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation, accretion and amortization	48.1	2.4	50.4	45.2
Goodwill and other intangible assets impairment	134.2	—	28.0	—
Change in fair value of derivatives not designated as hedges	—	1.9	—	0.9
Provision for loan losses	180.8	4.0	97.2	121.6
Non-cash stock compensation	20.9	—	—	—
Gain on sale of subsidiary	(1.6)	—	—	—
Gain on sale of loans held for investments	—	—	—	1.9
Loss on disposal of fixed assets	0.5	0.1	26.8	7.0
Gain on derivatives not designated as hedges	—	—	(16.1)	—
Unrealized foreign exchange (gain) loss	(0.1)	(0.1)	31.3	91.2
Deferred tax (benefit)/expense	4.6	37.3	(2.0)	2.1
Accrued transaction costs	—	(12.2)	—	—
Accretion of debt discount and deferred issuance costs	17.3	—	—	—
Change in assets and liabilities (net of effect of acquisitions):				
(Increase) decrease in pawn loan fees and service charges receivable	0.3	(0.3)	1.4	2.2
(Decrease) increase in finance and service charges receivable	(19.0)	1.8	(21.8)	(28.7)
(Increase) decrease in other receivables	(7.4)	4.4	(2.7)	5.3
(Increase) decrease in prepaid expenses and other	10.6	(9.5)	24.2	21.7
Increase (decrease) in accounts payable, accrued expenses and other liabilities	(1.2)	(27.3)	38.5	(44.8)
Net cash provided by (used in) operating activities	\$ 171.5	\$ (55.2)	\$ (61.8)	\$ (25.5)
<b>Cash flows from investing activities:</b>				
Net (increase) decrease in single payment loans	(74.2)	1.9	(47.4)	(61.0)
Net (increase) decrease in installment loans	—	—	(31.2)	(153.6)
Net (increase) decrease of pawn loans	8.0	(0.3)	4.6	(10.8)
Net increase in restricted cash	—	—	(4.5)	(3.1)
Proceeds from sales of loans held for investments	—	—	—	(13.0)
Acquisition of Predecessor, net of cash acquired	—	(199.7)	—	—
Acquisitions, net of cash acquired	(26.4)	—	(41.8)	(0.4)
Additions to property and equipment	(31.6)	(0.4)	(26.4)	(38.9)
Disposal of a subsidiary, net of cash disposed of	7.2	—	—	—
Net cash used in investing activities	\$ (117.0)	\$ (198.5)	\$ (146.7)	\$ (280.8)

**STERLING MID-HOLDINGS, LTD.**  
**(SUCCESSOR TO DFC GLOBAL CORP)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS — (continued)**  
**(In millions)**

	Predecessor	Successor		
	July 1, 2013 - June 13, 2014	June 14, 2014 - June 30, 2014	Year Ended June 30, 2015	Year Ended June 30, 2016
<b>Cash flows from financing activities:</b>				
Capital contribution from Lone Star Funds	\$ —	\$ 700.0	\$ 81.8	\$ 170.0
Proceeds from securitization facility	—	—	—	100.0
Proceeds from issuance of long-term debt	—	800.0	—	—
Repayment of Predecessor debt	—	(1,033.3)	—	—
Proceeds from the exercise of stock options	0.7	—	—	—
Proceeds from demand note from Lone Star Affiliates	—	—	—	37.0
Repayment of demand note from Lone Star Affiliates	—	—	—	(11.0)
Proceeds from revolving line of credit	—	40.0	537.8	396.1
Repayment of long-term debt and revolving line of credit	(96.0)	—	(456.4)	(358.5)
Proceeds from termination of cross currency swaps	38.8	—	0.4	—
Repurchase of common stock	(21.5)	—	—	—
Payment of debt issuance and other costs	(2.9)	(48.9)	(0.3)	(7.3)
Net cash provided by (used in) financing activities	\$ (80.9)	\$ 457.8	\$ 163.3	\$ 326.3
Effect of exchange rate changes on cash and cash equivalents	9.2	2.1	(23.0)	(9.9)
Net (decrease) increase in cash and cash equivalents	\$ (17.2)	\$ 206.2	\$ (68.2)	\$ 10.1
Cash and cash equivalents at beginning of period	196.2	—	206.2	138.0
Cash and cash equivalents at end of period	\$ 179.0	\$ 206.2	\$ 138.0	\$ 148.1
<b>Supplemental disclosures of cash flow information:</b>				
Interest paid	\$ 55.3	\$ 33.2	\$ 90.1	\$ 97.1
Income taxes paid	\$ 17.3	\$ —	\$ 5.2	\$ 3.8

See accompanying notes to consolidated financial statements.

**STERLING MID-HOLDINGS LIMITED.**  
**(SUCCESSOR TO DFG GLOBAL CORP)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization and Business**

Sterling Mid-Holdings Limited, ("SMHL", the "Company" or the "Successor"), a Jersey Channel Islands company, is a direct wholly-owned subsidiary of Sterling Holdings Ltd., which is in turn a wholly-owned subsidiary of LSF8 Sterling Partners, L.P. ("LSF8") a Bermuda partnership and an affiliate of Lone Star Funds ("Lone Star"), and was formed on May 2, 2014. LSF8 and Lone Star are referred to herein as "Parent" or "parent companies". Prior to the acquisition of DFC Global Corp. on June 13, 2014, the Successor had no operating activity. Throughout these financial statements and notes, the term "Predecessor", refers to DFC Global Corp. and its wholly-owned subsidiaries prior to the change of control on June 13, 2014. The term "Successor" refers to Sterling Mid-Holdings Limited, following the acquisition of DFC Global Corp. by an affiliate of Lone Star ("the Merger").

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP"), and are those of Successor and the Predecessor. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. The Predecessor is the parent company of Dollar Financial Group, Inc. ("DFG"). The activities of the Predecessor consist primarily of its investment in DFG. The Predecessor has no employees or operating activities.

The Company and the Predecessor through their respective subsidiaries, provide retail financial services to the general public through a network of 1,197 locations (of which 1,188 are company owned) which are operating principally as The Money Shop<sup>®</sup>, Money Mart<sup>®</sup>, InstaCheques<sup>®</sup>, Suttons & Robertsons<sup>®</sup>, The Check Cashing Store<sup>®</sup>, Selina<sup>®</sup>, Helsingin Pantti<sup>SM</sup>, Super Efectivo<sup>®</sup>, MoneyNow!<sup>®</sup> and Express Credit Amanet<sup>®</sup> in the United Kingdom ("UK"), Canada, the United States ("US"), Sweden, Finland, Poland, Spain and Romania. This network of stores offers a variety of financial services including unsecured short-term consumer loans, secured pawn services, gold buying, check cashing, money transfer services and various other related services. In addition to our retail stores, we offer unsecured consumer loans online in the UK, the US, Canada, Sweden, Finland and Spain, primarily under the brand names The Money Shop<sup>®</sup>, Payday UK<sup>®</sup>, Payday Express<sup>®</sup>, Money Mart<sup>®</sup>, paydayloan.ca<sup>SM</sup>, Risicum<sup>®</sup> and OK Money<sup>®</sup>. In Poland, we offer our products under the trade name Optima<sup>SM</sup> through a system of brokers, call centers and a network of local representatives who receive compensation for their services. In Romania, we offer secured pawn lending services. The Company exited its Dealers' Financial Services business effective June 30, 2015.

As more fully discussed in Note 3 *Business Combinations, Acquisitions and Divestiture*, on June 13, 2014, Sterling Mid-Holdings Limited acquired all the outstanding shares of the Predecessor for a purchase price of approximately \$378.7 million (the "Merger").

**2. Summary of Significant Accounting Policies**

*Use of Estimates*

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. On an ongoing basis, management evaluates its estimates and judgments, including those related to revenue recognition, loss reserves, valuation allowance for deferred income taxes, litigation reserves, valuation of acquired tangible and intangible assets and liabilities and impairment assessment of goodwill and other intangible assets. Management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates.

*Risks & Uncertainties*

We are subject to regulatory oversight by various local, state, provincial and federal regulatory bodies. In the U.K., we are regulated by the Financial Conduct Authority ("FCA"), which recently granted us full authorization as a consumer lender. In the U.S., we are regulated by various states and by the Consumer Financial Protection Bureau ("CFPB"). In Canada, we are regulated by regulators and legislation at both the provincial and federal levels. Our operations in Sweden are regulated by the

**STERLING MID-HOLDINGS, LTD.  
(SUCCESSOR TO DFC GLOBAL CORP)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

**2. Summary of Significant Accounting Policies (continued)**

Swedish Financial Supervisory Authority, our Finnish operations by the Regional State Administrative Agency of Southern Finland, and our Polish, Spanish and Romanian operations by various national regulations. We believe our relationships with our regulators in our key markets are good.

In the UK, the Company operates in a highly regulated industry which has undergone substantial regulatory change, primarily as a result of the transition of oversight to the Financial Conduct Authority ("FCA") effective April 1, 2014. On February 17, 2016, the Company's UK affiliate, Instant Cash Loans Limited, trading primarily as The Money Shop, received full authorization as a consumer lending firm from the FCA. Instant Cash Loans was previously operating under the FCA's interim permission since April 1, 2014. The Company's consumer lending operations in the UK, which have historically been principally single payment short-term loans, represented 17.1% of consolidated consumer lending revenue for the year ended June 30, 2016. In connection with the regulatory oversight by the FCA, the Company has made significant changes to its consumer lending business within the UK including, but not limited to, (i) limitation on loan rollovers, (ii) limitations on the use of continuous payment authority to recover loans, and (iii) changes in marketing and other loan origination practices. The Company has also revised the affordability assessments used in loan originations and this change, and all other changes described herein, has resulted in a significant decline in outstanding consumer loans within the Company's UK businesses.

Prior to April 1, 2014, in the UK, the Company's consumer lending activities were primarily regulated by the Office of Fair Trading ("OFT"), which was responsible for licensing and regulating companies that offer consumer credit. During fiscal year 2013, the OFT announced significant changes to marketing, rollover and collection practices which have had and are expected to have a significant impact on the Company's short-term loan portfolio within its UK businesses. Effective April 1, 2014, the OFT transferred regulatory authority over the consumer credit industry to the new FCA. The FCA is now the regulator for, among others, credit card issuers, payday loan companies, pawn brokers, rent-to-own companies, debt management and collection firms and providers of debt advice. The FCA is also responsible for regulating and setting conduct standards for banks, credit unions and similar institutions.

In October 2013, the FCA issued a consultation paper addressing how it proposed to regulate the consumer credit industry when it assumed regulatory authority on April 1, 2014. On February 28, 2014, the FCA published its Handbook, which confirmed and clarified the final form of the rules and limitations to which we would be subject under the FCA authority in the UK. Among other things, the Handbook imposed a limitation of two rollovers and two uses of continuous payment authority per loan, and enhanced affordability assessment criteria, which additional requirements are expected to negatively impact the Company's UK operations for a transition period extending from implementation through the foreseeable future.

On November 11, 2014, the FCA confirmed its July 2014 payday loan price cap proposal. Beginning January 2, 2015, the price cap structure includes the following:

- Initial cost cap of 0.8% per day
- Default fee caps fixed at £15
- Total cost cap of 100%

During the year ended June 30, 2015 and June 30, 2016, the Company made various changes to its UK consumer lending operations including, but not limited to, (i) introduction of a multi-payment loan product, (ii) consolidation of its UK operations, and (iii) reduced the number of retail stores in the UK. While the Company has not seen the full impact of these initiatives, it is possible that these actions could result in a further impairment of property and equipment, goodwill and other intangible assets in future periods, in addition to the recognition of asset impairments, lease and employee termination costs already incurred during the prior and current fiscal year. Furthermore, the contribution of UK consumer lending revenue may continue to decline in the near term as the Company continues to transition its consumer lending activities within the UK.

In addition, in July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was enacted, which, among other things, created the Consumer Financial Protection Bureau (the "CFPB"). In the United States, the CFPB has regulatory, supervisory and enforcement powers over certain non-bank providers of consumer financial products and services, such as us. Under the CFPB's short-term lending supervision program, which aims to ensure that short-term lenders are following federal consumer financial laws in their US operations, the CFPB gathers information from short-term lenders to evaluate their policies and procedures, assess whether lenders are in compliance with federal consumer financial laws, and identify risks to consumers throughout the lending process. Any restrictive action by the CFPB with respect to short-term consumer loans could have an adverse impact on our business, results of operations and financial condition.

**STERLING MID-HOLDINGS, LTD.**  
**(SUCCESSOR TO DFC GLOBAL CORP)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

**2. Summary of Significant Accounting Policies (continued)**

The Company continues to work with Lone Star in respect of possible liquidity options, including, but not limited to, exploring alternative financing arrangements. In addition, the Company is now offering new longer term installment loan products in North America and the UK and continues to explore alternatives for reducing operating costs.

***Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries, including certain Trusts, which are considered variable interest entities (VIEs). The Company also consolidates other VIEs for which it was deemed to be the primary beneficiary. All intercompany balances and transactions have been eliminated in consolidation.

***Voting Interest Entities***

Voting interest entities are entities that have sufficient equity and provide the equity investors voting rights that enable them to make significant decisions relating to the entity's operations. For these entities, the Company's determination of whether it has a controlling interest is primarily based on the amount of voting equity interests held. Entities, in which the Company has a controlling financial interest through ownership of the majority of the entities' voting equity interests, are consolidated by the Company.

Investments in companies in which the Company has significant influence over operating and financial decisions (but does not own a majority of the voting equity interests) are accounted for in accordance with the equity method of accounting. Such investments are not significant to the Company's consolidated results of operations, financial position or cash flows.

***Variable Interest Entities***

VIEs are entities that, by design, either (1) lack sufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) have equity investors that do not have the ability to make significant decisions relating to the entity's operations through voting rights, or do not have the obligation to absorb the expected losses, or do not have the right to receive the residual returns of the entity. The most common type of VIE is a special purpose entity ("SPE"). SPEs are commonly used in securitization transactions in order to isolate certain assets and distribute cash flows from those assets to investors. As part of the Company's two year receivable securitization facility (the "Facility") the Company's subsidiaries in North America and the UK agreed to sell participations and/or beneficial interest in all of their eligible outstanding consumer loan receivables to secure the Borrower's obligation to the Lenders of the Facility (the Borrower is a wholly-owned, bankruptcy remote SPE).

The primary beneficiary of a VIE (i.e., the party that has a controlling financial interest) is required to consolidate the assets and liabilities of the VIE. The primary beneficiary is the party that has both (1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance; and (2) through its interest in the VIE, the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. To assess whether the Company has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, the Company considers all the facts and circumstances, including its role in establishing the VIE and its ongoing rights and responsibilities. This assessment includes first identifying the activities that most significantly impact the VIE's economic performance; and second, identifying which party, if any, has the power over those activities. In general, the parties that make the most significant decisions affecting the VIE are deemed to have the power to direct the activities of a VIE. To assess whether the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, the Company considers all of its economic interests, including subordinated loans, intercompany notes, deferred purchase price, capital contributions, servicing fees and other arrangements deemed to be variable interests in the VIE. This assessment requires that the Company apply judgment to determine whether these interests, in the aggregate, are considered potentially significant to the VIE. Factors considered in assessing significance include the design of the VIE, including its capitalization structure; subordination of interests, payment priority; relative share of interests held and the reasons why the interests are held by the Company.

In the case of a consolidated VIE used to secure a debt facility, the accounting is consistent with a secured financing, (i.e., the Company continues to carry the loans and would record the related securitized debt on its balance sheet).

***Corrections to Previous Periods***

During fiscal 2016, the Company corrected its accounting methodology for gold "buy back" contracts, wherein the Company acquires legal title and risk of loss to the gold and extends to the customer a limited option to repurchase the gold within three months. Historically, this activity was inappropriately reported as Pawn loans for US GAAP reporting. Gold



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**STERLING MID-HOLDINGS, LTD.  
(SUCCESSOR TO DFC GLOBAL CORP)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

**2. Summary of Significant Accounting Policies (continued)**

acquired in such buy back arrangements are now accounted for as purchased gold inventory (upon title and risk of loss transfer) and recorded as a sale when the gold is sold, or smelted or sold to a gold dealer if the customer does not return to buy back the gold.

The following table summarizes the impact of the corrections on the consolidated balance sheet as of June 30, 2015:

<b>Description</b>	<b>As Reported</b>	<b>Restatement</b>	<b>As Restated</b>
Pawn loans, net of an allowance	\$ 117.0	(7.7) \$	109.3
Prepaid expenses and other current assets	49.7	7.7	57.4

The following table summarizes the impact of the corrections on the consolidated statement of operations for the year ended June 30, 2015:

<b>Description</b>	<b>As Reported</b>	<b>Restatement</b>	<b>As Restated</b>
Pawn service fees and sales	\$ 81.8	(8.9) \$	72.9
Gold sales	35.2	11.4 \$	46.6
Purchased gold costs	33.0	2.5 \$	35.5

The following table summarizes the impact of the corrections on the consolidated statement of cash flows for the year ended June 30, 2015:

<b>Description</b>	<b>As Reported</b>	<b>Restatement</b>	<b>As Restated</b>
Cash flow from operating activities:			
(Increase) decrease in prepaid expenses and other	\$ 24.8	(0.6) \$	24.2
Cash flow from investing activities:			
Decrease of pawn loans, net	4.0	0.6	4.6

***Reclassification to Previous Periods***

In addition, as a result of restructuring, legal entity and facility consolidations in the UK during fiscal 2015, we identified certain cost centers related to sales training and administration, facilities and IT functions supporting store operations which were included in corporate expenses that should be included in operating expenses in the UK reporting unit. These reclassifications between corporate expenses and operating expense were made during the 2016 fiscal year. The following table reflects the reclassification of certain operating and corporate expenses in the consolidated statement of operations for the year ended June 30, 2015 to conform with the presentation for the year ended June 30, 2016:

<b>Description</b>	<b>As Reported</b>	<b>Reclassification adjustment</b>	<b>As Reclassified</b>
Salary and benefits	\$ 217.4	(1.8) \$	215.6
Occupancy	68.7	2.4	71.1
Advertising	35.6	(0.2)	35.4
Depreciation and amortization	25.3	(0.3)	25.0
Maintenance and repairs	21.1	3.3	24.4
Other	78.9	3.2	82.1
Corporate expenses	107.7	(7.0)	100.7
Other depreciation and amortization	18.1	0.4	18.5

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**STERLING MID-HOLDINGS, LTD.**  
**(SUCCESSOR TO DFC GLOBAL CORP)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

**2. Summary of Significant Accounting Policies (continued)**

The following table summarizes the impact of the reclassification on the consolidated statement of cash flows for the year ended June 30, 2015:

Description	As Reported	Reclassification adjustment	As Reclassified
Cash flow from operating activities:			
Increase (decrease) in accounts payable, accrued expenses and other liabilities	34.0	4.5	38.5
Cash flow from investing activities:			
Originations of pawn loans	\$ (261)	261.0	\$ —
Repayment of pawn loans	265	(265.0)	—
Net (increase) decrease of pawn loans	—	(4.0)	(4.0)
Net increase in restricted cash	—	(4.5)	(4.5)
Net (increase) decrease in consumer loans	(78.6)	78.6	—
Net (increase) decrease in single payment loans	—	(47.4)	(47.4)
Net (increase) decrease in installment loans	—	(31.2)	(31.2)

The following tables summarizes the recasting reflected in the Financing Receivable footnote 8 for the year ended June 30, 2015 to reflect the realignment of the Company's product portfolio management strategies and the impact on the significant credit metrics:

Description	As Reported	Reclassification Adjustment	As Reclassified
Performing retail-based consumer loans - Gross	104.8	(104.8)	—
Performing retail-based consumer loans - Allowance	(13.2)	13.2	—
Performing internet-based consumer loans - Gross	47.2	(47.2)	—
Performing internet-based consumer loans - Allowance	(6.4)	6.4	—
Non-performing retail-based consumer loans - Gross	32.2	(32.2)	—
Non-performing retail-based consumer loans - Allowance	(28.3)	28.3	—
Non-performing internet-based consumer loans - Gross	32.6	(32.6)	—
Non-performing internet-based consumer loans - Allowance	(14.9)	14.9	—
Performing single payment loans - Gross	—	102.8	102.8
Performing single payment loans - Allowance	—	(6.1)	(6.1)
Performing installment loans - Gross	—	49.2	49.2
Performing installment loans - Allowance	—	(13.5)	(13.5)
Non-performing single payment loans - Gross	—	47.2	47.2
Non-performing single payment loans - Allowance	—	(32.4)	(32.4)
Non-performing installment loans - Gross	—	17.6	17.6
Non-performing installment loans - Allowance	—	(10.8)	(10.8)

**STERLING MID-HOLDINGS, LTD.**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

**2. Summary of Significant Accounting Policies (continued)**

<b>Description</b>	<b>As Reported</b>	<b>Reclassification Adjustment</b>	<b>As Reclassified</b>
Retail-based consumer loans 1-30 days past due	6.7	(6.7)	—
Retail-based consumer loans 31-59 days past due	3.1	(3.1)	—
Retail-based consumer loans 60-90 days past due	1.6	(1.6)	—
Retail-based consumer loans greater than 90 days past due	6.9	(6.9)	—
Retail-based consumer loans Current	75	(75)	—
Retail-based consumer loans recorded investment > 90 days and accruing	1.4	(1.4)	—
Internet-based consumer loans 1-30 days past due	4.5	(4.5)	—
Internet-based consumer loans 31-59 days past due	2.2	(2.2)	—
Internet-based consumer loans 60-90 days past due	2.6	(2.6)	—
Internet-based consumer loans greater than 90 days past due	6.2	(6.2)	—
Internet-based consumer loans Current	50.4	(50.4)	—
Internet-based consumer loans recorded investment > 90 days and accruing	—	—	—
Single payment loans 1-30 days past due	—	10.6	10.6
Single payment loans 31-59 days past due	—	6.8	6.8
Single payment loans 60-90 days past due	—	7.4	7.4
Single payment loans greater than 90 days past due	—	22.4	22.4
Single payment loans Current	—	102.8	102.8
Single payment loans recorded investment > 90 days and accruing	—	—	—
Installment loans 1-30 days past due	—	7.5	7.5
Installment loans 31-59 days past due	—	4.9	4.9
Installment loans 60-90 days past due	—	4.2	4.2
Installment loans greater than 90 days past due	—	9.2	9.2
Installment loans Current	—	41	41
Installment loans recorded investment > 90 days and accruing	—	2.1	2.1

<b>Description</b>	<b>As Reported</b>	<b>Restatement</b>	<b>As Restated</b>
<i><b>Loan Receivable on Nonaccrual Status</b></i>			
Retail-based consumer loans	\$ 32.2	\$ (32.2)	0
Internet-based consumer loans	32.6	(32.6)	0
Consumer loans	—	64.8	64.8

***Revenue Recognition***

Revenue from consumer loan fees includes interest income, finance charges, fees for services provided through our company operated stores, service charges, minimum fees, late fees, nonsufficient funds fees and any other fees or charges permitted by applicable laws and pursuant to the agreement with the borrower and the type of loan. For unsecured short-term consumer loans, which generally have terms ranging from 1 to 45 days, and for multiple payment loans up to 3 years, revenues

**STERLING MID-HOLDINGS, LTD.**  
**(SUCCESSOR TO DFC GLOBAL CORP)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

**2. Summary of Significant Accounting Policies (continued)**

are recognized using the interest method. Loan origination fees are recognized as an adjustment to the yield on the related loan. Our reserve policy regarding these loans is summarized below under "Allowance for Consumer Loan Losses." Revenues from our check cashing, money order sales, money transfer and other ancillary services reported in other revenues are all recognized when the transactions are completed at the point-of-sale in the store.

Secured pawn loans are offered at most of our retail financial services locations in the UK and Poland and at our pawn shops in the UK, Sweden, Finland, Romania and certain of our Canadian and US retail stores. Pawn loans are short-term in nature and are secured by the customer's personal property, which we refer to as a pledge. At the time of pledge, the loan is recorded and interest and fees, net of costs are accrued for over the life of the loan. If the loan is not repaid, the collateral is deemed forfeited and the pawned item will, in most markets, either go up for auction, or in the case of gold, smelted by a contractor to recover the value of the gold. If the item is sold or gold smelted, proceeds are used to recover the loan value, interest accrued and fees. Generally, excess funds received from the sale are repaid to the customers in the UK Sweden and Finland. As with our unsecured short-term consumer loans, revenues are recognized using the interest method and loan origination fees, net, are recognized as an adjustment to the yield on the related loan.

In Spain we conduct business similar to "pawn-broking" by applying a "buy back" model because the legal framework in Spain requires a customer to legally transfer the ownership and risk of loss of an object of value to us by executing a sale agreement, with an arrangement to buy back the item within a specific timeframe (generally up to three months) at a pre-agreed buy back price. The customer agrees to pay the higher buy back price for the cost of storing and safekeeping the item and to account for any expected increase in the value of the item or, alternatively, pays the additional fee for the execution of the buy back arrangement. If the customer chooses not to buy back the object of value within the agreed upon period, we may dispose of the item either through a sale in our retail window or smelting and sale of the gold. Inventory is recorded when the customer sells the gold object to us, and revenue is recognized and recorded when we sell the gold through our retail window or smelting process.

***Cash and Cash Equivalents***

Cash includes cash in stores and demand deposits with financial institutions. Cash equivalents are defined as short-term, highly liquid investments both readily convertible to known amounts of cash and so near maturity that there is insignificant risk of changes in value because of changes in interest rates.

***Consumer Loans, Net***

Unsecured short-term and longer-term installment loans that the Company originates are reflected on the consolidated balance sheets in consumer loans, net and are stated at the principal amount less deferred fees. Consumer loans, net are reported net of a reserve as described below under "Loan Loss Allowance".

***Loans in Default***

Loans in default consist of unsecured short-term and longer term installment consumer loans originated by the Company which are in default status. An allowance for the defaulted loans receivable is established and is included in the loan loss provision in the period that the loan is placed in default status. The reserve is reviewed monthly and any change to the loan loss allowance as a result of historical loan performance, current and expected collection patterns and current economic trends is included with the Company's loan loss provision. If the loans remain in a defaulted status for an extended period of time, typically 180 days, an allowance for the entire amount of the loan is recorded and the receivable is charged off.

***Allowance for Consumer Loan Losses***

The Company maintains a loan loss allowance for estimated losses for unsecured consumer loans. To estimate the appropriate level of loan loss allowance, the Company considers known relevant internal and external factors that affect loan collectability, including the amount of outstanding unsecured loans owed to the Company, historical loans charged off, current collection patterns and current economic trends. The Company's current loan loss allowance is based on its net charge-offs, typically expressed as a percentage of loan amounts originated for the last twelve months applied against the principal balance of outstanding loans. Management also considers internal and external factors such as the regulatory environment, credit quality trends, underwriting and collection practices and other risks as necessary to estimate credit losses in the portfolio. Such qualitative factors are used to reflect changes in the loan portfolios collectability characteristics not captured by historical loss data. As these conditions change, the Company may need to record additional allowances in future periods.

***Single Payment Loans***

**STERLING MID-HOLDINGS, LTD.**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

**2. Summary of Significant Accounting Policies (continued)**

Generally, when a short-term loan is originated, the customer receives the cash proceeds in exchange for a post-dated check or a written authorization to initiate a charge to the customer's bank account on the stated maturity date of the loan. If the check or the debit to the customer's account is returned from the bank unpaid, the loan is placed in default status and an allowance for this defaulted loan receivable is established and is included in loan loss provision expense in the period that the loan is placed in default status. This reserve is reviewed monthly and any additional provision to the loan loss reserve as a result of historical loan performance, current collection patterns and current economic trends is included in loan loss provision expense. If a loan remains in defaulted status for an extended period of time, typically 180 days, an allowance for the entire amount of the loan is recorded and the loan is charged off. Recoveries on loans that were completely charged off are credited to the allowance when collected.

*Installment Payment and Term Loans*

The allowance is generally computed by applying loss factors to outstanding loans principal balances over an estimated loss emergence period. The loss emergence period represents the time period between the date at which the loss is estimated to have been incurred and the ultimate realization of that loss (through a charge-off). Installment payment and term loans not in "debt management" are collated based on the default or aging bucket with loss percentages considering the probability of loans rolling to charge-off. For recognition of allowance for loan losses, US GAAP requires an impairment to be recognized when it is probable a loss has been incurred. Estimated loss emergence periods may vary by product and may change over time; management applies judgment in estimating loss emergence periods, using available credit information and trends. Loss factors are statistically derived and sensitive to changes in delinquency status, and other risk factors. The Company uses a number of different forecasting models to estimate both the probability of default and loss severity, including delinquency roll rate models and credit loss severity models. In developing probability of default and loss severity assumptions, the Company also considers known and anticipated changes in economic environment, unemployment rates and other risk indicators.

This reserve is reviewed monthly and any additional provision to the loan loss reserve as a result of historical loan performance, current collection patterns and current economic trends is included in loan loss provision expense. If a loan remains in defaulted status for an extended period of time, typically 90 to 180 days, an allowance for the entire amount of the loan is recorded and the loan is charged off. Loan sales on occasion occur prior to reaching 180 days depending on the region. Recoveries on loans that were completely charged-off are credited to the allowance when collected.

Management also considers internal and external factors such as the regulatory environment, credit quality trends, underwriting and collection practices and other risks as necessary to estimate credit losses in the portfolio. Such qualitative factors are used to reflect changes in the loan portfolios collectability characteristics not captured by historical loss data. As these conditions change, the Company may need to record additional allowances in future periods.

The Company's allowance for loan losses for each of the reporting periods has been calculated to reflect management's best estimate and judgment of the likely impact of these changes on probable loan losses. However, these estimates are inherently uncertain, especially given that these regulatory changes have only been recently implemented by the Company. As the ultimate impact of these regulatory actions and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from the Company's additional experience operating under the revised regulations within the UK will be reflected in the financial statements in future periods.

*Pawn Loans*

Pawn loans are secured by the customer's pledged item, which is generally 50% to 80% of the estimated fair value of the pledged item, thus reducing, although not eliminating, the Company's exposure to losses on defaulted pawn loans. The Company's historical redemption rate on pawn loans is in excess of 80%, which means that for more than 80% of its pawn loans, the customer repays the amount borrowed, plus interest and fees, and the Company returns the pledged item to the customer. In the instance where the customer defaults on a pawn loan (fails to redeem), the pledged item is either sold at auction or sold to a gold smelter or sold to a third party in the Company's retail stores within several weeks of the customer default. Generally, excess amounts received over and above the Company's recorded asset and auction-related administrative fees are returned to the customer.

In Spain we conduct business similar to "pawn-broking" by applying a "buy back" model because the legal framework in Spain requires a customer to legally transfer the ownership and risk of loss of an object of value to us by executing a sale agreement, with an option to buy back the item within a specific timeframe (generally up to three months) at a pre-agreed buy back price. The customer agrees to pay the higher buy back price for the cost of storing and safekeeping the item and to account for any expected increase in the value of the item or, alternatively, pays the additional fee for the execution of the buy back

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**2. Summary of Significant Accounting Policies (continued)**

option. If the customer does not exercise the buy back option within the agreed option period, we may dispose of the item either through a sale in our retail window or smelting and sale of the gold. Inventory is recorded at the time we buy the gold from the customer and sales is recorded when we sell the gold through the retail window or smelt and sell the gold to a gold dealer

Included in prepaid expenses and other current assets are unredeemed pawn assets consisting primarily of gold-based merchandise of \$35.6 million and \$23.2 million at June 30, 2015 and June 30, 2016, respectively. The unredeemed pawn assets are valued at the lower of cost or market.

Determination of the allowance for consumer loan and pawn loan losses requires management to exercise significant judgment about the timing, frequency, the estimated fair market value of the pawn assets held as collateral, and severity of credit losses inherent in the portfolio at the balance sheet date. The Company's allowance for loan losses for each of the reporting periods has been calculated to reflect management's best estimate and judgment of the likely impact of the factors discussed above on probable loan losses. However, these estimates are inherently uncertain, especially given that the impact of regulatory changes have only recently been implemented by the Company. As the ultimate impact of regulatory actions and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from the Company's additional experience operating under revised regulation will be reflected in the financial statements in future periods.

***Other receivables***

Other receivables consist primarily of third-party receivables for money transfer services and income taxes.

***Property and Equipment***

Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which vary from three to five years. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term (including renewal options that are reasonably assured) or the estimated useful life of the related asset. We capitalize certain costs incurred in connection with developing or obtaining software for internal use and amortize the costs on a straight-line basis over the estimated useful lives of each system, typically five years.

***Goodwill and Other Intangible Assets***

Goodwill is the excess of cost over the fair value of the net assets of the business acquired. In accordance with FASB ASC Topic 350, *Intangibles-Goodwill and Other* ("ASC 350") goodwill is assigned to reporting units, which the Company has determined to be North America, UK, and Rest of World. No goodwill or intangibles has been assigned to corporate because of the limited activities and it does not generate revenues. Goodwill is assigned to the reporting unit that benefits from the synergies arising from each particular business combination. The Company determines reporting units based on a review of operating segments, and to the extent present, the underlying components. Where two or more components within the same operating segment have similar economic characteristics, their results are aggregated into one reporting unit. Goodwill and intangibles are evaluated for impairment annually, or between annual impairment tests, if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. To accomplish this, the Company is required to determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. The Company first assesses qualitative factors to determine whether it is more likely than not that the fair values of its reporting units are less than their carrying amounts as a basis for determining whether or not to perform the quantitative two-step goodwill impairment test. The Company is then required to determine the fair value of each reporting unit and compare it to the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds the fair value of the reporting unit, the Company is required to perform a second step to the impairment test because this is an indication that the reporting unit goodwill may be impaired. After the second step of testing, if the carrying amount of a reporting unit exceeds the fair value of the individual tangible and identifiable intangible assets, an impairment loss would be recognized in an amount equal to the excess of the carrying value of the reporting unit's goodwill over the implied fair value of its goodwill.

The Company considers the goodwill impairment testing process to be one of the critical accounting estimates used in the preparation of its consolidated financial statements. The Company normally estimates the fair value of its reporting units by using a discounted cash flow analysis or a market-based approach, or a combination thereof. The discounted cash flow analysis requires the Company to make various assumptions about revenues, operating margins, growth rates, and discount rates. These assumptions are based on the Company's budgets, business plans, economic projections, anticipated future cash flows and

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**2. Summary of Significant Accounting Policies (continued)**

marketplace data. Assumptions are also made for perpetual growth rates for periods beyond the period covered by the Company's long term business plan. Since we estimate the fair value of our reporting units by using an income approach, the fair value estimates are sensitive to the selection of the following inputs: the weighted-average cost of capital rate used to discount the projected cash flows, and the market multiples applied to earnings, but are especially sensitive to the projected future cash flows of the respective reporting unit. For the 2016 annual impairment test, the Market Approach was considered but ultimately was not relied upon or allocated any weighting because the current operations of the business do not yet reflect the operational change that will take place to more closely align the operations of the Reporting Units with those of the guideline public companies.

The Predecessor performed its annual goodwill impairment test as of June 30, while the Successor performs its annual goodwill impairment test as of April 1. The Company may be required to evaluate the recoverability of goodwill prior to the required annual assessment if the Company experiences a significant disruption to its business, unexpected significant declines in its operating results or forecasted operating results, divestiture or exit of a significant component of its business, or a significant change to the regulatory environment in which the Company operates.

***Debt Issuance Costs***

Debt issuance costs are amortized over the remaining term of the related debt (see [Note 10](#)).

***Operating Expenses***

The direct costs incurred in operating the Company's business have been classified as operating expenses. Operating expenses include salaries and benefits of store and regional employees, provisions for loan losses, rent and other occupancy costs, purchased gold costs, depreciation of property and equipment used to operate the Company's business, bank charges, armored carrier services, returned checks, net and cash shortages, advertising, maintenance and repairs and other costs incurred by the stores. Excluded from operating expenses are the corporate expenses of the Company, which include salaries and benefits of corporate employees, professional fees and travel costs, amortization of intangibles and goodwill impairment charges. Also excluded from operating expenses are acquisition-related costs, which are recorded in Other expense, net in the consolidated statements of operations.

***Check Cashing Returned Item Policy***

The Company charges operating expense for losses on returned checks during the period in which such checks are returned. Recoveries on returned checks are credited to operating expense in the period during which recovery is made. This direct method for recording returned check losses and recoveries eliminates the need for an allowance for returned checks.

***Income Taxes***

The Company provides for income taxes and the related accounts under the asset and liability method pursuant to guidance provided by FASB ASC Topic 740, Income Taxes ("ASC 740"). Under this method, the Company recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of the Company's assets, liabilities, and expected benefits of utilizing net operating losses ("NOL") and tax credit carry-forwards. The impact on deferred taxes of changes in tax rates and laws, if any, are applied to the years during which temporary differences are expected to be settled and are reflected in the consolidated financial statements in the period of enactment. Tax expense includes US and international income taxes plus the provision for US taxes on undistributed earnings of international subsidiaries not deemed to be indefinitely reinvested.

Deferred tax assets are reduced by valuation allowances if, based on the consideration of all available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. Significant weight is given to evidence that can be objectively verified, and significant management judgment is required in determining any valuation allowances recorded against net deferred tax assets. The Company evaluates deferred income taxes on a quarterly basis to determine if valuation allowances are required by considering available evidence. Deferred tax assets are recognized when expected future taxable income is sufficient to allow the related tax benefits to reduce taxes that would otherwise be payable. The sources of taxable income that may be available to realize the benefit of deferred tax assets are future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and credit carry-forwards, taxable income in carry-back years, and tax planning strategies which are both prudent and feasible. The current balance of the deferred tax valuation allowance relates principally to net operating loss carryforwards and other deferred tax assets in the US and UK and certain other non-US jurisdictions. The

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**2. Summary of Significant Accounting Policies (continued)**

Company believes that its estimate of future taxable income is inherently uncertain, and if its current or future operations generate losses, further adjustments to the valuation allowance are possible. There is currently no assurance of such future income before income taxes.

The accounting for uncertainty in income taxes requires a more likely than not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. The Company records a liability for the difference between the (i) benefit recognized and measured for financial statement purposes and (ii) the tax position taken or expected to be taken on the Company's tax return. To the extent that the Company's assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made. The Company has elected to record any interest or penalties associated with uncertain tax positions as income tax expense. Uncertain tax positions are classified as noncurrent liabilities unless expected to be paid within one year.

***Derivative Instruments and Hedging Activities***

FASB ASC Topic 815, *Derivative and Hedging* ("ASC 815") requires companies to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. ASC 815 also requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

As required by ASC 815, the Company records all derivatives on the consolidated balance sheets at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of the Company's risks, even though hedge accounting does not apply or we elect not to apply hedge accounting. See Note 12 for further information regarding the Company's derivatives, including the required disclosures noted above.

***Foreign Currency Translation and Transactions***

As of June 30, 2016, the Company had operations in the UK, Canada, Sweden, Finland, Poland, Spain and Romania. The financial statements of these foreign businesses have been translated into U.S. dollars in accordance with FASB ASC Topic 830, *Foreign Currency Matters* ("ASC 830"). All balance sheet accounts are translated at the current exchange rate at each period end and income statement items are translated at the average exchange rate for the period; resulting translation adjustments are made directly to a separate component of stockholders' equity. Gains or losses resulting from foreign currency transactions excluding the revaluation of non-functional currency denominated debt are included in other expense (income), net. Gains or losses resulting from the revaluation of non-functional currency denominated debt are included in unrealized foreign exchange gain (loss), due to the fact that currency of the contractual arrangement is different than the functional currency of the operating entity.

***Stockholder's Equity***

On December 14, 2011, the Company's Board of Directors approved a stock repurchase plan, authorizing the Company to repurchase in the aggregate up to 5.0 million shares of its outstanding common stock. On September 20, 2012, the Company's Board of Directors reconfirmed the plan through September 30, 2013. On August 21, 2013, the Company's Board of Directors authorized an increase of 5.0 million shares under the plan. Under the repurchase plan, the Company can repurchase shares of its outstanding common stock on a discretionary basis. During the fiscal year ended June 30, 2013, the Company repurchased 3,499,881 shares of its outstanding common stock for an aggregate purchase price of \$54.4 million. During the Predecessor



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**2. Summary of Significant Accounting Policies (continued)**

period ended June 13, 2014 the Company repurchased an additional 1,712,365 shares of its outstanding common stock for an aggregate purchase price of \$21.5 million.

In conjunction with the Merger on June 13, 2014, DFC Global Corp shareholders received from an affiliate of Lone Star \$9.50 in cash for each share of DFC Global Corp.'s common stock they owned. In addition to the \$800.0 million 10.50% Senior Secured Notes due 2020 that was issued to retire Predecessor debt, Lone Star contributed \$700.0 million as a capital contribution. During the fiscal year ended June 30, 2015 and 2016, Lone Star contributed an additional \$81.8 million and \$170.0 million, respectively in capital, partially to finance the acquisition of certain assets of Cash Store in Canada discussed below, fund loan book growth and general operating activities.

***Deferred Compensation Plan***

The Company maintains a voluntary self-directed, non-qualified deferred compensation plan for certain executives and other highly compensated employees. Under the plan, participants may elect to defer receipt of a portion of their base salary and annual incentive bonus. Amounts deferred are invested at the direction of the employee into various mutual fund-like investment options. All investments are held in a rabbi trust and are recorded at fair value as trading securities and included in other assets in the Company's Consolidated Balance Sheets. The amount of compensation deferred is credited to each participant's deferral account and a deferred compensation liability is recorded in accounts payable and other non-current liabilities in the Company's Consolidated Balance Sheets. This liability equals the recorded asset and represents the Company's obligation to the plan participants. The investments in the rabbi trust are classified as trading securities and changes in their values are recorded in the Company's Consolidated Statements of Operations. The carrying value of the investment securities of the rabbi trust and the related deferred compensation liability totaled \$8.8 million as of June 30, 2014. In conjunction with the Merger on June 13, 2014, all the assets in the rabbi trust was liquidated and distributed to the participants, and the trust was terminated in 2015.

***Equity Method Investment***

The Company uses the equity method of accounting for its investments in entities in which it has significant influence; generally, this represents an ownership interest of between 20% and 50%. As a result of the Merger, the Company's equity method investment was recorded at fair value (\$11.3 million). The carrying value of the Company's equity method investment at June 30, 2015 and 2016 was \$10.1 million and \$8.8 million, respectively. The difference between the fair value and the amount of underlying equity in net assets (\$2.0 million and \$1.1 million at June 30, 2015 and June 30, 2016, respectively) was treated as equity method goodwill and was not amortized.

***Troubled Debt Restructuring***

When the terms of Consumer loan are modified, consideration must be given as to whether or not the modification results in a Troubled Debt Restructuring ("TDR"). A modification is considered to be a TDR when both a) the borrower is experiencing financial difficulty and b) we grant a concession to the borrower. These considerations require significant judgment and vary by portfolio segment. In all cases, the cumulative impacts of all modifications are considered at the time of the most recent modification.

For term loans, various qualitative factors are utilized for assessing the financial difficulty of the borrower. These include, but are not limited to, the borrower's default status on any of its debts, bankruptcy and recent changes in financial circumstances (loss of job, etc.). A concession has been granted when as a result of the modification we do not expect to collect all amounts due, including interest accrued at the original contract rate. Types of modifications that may be considered concessions include, but are not limited to, extensions of terms at a rate that does not constitute a market rate, a reduction, or forgiveness of principal or interest owed.

In addition to the modifications noted above, on occasion we may extend contractual terms of loans following a missed payment upon a series of consecutive payments. A restructuring that results in only a delay in payment that is deemed to be insignificant is not a concession and the modification is not considered to be a TDR.

These modifications are generally not considered TDRs because the extension is not considered significant. Also, on occasion we may change the payment frequency at the borrowers request from bi-weekly to monthly or vice versa. In order to assess whether a restructuring that results in a delay in payment is insignificant, we consider the amount of the restructured

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**2. Summary of Significant Accounting Policies (continued)**

payments subject to delay in conjunction with the unpaid principal balance or the collateral value of the loan, whether or not the delay is significant with respect to the frequency of payments under the original contract, or the loan's original expected duration.

***Asset Retirement Obligations***

In accordance with FASB ASC Topic 410, *Asset Retirement and Environmental Obligations* ("ASC 410") the Company has identified certain Asset Retirement Obligations ("ARO") that are legal obligations associated with the retirement of long-lived assets. Such liabilities are required to be initially recorded at estimated fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the Company records the period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The Company de-recognizes ARO liabilities when the related obligations are settled. At June 30, 2015 and 2016, \$1.9 million and \$1.5 million, respectively, of ARO was included in Other non-current liabilities in the Consolidated Balances Sheets.

***Restructuring Activities***

The Company continues to execute on restructuring plans in the US, Canada, and the UK. As a result, the Company may incur severance expenses, store and facility asset write-downs, consulting expenses and other contractual obligations. The recognition of such costs require management to project estimate closure costs, asset performance during wind-down and the Company's ability to sublease or cancel lease obligations.

***Recent Accounting Pronouncements***

In March 17, 2016, the FASB issued ASU 2016-08 - "*Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*". This new guidance in the new revenue standard clarifies how an entity should identify the unit of accounting (i.e., the specified good or service) for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements, such as service transactions, by explaining what a principal controls before the specified good or service is transferred to the customer. The amendments re-frame the indicators in the guidance to focus on evidence that an entity is acting as a principal rather than as an agent. The new standard is effective for annual reporting periods beginning after December 15, 2017. The Company will be evaluating the potential effect that the ASU will have on its consolidated financial statements and related disclosures.

In February 25, 2016, the FASB issued ASU 2016-02 - "*Leases*". This is a comprehensive new lease accounting standard, provides revised guidance on accounting for lease arrangements by both lessors and lessees. The central requirement of the new standard is that lessees must recognize lease related assets and liabilities for all leases with a term longer than 12 months. The Company is evaluating the effect the standard will have on the Company's consolidated financial statements and related disclosures, and expects a material change to the balance sheet due to the recognition of right-of-use assets and lease liabilities related to the Company's portfolio of real-estate leases. The new standard is effective for the Company in fiscal year 2020, with early adoption permitted.

In January 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"), which requires that equity investments, except for those accounted for under the equity method or those that result in consolidation of the investee, be measured at fair value, with subsequent changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. ASU 2016-01 also impacts the presentation and disclosure requirements for financial instruments. ASU 2016-01 is effective for the Company annual period beginning after December 15, 2018. Early adoption is permitted only for certain provisions. The Company does not expect that the adoption of ASU 2016-01 will have a material effect on its consolidated financial statements.

On November 20, 2015, the FASB issued ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17"), to simplify the presentation of deferred income taxes. ASU 2015-17 requires that deferred tax assets and liabilities be classified as non-current in a classified statement of financial position. Under prior guidance, an entity was required to

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**2. Summary of Significant Accounting Policies (continued)**

separate deferred income tax assets and liabilities into current and non-current amounts. The current requirement that deferred tax assets and liabilities of a tax-paying component of an entity be offset and presented as a single amount is not affected. For non-public entities, the new guidance is effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018, with early adoption permitted. We adopted the new guidance on a prospective basis for the fiscal year ended June 30, 2016. Financial statements for prior periods were not retrospectively adjusted. There was no impact on our results of operations as a result of the adoption of ASU 2015-17.

In September 25, 2015, the FASB issued ASU 2015-16 - "*Simplifying the Accounting for Measurement-Period Adjustments*". This new guidance eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Instead, an acquirer will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment, including the effect on earnings of any amounts it would have recorded in previous periods if the accounting had been completed at the acquisition date. The guidance is effective for the Company beginning in fiscal year 2017, with early adoption permitted. The Company is evaluating the potential impact of adopting the new guidance and does not expect that it will have a material effect on its consolidated financial position.

In April 2015, the FASB issued ASU 2015-3, "*Simplifying the Presentation of Debt Issuance Costs*" to simplify the presentation of debt issuance costs. This new guidance requires 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 the associated debt liability, consistent with the required presentation for debt discounts. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2015, our fiscal year 2017. Early adoption is permitted. This new guidance is not expected to have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement* ("ASU 2015-05"), which defines specific criteria that entities must apply to determine if a cloud computing arrangement includes an in-substance software license. The result of the assessment will direct the entity to apply either software licensing or service contract guidance to record the related fees. ASU 2015-05 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015 and can be prospectively or retrospectively applied. Early adoption is permitted. The Company does not expect that the adoption of ASU 2015-05 will have a material effect on its consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis* ("ASU 2015-02"), which provides guidance for reporting entities that are required to evaluate whether they should consolidate certain legal entities. In accordance with ASU 2015-02, all legal entities are subject to reevaluation under the revised consolidation model. ASU 2015-02 is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. The Company does not expect that the adoption of ASU 2015-02 will have a material effect on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The guidance requires an entity to evaluate whether there are conditions or events, in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued and to provide related footnote disclosures in certain circumstances. The guidance is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early application is permitted. The Company does not believe the adoption of this ASU will have a significant impact on the consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU requires 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 ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new standard is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. In July 2015, the FASB affirmed its proposal to defer the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017. Early application is

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**2. Summary of Significant Accounting Policies (continued)**

not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company has not yet selected a transition method. The Company will be evaluating the potential effect that the ASU will have on the consolidated financial statements and related disclosures.

**3. Business Combinations and Acquisitions**

During fiscal 2016 the Company did not make any significant acquisition or sell any of its businesses other than the acquisition of a small franchisee in Eastern Canada for \$0.4 million, all of which was assigned to goodwill.

On February 6, 2015, National Money Mart Company ("NMM"), a wholly owned Canadian subsidiary of the Company, completed the acquisition of certain assets, customer receivables and customer lists from The Cash Store Financial Services Inc. ("Cash Store"), including 150 Cash Store and InstaLoans locations throughout Canada. As previously disclosed, this transaction was funded entirely with capital contribution from Lone Star Funds. Through June 30, 2015, the purchase price paid was \$41.8 million, which resulted in an increase in goodwill of \$30.7 million, calculated as the excess purchase price over the fair value of the identifiable net assets acquired. Approximately \$23.0 million of the goodwill from this acquisition is deductible for tax purposes. Management's valuations of the fair value of tangible assets acquired and liabilities assumed are based on assumptions and estimates of the Company's fair value allocations. The table below presents the final fair value allocated to the assets acquired and liabilities assumed on the acquisition date in accordance with ASC 805 (in millions):

Consumer loans	\$	11.2
Prepaid expenses and other current assets		0.2
Computers		0.1
Accounts payable and other accrued liabilities		(0.4)
Net tangible assets acquired		<u>11.1</u>
Goodwill		<u>30.7</u>
Purchase price	<u>\$</u>	<u>41.8</u>

On June 13, 2014, Sterling Mid-Holdings Limited acquired the outstanding shares of the Predecessor for a purchase price of approximately \$378.7 million. The acquisition was accounted for under the acquisition method of accounting. Lone Star's acquisition of the Company will provide the Company with the capital to expand and recapitalize the Company. Under acquisition accounting, tangible and identifiable intangible assets acquired and liabilities assumed was recorded at their respective estimated fair values. Management's valuations of the fair value of tangible and intangible assets acquired and liabilities assumed was based on assumptions and estimates of the Company's fair value allocations.

During the year ended June 30, 2015, the Company finalized the purchase accounting and fair value measurements for substantially all assets and liabilities for the acquisition by Sterling Mid-Holdings, Limited. As a result of the final purchase price allocations, certain of the fair value amounts previously estimated were adjusted during the measurement period. These measurement period adjustments related to updated valuation reports and appraisals received from our external valuation specialists, as well as revisions to internal estimates. The changes in estimates recorded in fiscal 2015 include an increase in property and equipment of \$9.6 million; an increase in liabilities related to an unfavorable facility lease of \$3.2 million; an increase in non-current deferred tax asset of \$11.2 million; an increase in income taxes payable of \$2.7 million; an increase in the reserve for uncertain tax positions of \$11.0 million; and a decrease in deferred income taxes of \$10.2 million. These measurement period adjustments together with the immaterial correction to previous period for intangible assets of \$21.1 million as discussed in Note 2 above resulted in an increase to goodwill of \$22.8 million. The allocation of goodwill among reporting units located in foreign jurisdictions during fiscal 2015 resulted in foreign currency translation adjustments which increased goodwill and other comprehensive income by \$11.3 million for the Successor period from June 14, 2014 to June 30, 2014. The purchase accounting adjustments resulting from a reconciliation of the tax accounts to tax returns filed resulted in a decrease to the income tax provision of \$15.8 million which was retrospectively adjusted to the consolidated statements of operations for the Successor period ended June 30, 2014. Similarly, the consolidated statements of comprehensive income for the Successor period ended June 30, 2014, was adjusted to reflect the foreign currency translation adjustment to goodwill described above.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

**3. Business Combinations and Acquisitions (continued)**

The fair value of Consumer loans and loans in default is \$161.5 million, with a gross contractual amount of \$285.8 million. The Company expects \$124.3 million to be uncollectible. The fair value of Pawn loans is \$149.4 million, with a gross contractual amount of \$152.1 million. The Company expects \$2.7 million to be uncollectible.

Goodwill in the amount of \$844.0 was recognized for the Merger, and is calculated as the excess of the consideration transferred over the fair value of the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Specifically, goodwill recorded as part of the acquisition of the Predecessor includes:

- any intangible assets that do not qualify for separate recognition, such as assembled workforce; and
- the value of the going-concern element of the Predecessor's existing business

Approximately \$208.6 million of the goodwill is deductible for tax purposes.

The table below presents the estimates and value of assets acquired and liabilities assumed on the acquisition date based on the best information it has received to date in accordance with ASC 805 (in millions):

Cash	\$ 179.0
Consumer loans	135.6
Pawn loans	149.4
Loans in default	25.9
Prepaid expenses and other current assets	82.3
Property and equipment	128.0
Other non-current assets	43.3
Definite-lived intangible assets acquired	84.4
Accounts payable	(21.3)
Accrued expenses and other liabilities	(112.4)
Income taxes payable	(14.4)
Fair value of derivatives	(15.0)
Deferred taxes	2.9
Debt	(1,052.9)
Other non-current liabilities	(67.1)
Measurement period adjustments (net)	(1.7)
	<hr/>
	Net liabilities assumed (454.0)
	<hr/>
Goodwill	832.7
	<hr/>
	Total purchase price \$ 378.7
	<hr/>

In connection with the Merger, \$39.2 million in acquisition-related expenses were incurred, which are reported as other expenses, net in the consolidated statement of operations. \$22.7 million of these expenses were incurred in the Predecessor period ended June 13, 2014 and \$16.5 million were incurred by the Successor for the period from May 2, 2014 (the date of incorporation of Sterling Mid-Holdings, Ltd.) to June 30, 2014.

The following acquisitions of the Predecessor have been accounted for under the acquisition method of accounting.

During fiscal 2014, the Company acquired Gemgain Limited, which operates 14 pawnbroking stores in the UK trading under the name TGS Pawnbrokers. The aggregate purchase price was \$12.5 million, which resulted in an increase in goodwill of \$5.2 million, calculated as the excess purchase price over the fair value of the identifiable assets acquired. Additionally, the Company completed two acquisitions in Spain, the first being Crirama, S.A. which operates 27 pawnbroking stores. The aggregate purchase price was \$8.2 million, which resulted in an increase in goodwill of \$6.1 million, calculated as the excess purchase price over the fair value of the identifiable assets acquired. The second acquisition in Spain was Belen Oro, S. L. which operates one pawnbroking store in Madrid. The aggregate purchase price was \$5.6 million, which resulted in an increase in goodwill of \$3.5 million, calculated as the excess purchase price over the fair value of the identifiable assets acquired.

**STERLING MID-HOLDINGS, LTD.**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

**3. Business Combinations and Acquisitions (continued)**

Management's valuations of the fair value of tangible and intangible assets acquired and liabilities assumed, is based on estimates and assumptions.

One of the core strategies of the Company is to capitalize on its competitive strengths and enhance its leading market positions. One of the key elements in the Company's strategy is the intention to grow its network through acquisitions. The Company believes that acquisitions provide it with increased market penetration or in some cases the opportunity to enter new platforms and geographies with de novo expansion following thereafter. The purchase price of each acquisition is primarily based on a multiple of historical earnings. The Company's standard business model, and that of its industry, is one that does not rely heavily on tangible assets and, therefore, it is common to have a majority of the purchase price allocated to goodwill, or in some cases, intangible assets.

**4. Goodwill and Other Intangibles**

The following table reflects the roll-forward of intangible assets (in millions):

**Goodwill:**

	June 30, 2015	June 30, 2016
Goodwill - beginning balance	\$ 844.0	\$ 748.7
Impairment charges	(18.9)	—
Additional goodwill due to acquisition	30.7	0.4
Currency translation adjustment	(107.1)	(25.5)
Goodwill - ending balance	<u>\$ 748.7</u>	<u>\$ 723.6</u>

**Amortizable intangible assets:**

	June 30, 2015		June 30, 2016	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Purchased technology	\$ 26.6	\$ 5.6	\$ 25.3	\$ 10.4
Trade names	43.2	2.6	35.4	4.0
Various contracts	6.0	0.8	—	—
Accumulated impairment charges	(10.2)	(1.1)	—	—
Total amortizable intangible assets <sup>(1)</sup>	<u>\$ 65.6</u>	<u>\$ 7.9</u>	<u>\$ 60.7</u>	<u>\$ 14.4</u>

(1) Amounts include the impact of foreign currency translation of \$(9.1) million and \$(4.1) million for the Successor period ended June 30, 2015 and year ended June 30, 2016, respectively.

The remaining useful life of purchased technology and trade names is 2.9 years and 17.9 years, respectively.

Goodwill is the excess of purchase price over the fair value of the net assets of the business acquired.

Goodwill is evaluated for impairment on an annual basis or between annual tests if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. To perform the impairment testing, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair values of its reporting units are less than their carrying amounts as a basis for determining whether or not to perform the quantitative two-step goodwill impairment test. The Company then estimates the fair value of each reporting unit not meeting the qualitative criteria and compares their fair values to their carrying values. If the carrying value of a reporting unit exceeds its fair value, the Company determines the implied fair value of goodwill for that reporting unit by deducting the estimated fair value of its assets, other than goodwill, from its overall fair value. If the implied fair value of goodwill is less than its carrying amount, the Company recognizes an impairment loss for the difference.

There were no changes to the Company's reporting unit structure during the year ended June 30, 2016. The Company conducted its annual impairment test of its goodwill as of April 1, 2016 of its reporting units consisting of North America, UK, and Rest of World. There were no impairment charges recorded as result of the Step 1 impairment test. For the 2016 annual impairment test, the Market Approach was considered but ultimately was not relied upon or allocated any weighting because the current operations of the business do not yet reflect the operational change that will take place to more closely align the

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

**4. Goodwill and Other Intangibles (continued)**

operations of the Reporting Units with those of the guideline public companies. The significant assumptions used in determining the fair values of the North America, UK, and Rest of World reporting units were discount rates of 20.1%, 22.8% and 27.9% respectively, with long-term growth rates of 3%. Additionally, the assumptions also include high revenue growth rates in the near term to reflect projected growth.

During the fiscal year ended December 31, 2015, we completed an interim test for goodwill impairment as a result of events and circumstances occurring during this interim period that would more likely than not reduce the fair value of certain reporting units below their respective carrying amount. We identified interim impairment indicators resulting from: (i) the Company's revenues, results of operations and resulting cash flows for the three and six months ended December 31, 2015 were well below the results of the comparable prior year period for all the reporting units, except for the US Retail reporting unit; (ii) the continued negative transitional impact of the rules and limitations published by the FCA on February 28, 2014 on the Company's UK revenues and cash flows from operations; and (iii) the risks and uncertainties of the Company's MILES program during the current fiscal year.

During the fiscal year ended 30, 2015, the Company completed an interim test for goodwill impairment as a result of events and circumstances occurring during this interim period that would more likely than not reduce the fair value of certain reporting units below their respective carrying amount. The Company identified the following interim impairment indicators in certain of the Company's operating units: (i) a reduction in operating income compared to previously forecasted earnings and cash flows, (ii) the Company's decision to exit and close its DFS reporting unit and its eCommerce operations in Poland and the Czech Republic. During the three months ended March 31, 2015, the Company recognized an additional impairment charge of \$8.5 million related to the remaining balance of the net book value of the intangibles related to the DFS reporting unit. Additionally, the Company recognized an impairment charge of \$13.1 million to goodwill related to the eCommerce operations in Poland and the Czech Republic. The impairment charges related to our DFS reporting unit were the result of a significant decrease in future projections because of the inherent uncertainty in increasing market share and the availability of obtaining financing to enable the reporting unit to offer competitive alternatives to DFS' service member customers. These estimates are inherently uncertain.

The Company conducted its annual impairment test of its goodwill as of April 1, 2015 of its new reporting units consisting of North America, UK, and Rest of World. There were no impairment charges recorded as result of the Step 1 impairment test.

Goodwill as of December 31, 2014 had been assigned to reporting units using the relative fair value method, which at that time was US Retail, Canada Retail, UK Retail, Europe Retail, eCommerce and DFS. No goodwill had been assigned to corporate because of the limited activities of the corporate reporting unit. Goodwill is assigned to the reporting unit which benefits from the synergies arising from each particular business combination. As a result of the events and circumstances noted above, we performed our interim goodwill impairment test by determining the carrying value of each reporting unit, which requires the assignment of the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. We then estimated the fair value of each reporting unit and compared it to the carrying amount of the respective reporting unit.

For fiscal 2014 and 2015, the fair values of reporting units are estimated using a weighted average of a discounted future cash flows technique (income approach) and a guideline public company market multiples technique (market approach). For the 2016 annual impairment test, the market approach was considered but ultimately was not relied upon or allocated any weighting because the current operations of the business do not yet reflect the operational change that will take place to more closely align the operations of the Reporting Units with those of the guideline public companies. The most significant assumptions used in the discounted cash flow fair value technique are the projections used to derive future cash flows and the weighted average cost of capital used to discount such projections. The discounted cash flow analysis requires us to make various assumptions about revenues, operating margins, growth rates, and discount rates. These assumptions are based on our budgets, business plans, economic projections, regulatory guidelines, anticipated future cash flows and marketplace data. Assumptions are also made for perpetual growth rates for periods beyond the period covered by our long term business plan.

We completed Step 1 of our interim goodwill impairment test during the three months ended December 31, 2014 and concluded that the fair values of our DFS reporting unit was less than its carrying value. As a result, a preliminary Step 2 of the goodwill impairment test was performed for the DFS reporting unit. We recognized an interim goodwill impairment charge of

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

**4. Goodwill and Other Intangibles (continued)**

approximately \$5.8 million during the three months ended December 31, 2014, which represents our best estimate of the impairment loss based on the latest information and cash flow projections available. Additionally, we recognized an impairment charge of \$0.5 million related to DFS Trade Name finite-lived intangible asset. The DFS Trade Name finite-lived intangible valuation was calculated using a relief from royalty valuation method. The significant assumptions used in determining the fair value of the MILES program intangible were a 23.5% discount rate, a pre-tax royalty rate of 10%, a 20% annual revenue growth rate and a 3% long-term revenue growth rate. The fair value of all the other reporting units were significantly above its carrying value at December 31, 2014. The significant assumptions used in determining the fair values of the US Retail, DFS, Canada Retail, Europe Retail UK Retail and eCommerce reporting units were discount rates of 12.5%, 18.0%, 14.5%, 20.0%, 16.0 and 23% respectively, with long-term growth rates ranging from 1% to 3%.

During the three months ended March 31, 2014, the Predecessor completed an interim test for goodwill impairment as a result of events and circumstances occurring during the interim period that would more likely than not reduce the fair value of certain reporting units below their respective carrying amount. The Predecessor identified interim impairment indicators resulting from: (i) a further decline in the Predecessor's stock price and market capitalization since the prior fiscal quarter; (ii) a significant reduction in forecasted earnings and cash flows based on projections developed during the month of March 2014 and announced on April 2, 2014; and (iii) the Predecessor's agreement to be acquired by an affiliate of Lone Star Funds dated April 1, 2014 for \$9.50 per share, which was significantly below the book value of its stockholders' equity at March 31, 2014, prior to the recognition of the impairment charges discussed herein. The significant reduction in earnings resulted in part from the communications with the OFT in February and March 2014 regarding the Predecessor's compliance with the enhanced regulatory requirements of the FCA.

As disclosed in the Predecessor's annual consolidated financial statements for the fiscal year ended June 30, 2013, goodwill was assigned to reporting units, which it had determined to be United States Retail, Canada Retail, United Kingdom Retail, Europe Retail, eCommerce and DFS. No goodwill had been assigned to the corporate operations because of its limited activities. Goodwill was assigned to the reporting units which benefit from the synergies arising from each particular business combination. As a result of the events and circumstances noted above, the Predecessor performed its interim goodwill impairment test by determining the carrying value of each reporting unit, which requires the assignment of the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. The Predecessor then estimated the fair value of each reporting unit and compared it to the carrying amount of the respective reporting unit.

The fair values of reporting units are estimated using a weighted average of a discounted future cash flows technique (income approach) and a guideline public company market multiples technique (market approach). The most significant assumptions used in the discounted cash flow fair value technique are the projections used to derive future cash flows and the weighted average cost of capital used to discount such projections. The discounted cash flow analysis requires the Company to make various assumptions about revenues, operating margins, growth rates, and discount rates. These assumptions are based on the Company's budgets, business plans, economic projections, regulatory guidelines, anticipated future cash flows and marketplace data. Assumptions are also made for perpetual growth rates for periods beyond the period covered by our long term business plan.

The Predecessor completed Step 1 of its interim goodwill impairment test during the three months ended March 31, 2014 and concluded that the fair values of the DFS, Europe Retail and eCommerce reporting units were less than their respective carrying values. As a result, a preliminary Step 2 of the goodwill impairment test was performed for these reporting units. The Predecessor recognized a preliminary goodwill impairment charge of approximately \$121.5 million during the three months ended March 31, 2014, which represented its best estimate of the impairment loss based on the latest information and cash flow projections available. Additionally, it recognized an impairment charge of \$5.8 million related to DFS' MILES program indefinite-lived intangible asset. The MILES program indefinite-lived intangible valuation was calculated using a relief from royalty valuation method. The significant assumptions used in determining the fair value of the MILES program asset were a 23% discount rate, a pre-tax royalty rate of 10%, a 22% annual revenue growth rate and a 3% long-term growth rate. The significant assumptions used in determining the fair values of the DFS, Europe Retail and eCommerce reporting units were discount rates of 22.0%, 22.0% and 21.5%, respectively, with a 3% long-term growth rate.

The impairment charges related to the Predecessor's DFS reporting unit were the result of an increase in discount rates due to the increased risk of not meeting future projections, as well as reduced projections. The estimates of future cash flows for the DFS reporting unit were in large part dependent on increased market share as a result of more competitive financing alternatives to DFS' service member customers. Those estimates were inherently uncertain.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

**4. Goodwill and Other Intangibles (continued)**

During the period ended June 13, 2014, the Predecessor finalized the interim estimated impairment of the DFS, Europe Retail and eCommerce goodwill. The total goodwill impairment charge for the Predecessor period ended June 13, 2014 was \$128.4 million, which represented an increase of \$6.9 million from the preliminary goodwill impairment charge recorded during the fiscal third quarter ended March 31, 2014, principally due to the finalization of the valuation of intangible assets and the calculation of deferred taxes.

Since the Company estimates the fair value of its reporting units by using a combination of an income approach and a market approach, the fair value estimates are sensitive to the selection of the following inputs: the weighted-average cost of capital rate used to discount the projected cash flows, and the market multiples applied to earnings, but are especially sensitive to the projected future cash flows of the respective reporting unit. The Company's estimates of future cash flows in its eCommerce reporting unit include the following significant yet inherently uncertain growth and profitability assumptions:

- Growth within the Company's on-line lending business in jurisdictions in which the Company has recently entered and where the Company has recently experienced significant growth, such as Canada, Spain and Poland;
- Moderation of loan losses, as its borrowers and potentially some of its competitors adjust to the impending revised regulations within the UK for renewals and collections;
- Growth in market share resulting from consolidation within the industry as a number of existing competitors will unlikely make the necessary investments to comply with the impending revised payday loan regulations within the UK;
- Improved margins within the Company's UK businesses principally resulting from revised underwriting criteria in conjunction with its expectation of servicing more credit worthy customers which is expected to improve credit quality from current levels;
- Introduction of a multi-payment loan ("MPL") product in certain jurisdictions

The Company's estimate of future cash flows for its UK Retail reporting unit include the following significant and inherently uncertain growth and profitability assumptions:

- Moderation of loan losses, as its borrowers and potentially some of its competitors adjust to the impending revised regulations within the UK for renewals and collections;
- Growth in market share resulting from consolidation within the industry as a number of existing competitors will unlikely make the necessary investments to comply with the impending revised payday loan regulations within the UK;
- Improved margins, principally resulting from revised underwriting criteria in conjunction with its expectation of servicing more credit worthy customers which is expected to improve credit quality from current levels.

While these assumptions are inherently uncertain, especially given the fluidity of the proposed regulatory changes within the UK, the Company believes that such assumptions are reasonable and appropriate when considering all available market information as of the date of the interim impairment test, as well as the Company's past experiences in similar jurisdictions such as Canada and the US, which had previously implemented significant changes to regulations for single payment loans. Furthermore, the weighted average cost of capital that has been applied to the cash flows of the respective reporting units when calculating the fair value of the reporting units have been adjusted to reflect the inherent risks and uncertainties addressed herein.

The fair value of the Predecessor's Europe Retail reporting unit was negatively impacted principally by the reduction in gold prices and start up costs associated with new store openings in Poland and Spain. The estimates of future cash flows for the Europe Retail reporting unit are in large part dependent on the projected growth and profitability of our store-based operations in Spain and Poland, which were inherently uncertain.

The significant decline in the fair value of the Europe Retail reporting unit resulted from (i) a significant increase in the weighted average cost of capital to reflect the increasing uncertainties in forecasted earnings, (ii) reductions in forecasted earnings to reflect the expectation of continued depressed gold prices, greater competition in emerging markets and less contribution from store openings, and (iii) reductions in market valuations.

The failure to achieve one or more of the Company's anticipated business model assumptions described herein, or the impact of the implementation of final single payment loan regulations in the UK that are different than those contemplated in

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

**4. Goodwill and Other Intangibles (continued)**

the Company's forecast could lead to additional goodwill impairment of the Company's Europe Retail or eCommerce reporting units, and any such impairments may be material.

In the period ended June 13, 2014, the Predecessor performed an additional goodwill impairment test because additional interim impairment indicators were identified due to the significant reduction in the Company's forecasted earnings for the fiscal year ended June 30, 2015. While the fair values of certain reporting units, most notably UK retail and E-commerce, declined significantly from the interim goodwill impairment test performed in the three months ended March 31, 2014, the carrying values of these reporting units also declined significantly, principally because of the significant reduction in outstanding consumer loans since the prior interim goodwill impairment test. No additional goodwill impairment was recognized as a result of the June 13, 2014 interim goodwill impairment test.

***Amortization of Intangible Assets***

Amortization expense of intangible assets was \$8.8 million, \$0.7 million \$9.4 million and \$7.4 million, for the Predecessor period ended June 13, 2014, the Successor period ended June 30, 2014, year ended June 30, 2015 and June 30, 2016, respectively.

Estimated amortization expense of intangible assets during the next five fiscal years is shown below (in millions):

Years ended June 30,	Amount
2017	\$ 8.7
2018	8.7
2019	8.7
2020	2.1
2021	2.1
Total	<u>\$ 30.3</u>

**5. Supplementary Cash Flow Information**

***Non-Cash Transactions***

Recorded non-cash goodwill and other intangible assets impairment charges were \$134.2 million for the Predecessor period ended June 13, 2014, and \$0, \$28.0, and \$0 million for the Successor period ended June 30, 2014, 2015 and 2016, respectively.

**6. Stock-Based Compensation Plans**

***Predecessor***

The DFC Global Corp. 2005 Stock Incentive Plan (the "2005 Plan") states that 2,578,043 shares of the Predecessor's common stock may be awarded to its employees or consultants. The awards may be issued at the discretion of the Predecessor's Board of Directors as nonqualified stock options, incentive stock options or restricted stock awards. The number of shares issued under the 2005 Plan is subject to adjustment as specified in the 2005 Plan provisions. No options may be granted under the 2005 Plan after January 24, 2015.

On November 15, 2007, the Predecessor's stockholders adopted the DFC Global Corp. 2007 Equity Incentive Plan (the "2007 Plan"). The 2007 Plan provides for the grant of stock options, stock appreciation rights, stock awards, restricted stock unit awards and performance awards (collectively, the "Awards") to non-employee members of its Board of Directors, officers, employees, independent consultants and contractors, and any its subsidiaries. On November 11, 2010, the Predecessor's stockholders approved an amendment to the 2007 Plan. Under the terms of the amendment, the maximum aggregate number of shares of its common stock that could be issued pursuant to Awards granted under the 2007 Plan is 10,500,000; provided, however, that 1.67 shares will be deducted from the number of shares available for grant under the 2007 Plan for each share that underlies an Award granted under the 2007 Plan on or after November 11, 2010 for restricted stock, restricted stock units, performance awards or other Awards for which the full value of such share is transferred by the Predecessor to the award

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

**6. Stock-Based Compensation Plans (continued)**

recipient. The shares that could be issued under the 2007 Plan could be authorized, but unissued or reacquired shares of the Predecessor's common stock. No grantee could receive an Award relating to more than 750,000 shares in the aggregate per fiscal year under the 2007 Plan.

Stock options and stock appreciation rights granted under the aforementioned plans had an exercise price equal to the closing price of the Predecessor's common stock on the date of grant.

The Predecessor accounted for stock-based compensation under the provisions of ASC Topic 718 (ASC 718). *Compensation — Stock Compensation*, and it had elected to apply the with-and-without method to assess the realization of excess tax benefits. Compensation expense, net of the related tax benefit related to share-based compensation, included in the consolidated statements of operations for the Predecessor period ended June 13, 2014 was \$6.0 million.

The following table presents information on stock options:

		Weighted Average Exercise Price	Weighted Average Contractual Term (years)	Aggregate Intrinsic Value (\$ in millions)
Options outstanding at June 30, 2013	3,080,697	\$ 13.27		
(2,634,198 shares exercisable)				
Granted	749,149	\$ 13.41		
Exercised	(812,112)	\$ 6.73		
Forfeited	(3,017,734)	\$ 15.07		
Options outstanding at June 13, 2014	—	\$ —	0	\$ —
Exercisable at June 13, 2014	—	\$ —	0	\$ —

Upon the change in control related to the acquisition of the Predecessor by Lone Star, all unvested share-based awards were immediately vested and settled or canceled. No share-based payment awards or plans were issued or adopted by the Successor.

The aggregate intrinsic value in the above table reflects the total pre-tax intrinsic value (the difference between the Predecessor's closing stock price on the last trading day of the period and the exercise price of the options, multiplied by the number of in-the-money stock options) that would have been received by the option holders had all option holders exercised their options on June 13, 2014, the date of the Merger. The intrinsic value of the Company's stock options changes based on the closing price of the Predecessor's common stock. The total intrinsic value of options exercised for the year ended June 30, 2013 and the predecessor period ended June 13, 2014 was \$1.2 million and \$2.4 million, respectively. As of June 13, 2014, there was no unrecognized compensation to be recognized. Compensation expense is recorded ratably over the requisite service period. Cash received from stock options exercised for the year ended June 30, 2013 and the predecessor period ended June 13, 2014, the date of the Merger, was \$1.7 million and \$7.4 million, respectively.

The weighted average fair value of each employee option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants during each of the reporting periods:

	Predecessor	Successor
	Period July 1, 2013 to June 13, 2014	Period June 14, 2014 to June 30, 2014
Expected volatility	48.8%	—%
Expected life (years)	5.8	0.0
Risk-free interest rate	1.95%	—%
Expected dividends	None	None
Weighted average fair value	\$ 6.34	\$ —

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

**6. Stock-Based Compensation Plans (continued)**

Restricted Stock Unit awards ("RSUs") granted under the 2005 Plan and the 2007 Plan became vested after a designated period of time ("time-based"), which is generally on a quarterly basis over three years. Compensation expense was recorded ratably over the requisite service period. Compensation expense related to RSUs was measured based on the fair value using the closing market price of the Predecessor's common stock on the date of the grant. The Predecessor had 567,145 of RSUs that became vested as of June 13, 2014, the date of the Merger. These RSUs had a weighted average price of \$9.50.

Information concerning restricted stock unit awards is as follows:

	Restricted Stock Unit Awards	Weighted Average Grant
Outstanding at June 30, 2013	499,565	\$ 18.69
Granted	585,525	\$ 13.18
Vested	(931,735)	\$ 15.73
Forfeited	(153,355)	\$ 15.65
Outstanding at June 13, 2014	<u>—</u>	<u>\$ —</u>

As of June 13, 2014, there was no unrecognized compensation cost related to unvested restricted share-based compensation arrangements granted under the plans. The total fair value of shares vested during the years ended June 30, 2013 and the Predecessor period ended June 13, 2014, the date of the Merger, was \$8.2 million and \$14.7 million, respectively.

**7. Employee Retirement Plans**

Retirement benefits are provided to substantially all U.S. full-time employees who have completed 1,000 hours of service through a defined contribution retirement plan. The Company matches 100% of employee contributions up to 3% and 50% of employee contributions exceeding 3% up to 5%. The Company's foreign subsidiaries offer similar plans, the terms of which vary based on statutory requirements.

Total contributions charged to expense were \$3.8 million, \$0.2 million, \$3.9 million and \$3.3 million for the Predecessor period ended June 13, 2014, and the Successor period ended June 30, 2014, 2015 and 2016, respectively.

The Predecessor's Deferred Compensation Plan's (the "Plan") primary purpose is to provide tax-advantageous asset accumulation for a select group of management and highly compensated employees. Eligible employees may elect to defer up to 50% of base salary and/or 100% of bonus earned. The Administrator, a person appointed by the Company's Board of Directors, may further limit the minimum or maximum amount deferred by any plan participants, for any reason.

There were no discretionary contributions to the Plan approved by the Board of Directors during the Predecessor period ended June 13, 2014, the Successor period ended June 30, 2014, June 30, 2015 and June 30, 2016.

The Predecessor provided for certain post retirement benefits and additional retirement income to its Chief Executive Officer ("CEO") and its Executive Vice President and Chief Financial Officer ("EVP and CFO") under the terms of their employment agreements. Subject to service requirements, the CEO would receive a lump-sum payment which was the actuarial equivalent of an annual benefit of \$450,000 payable in equal monthly installments during his lifetime commencing the month following the applicable Vesting Date, as defined in his employment agreement, and \$225,000 annual survivor benefit payable on his subsequent death to his surviving spouse for her lifetime. Subject to service requirements, the EVP and CFO was entitled to receive an annual benefit of \$200,000 payable in equal monthly installments commencing the first month after he ceases to be employed by the Company, subject to certain conditions as defined in his agreement. Furthermore, upon the CFO's death, his spouse would be entitled to receive an annual benefit of \$100,000 payable in equal monthly installments during her lifetime. Upon the change in control, approximately \$9.6 million was paid to satisfy all post retirement obligations.

The Company recorded net expense of \$0.2 million for the Predecessor period ended June 13, 2014, respectively. There were no recorded expense for the Successor period ended June 30, 2014, June 30, 2015 and June 30, 2016 associated with the aforementioned retirement plans.

As a result of the the change in control associated with the acquisition of DFC Global Corp by an affiliate of Lone Star, the Company was required to make lump-sum Supplemental Executive Retirement Plan (SERP) payments to its Chief Executive Officer and its Chief Financial Officer of approximately \$9.6 million. These SERP benefits had been funded through

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Company Owned Life Insurance (COLI) and mutual funds held in a rabbi trust. These lump-sum payments were made in the Successor period with a portion of the proceeds from the acquisition. Subsequent to June 30, 2014, the Company liquidated mutual funds and paid approximately \$9.0 million to satisfy the post-retirement obligations. The trust was dissolved in January 2015.

**8. Financing Receivables**

The Company offers a variety of short-term loan, installment and longer term installment loan products and credit services to customers who typically cannot access other traditional sources of credit and have non-traditional loan histories. Accordingly, the Company has implemented proprietary predictive scoring models that are designed to limit the dollar amount of loans it offers to customers who statistically would likely be unable to repay their loan. The Company has instituted control mechanisms and a credit analytics function designed to manage risk in its unsecured consumer loan activities. Collection activities are also an important aspect of the Company's operations, particularly with respect to its unsecured consumer loan products due to the relatively high incidence of unpaid balances beyond stated terms. The Company operates centralized collection centers to coordinate a consistent approach to customer service and collections in each of its markets. The Company's risk control mechanisms include, among others, the daily monitoring of initial return rates with respect to payments made on its consumer loan portfolio. Because the Company's revenue from its unsecured consumer lending activities is generated through a high volume of small-dollar financial transactions, its exposure to loss from a single customer transaction is minimal.

The following reflects the credit quality of the Company's loans receivable. Generally, loans are determined to be nonperforming when they are one day past due without a payment for short term consumer loans and generally 90 days past due without a payment for longer-term installment loans depending on regional collection patterns and product type :

Consumer Credit Exposure Credit Risk Profile Based on Payment Activity (in millions)						
As of June 30, 2015						
	Consumer Loans				Pawn Loans	
	Single payment Loans		Installment Loans		Gross	Allowance
	Gross	Allowance	Gross	Allowance		
Performing	\$ 102.8	\$ (6.1)	\$ 49.2	\$ (13.5)	\$ 110.5	\$ (1.2)
Non-performing	47.2	(32.4)	17.6	(10.8)	—	—
	<u>\$ 150.0</u>	<u>\$ (38.5)</u>	<u>\$ 66.8</u>	<u>\$ (24.3)</u>	<u>\$ 110.5</u>	<u>\$ (1.2)</u>
As of June 30, 2016						
	Consumer Loans				Pawn Loans	
	Single payment Loans		Installment Loans		Gross	Allowance
	Gross	Allowance	Gross	Allowance		
Performing	\$ 96.9	\$ (4.1)	\$ 198.8	\$ (36.4)	\$ 98.0	\$ (0.2)
Non-performing	52.6	(38.7)	20.4	(12.7)	—	—
	<u>\$ 149.5</u>	<u>\$ (42.8)</u>	<u>\$ 219.2</u>	<u>\$ (49.1)</u>	<u>\$ 98.0</u>	<u>\$ (0.2)</u>

The following presents the aging of the Company's past due loans receivable as of June 30, 2015 and June 30, 2016:

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

**8. Financing Receivables (continued)**

**Age Analysis of Past Due Loans Receivable**  
**(in millions)**  
**As of June 30, 2015**

	1-30 days Past Due	30-59 days Past Due	60-89 days Past Due	Greater Than 90 days Past Due	Total Past Due	Current	Total Financing Receivables	> 90 Days and Accruin g
Single payment loans	\$ 10.6	\$ 6.8	\$ 7.4	\$ 22.4	\$ 47.2	\$ 102.8	\$ 150.0	\$ —
Installment loans	7.5	4.9	4.2	9.2	25.8	41.0	66.8	2.1
Pawn loans	—	—	—	—	—	110.5	110.5	—
<b>Total</b>	<b>\$ 18.1</b>	<b>\$ 11.7</b>	<b>\$ 11.6</b>	<b>\$ 31.6</b>	<b>\$ 73.0</b>	<b>\$ 254.3</b>	<b>\$ 327.3</b>	<b>\$ 2.1</b>

**As of June 30, 2016**

	1-30 days Past Due	30-59 days Past Due	60-89 days Past Due	Greater Than 90 days Past Due	Total Past Due	Current	Total Financing Receivables	> 90 Days and Accruing
Single payment loans	\$ 11.9	\$ 7.7	\$ 6.9	\$ 26.1	\$ 52.6	\$ 96.9	\$ 149.5	\$ —
Installment loans	17.7	10.0	7.3	26.1	\$ 61.1	158.1	219.2	6.6
Pawn loans	—	—	—	—	—	\$ 98.0	98.0	—
<b>Total</b>	<b>\$ 29.6</b>	<b>\$ 17.7</b>	<b>\$ 14.2</b>	<b>\$ 52.2</b>	<b>\$ 113.7</b>	<b>\$ 353.0</b>	<b>\$ 466.7</b>	<b>\$ 6.6</b>

The following details the Company's loans receivable that are on nonaccrual status as of June 30, 2015 and June 30, 2016:

<b>Loans Receivable on Nonaccrual Status (in millions)</b>	<b>June 30, 2015</b>	<b>June 30, 2016</b>
Consumer loans	64.8	73.1
Pawn loans	—	—
<b>Total</b>	<b>\$ 64.8</b>	<b>\$ 73.1</b>

The following table presents changes in the allowance for consumer and pawn loans credit losses (in millions) for the year ended June 30, 2015 and June 30, 2016:

	<b>June 30, 2015</b>	<b>June 30, 2016</b>
<b>Allowance for Consumer Loan Losses (1):</b>		
Beginning Balance	\$ 4.0	\$ 62.8
Provision for loan losses	93.4	119.7
Charge-offs	(119.5)	(199.9)
Recoveries	90.1	112.7
Effect of foreign currency translation	(5.2)	(3.2)
<b>Ending Balance</b>	<b>\$ 62.8</b>	<b>\$ 92.1</b>

(1) Excludes \$1.2 million and \$0.2 million of allowance reserve against the Company's pawn loans receivable recorded during June 30, 2015 and June 30, 2016, respectively.

During the year ended June 30, 2016, the Company sold approximately \$140.0 million of non-performing consumer loans for proceeds of approximately \$13.0 million and recorded a gain on sale of \$1.9 million in other revenue.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

**8. Financing Receivables (continued)**

During the year ended June 30, 2015, the Company sold approximately \$14.4 million of nonperforming consumer loans for proceeds of approximately \$8.0 million and recorded a reduction of \$2.0 million in the provision for loan losses.

**9. Supplemental Balance Sheet and Income Statement Information**

Property and equipment at June 30, 2015 and 2016 consist of (in millions):

	June 30, 2015	June 30, 2016
Land	\$ 0.2	\$ 0.2
Leasehold improvements	48.8	56.7
Computer software and equipment	57.9	69.2
Equipment and furniture	24.8	28.5
	<u>131.7</u>	<u>154.6</u>
Less: accumulated depreciation	(34.1)	(63.8)
Property and equipment, net	<u>\$ 97.6</u>	<u>\$ 90.8</u>

Depreciation expense amounted to \$34.0 million, \$1.7 million, \$34.0 million and \$29.7 million for the predecessor period ended June 13, 2014, the successor period ended June 30, 2014, June 30, 2015 and June 30, 2016 respectively. Included in depreciation expense is \$9.9 million, \$0.5 million, \$9.9 million and \$12.9 million of depreciation expense related to computer software and equipment for the Predecessor period ended June 13, 2014 and the Successor period ended June 30, 2014, June 30, 2015 and June 30, 2016, respectively.

Accrued expenses and other liabilities consists of the following (in millions):

	June 30, 2015	June 30, 2016
Accrued legal settlements(1)	\$ 1.0	\$ 3.6
Accrued payroll and incentives	31.4	38.6
Accrued restructuring	65.1	24.7
Accrued for securitization	—	0.8
Other accrued expenses and liabilities	38.7	33.5
Total accrued expenses and other liabilities	<u>\$ 136.2</u>	<u>\$ 101.2</u>

(1) Other long-term liabilities include an additional accrual for legal settlements of \$20.8 million and \$20.0 million at June 30, 2015 and 2016, respectively.

The components of other expense, net are as follows (in millions):

	Period from July 1, 2013 to June 13, 2014 (Predecessor Period)	Period from June 13, 2014 to June 30, 2014 (Successor Period)	Year Ended June 30, 2015	Year Ended June 30, 2016
Transaction-related expenses (a)	\$ 16.5	\$ 22.7	\$ 7.9	\$ 0.7
Acceleration of amortization of share-based payment expense (b)	11.9	—	—	—
Restructuring and other related charges (c)	—	—	109.1	55.4
Gain on sale of Merchant Cash Express, Ltd.	(1.6)	—	—	—
Debt refinancing costs	2.3	—	—	—
Other, net	0.8	0.5	25.3	1.4
Total Other expense, net	<u>\$ 29.9</u>	<u>\$ 23.2</u>	<u>\$ 142.3</u>	<u>\$ 57.5</u>

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- (a) Expenses related to the acquisition of DFC Global Corp by an affiliate of Lone Star and other acquisitions by the Company during fiscal 2015 and 2016. These expenses include advisory and professional fees, commitment fees and other transaction related expenses.
- (b) Expense related to the acceleration of amortization of unrecognized share-based payments as a result of the acquisition of DFC Global Corp by an affiliate of Lone Star on June 13, 2014.
- (c) Restructuring and other charges includes employee severance and other costs related to the reorganization of the Company's business.
- (d) Expenses related to the establishment of a restitution fund resulting from DFS' consent order with the CFPB.

The recognition of acquisition-related costs for the Predecessor include costs incurred by Sterling Mid-Holdings, Ltd. prior to the date of acquisition but following its incorporation on May 2, 2014. Sterling Mid-Holdings Limited was incorporated to complete the acquisition of the Predecessor by Lone Star.

**10. Debt**

The Company had debt obligations as of June 30, 2015 and 2016 as follows (in millions):

	June 30, 2015	June 30 2016
ABL credit facility	83.0	\$ 120.8
DFC Finance Corp 10.5% Senior Secured Notes due 2020	800.0	800.0
Scandinavian credit facilities	44.7	45.1
Receivables Securitization facility	—	100.0
Note Payable-Lone Star affiliate	—	26.0
Other	9.7	8.2
Total debt	937.4	1,100.1
Less: current portion of debt	(45.2)	\$ (63.3)
Long-term debt	\$ 892.2	\$ 1,036.8

***Receivables Securitization Facility***

On December 29, 2015, the Company's consumer loan originating affiliates in the US, the UK, and Canada entered into a revolving, non-recourse, two-year receivables securitization facility (the "Securitization Facility") pursuant to various agreements, including but not limited to:

- a Loan and Security Agreement among DFC Global Facility Borrower, LLC (the "Borrower"), a wholly owned, bankruptcy remote special purpose entity ("SPE") and an indirect subsidiary of Mid-Holdings, certain financial institutions as Lenders, and First Associates Loan Servicing, LLC, as collateral and paying agent on behalf of the Lenders and other Secured Parties (as defined therein) (the "Receivables Securitization Loan Agreement");
- a Receivables Purchase Agreement among each of the loan originators located in the US ("US Originators"), and DFC US Purchaser, LLC (the "US Purchaser"), a bankruptcy remote special purpose entity and a wholly-owned indirect subsidiary of the Company for US originated loans and Receivables Purchase Agreements between each of the loan originators located in the UK ("UK Originator") and Canada ("Canadian Originator") (collectively, with the US Originators, the "Originators"), and DFC Irish Purchaser Designated Activity Company, a bankruptcy remote special purpose, "orphan" entity owned by an Irish Charitable Trust (the "Irish Purchaser"), and together with the US Purchaser, (the "Purchasers"), for UK and Canadian originated loans (all such agreements, collectively, the "RPAs");
- a Revolving Loan and Security Agreement among each of the Purchasers as borrowers, and the Borrower, as lender; and



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

- Receivables Servicing Agreements among the US Originators, Dollar Financial Group, Inc. and the US Purchaser, and between each of the UK Originator and the Canadian Originator and the Irish Purchaser.

Pursuant to the RPAs each Originator agreed (i) to sell participation and/or beneficial interests in all of their outstanding unsecured consumer loan receivables as of December 28, 2015 to their respective Purchasers and (ii) to sell on a daily basis participation and/or beneficial interests in all unsecured consumer loans originated by each Originator thereafter until the termination date of the Securitization Facility. The gross proceeds from the initial sale on December 29, 2015 totaled approximately \$56 million. Additional advances of \$20 million and \$24 million were borrowed by the Borrower during the three months ended March 31, 2016 and June 30, 2016, respectively. Advances under the Securitization Facility are provided only against Eligible Receivables. The advance rate under the Securitization Facility is reset daily at a percentage equal to 75% for Eligible Receivables for which no payment or installment is past due, 40% for Eligible Receivables for which all or any portion of a scheduled payment remains unpaid for not more than 30 days and 0% for any other consumer loan receivables. The proceeds of the Securitization Facility have been used and will continue to be used to repay other outstanding obligations and for other general corporate purposes. The interest rate on the funds from the Securitization Facility is 15% per annum. The initial commitments of the Lenders was \$100 million. The Securitization Facility may be increased up to \$175 million upon satisfaction of certain conditions set forth in the Receivables Securitization Loan Agreement, including the requirement to find lenders willing to make such additional commitments.

The transaction was structured so that all sales of participation and/or beneficial interests in consumer loan receivables to the respective Purchasers are on a non-recourse basis, meaning that the Originators do not have liability to the respective Purchasers for credit losses on the consumer loan receivables sold but may still be liable for certain standard securitization undertakings. In order to finance a portion of the loan receivables acquisition, the Purchasers have borrowed and will continue to borrow funds from the Borrower, as the lender, and the Borrower, in turn, has borrowed and will continue to borrow money from the Lenders. A lender to the Securitization Facility is also a holder of the 2014 Notes. The Borrower's obligations to the Lenders are secured by, inter alia, all the right, title, and interest of the Borrower in and to the loans made to the Purchasers and all of the rights and interests of the Purchasers to the participation and/or beneficial interests in the consumer loan receivables sold to them by the Originators. Each Originator will retain legal title to the receivables, and act as a servicer or sub-servicer on the receivables sold by them.

The Loan and Security Agreement, together with the Revolving Loan and Security Agreement and the RPAs and receivables servicing agreements, contain various affirmative and negative covenants that are customary for loans of this type, including borrowing base maintenance, limitations on indebtedness, limitations on sales and dispositions and provisions to ensure Lender control over deposit accounts. The Securitization Facility also includes certain performance-based or other trigger events, the occurrence of which would allow the purchasers to cease purchasing new receivables and wind down the Securitization Facility ahead of the two-year anniversary, as well as certain events of default, the occurrence of which would allow the lenders to accelerate payment of all amounts outstanding thereunder.

These events include a failure to pay interest and other amounts when due, failure to cure certain borrowing base deficiencies (which may arise due to defaults or delinquencies in the consumer loan receivables or otherwise due to such receivables ceasing to be Eligible Receivables), certain defaults on certain other indebtedness, certain judgments, change of control, and insolvency events. The servicing agreements also contain customary servicer termination events which allow the affiliates of the Originators to be replaced as servicers of the consumer loans owned by the Purchasers. First Associates Loan Servicing is the back-up servicer in the event such services are required.

*On-Balance Sheet Variable Interest Entities*

The consolidated VIEs, including the Borrower and the Purchasers relating to the Receivable Securitization Facility included in the Consolidated Balance Sheet of the Company represent separate entities with which the Company is involved. The investors in the obligations of consolidated VIEs have legal recourse only to the assets of the VIEs and do not have such recourse to the Company, except for the customary representation and warranty provisions. In addition, the cash flows from the assets are restricted only to pay such liabilities. Thus, our economic exposure to loss from outstanding third-party financing related to consolidated VIEs is significantly less than the carrying value of the consolidated VIE assets. All assets of consolidated VIEs, presented below based upon the legal transfer of the underlying assets in order to reflect legal ownership, are restricted for the benefit of the beneficial interest holders.

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The Originators are exposed to the inherent assumption of the risk of future credit losses to the extent of the beneficial interests in the Purchasers that are held by them, which represents a form of significant continuing economic interest. The underlying legal documents appoint the Originators as the servicer of the beneficial interests in unsecured consumer loans that are held by the Purchasers. Servicing functions include, but are not limited to, general collection activity on current and noncurrent accounts, and loss mitigation efforts including correspondence and contacting individual borrowers as legally permitted. The Company's servicing responsibilities are also considered as continued involvement in the transferred unsecured consumer loans.

Cash flows from the unsecured consumer loans transferred to the Purchasers represent the sole source for payment of distributions on the beneficial interests issued by the Purchasers and for payments to the Originators that perform services for the Purchasers, the collateral and paying agent, and for interest payments as they become due.

Notwithstanding the Company's conclusion that the securitization transaction does not qualify for sale accounting under US GAAP, and that it maintains a controlling financial interest for consolidated financial reporting purposes, the Company will maintain separate accounting records for the purpose of substantiating the purchase date, amount of any receivables and amount of collections attributable to the "legal sale" of the unsecured consumer loans, monitoring collections thereon, and tracking payments made to the collection accounts, and reconciling payments and amounts paid by the Purchasers to the Originators for (among other things) the Deferred Purchase Price, purchase of new loans originated and payable to the Originators.

The assets of consolidated variable interest entities, presented based upon the legal transfer of the underlying assets in order to reflect legal ownership, that can be used only to settle obligations of the consolidated variable interest entities and the liabilities of these entities for which creditors (or beneficial interest holders) do not have recourse to our general credit were as follows:

**ASSETS AND LIABILITIES OF CONSOLIDATED VARIABLE INTEREST ENTITIES**

	(in millions)	
Assets	June 30, 2015	June 30, 2016
Cash	\$ —	\$ 3.1
Consumer loans, Gross	—	161.4
Allowance for Consumer loans	—	(11.2)
Consumer loans, net	—	150.2
Loans in default, net	—	17.2
Long term consumer loans, net	—	41.8
<b>Total assets</b>	<b>\$ —</b>	<b>\$ 212.3</b>
Liabilities		
Accrued expenses and other liabilities	\$ —	\$ 0.8
Securitized debt	—	100.0
<b>Total Liabilities</b>	<b>\$ —</b>	<b>\$ 100.8</b>

**2014 Notes**

In connection with the Merger, a newly formed wholly-owned subsidiary of the Company, DFC Finance Corp. (the "Issuer") issued \$800.0 million of senior secured notes due June 15, 2020 (the "2014 Notes"). The 2014 Notes are guaranteed by the Company and its existing direct or indirect wholly-owned restricted subsidiaries organized in the US, Canada and the UK (other than the Issuer), other than immaterial subsidiaries and certain other subsidiaries. The 2014 Notes bear interest at a rate of 10.50% per year, payable on June 15 and December 15 of each year, commencing on December 15, 2014. Upon the occurrence of certain change-of-control transactions, the Issuer will be required to make an offer to repurchase the 2014 Notes at 101% of the principal amount, plus any accrued and unpaid interest to, but excluding, the repurchase date. The Issuer may redeem some or all of the 2014 Notes at any time on or after June 15, 2017 at a redemption price equal to 100.0% of the principal amount of the Senior Secured Notes redeemed plus any accrued and unpaid interest, if any, plus a "make-whole" premium. On and after June 15, 2017, the Issuer will have the right to redeem the 2014 Notes, in whole at any time or in part from time to time (i) at a redemption price of 105.25% of the principal amount thereof if the redemption occurs on or after June 15, 2017 but prior to June 15, 2018; (ii) at a redemption price of 102.625% of the principal amount thereof if the redemption occurs on or after June 15, 2018 but prior

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to June 15, 2019; and (iii) at a redemption price of 100.0% of the principal amount thereof if the redemption occurs on or after June 15, 2019.

In addition, until June 15, 2017, the Issuer may, at its option, upon notice as described in the 2014 Notes, on one or more occasions redeem up to 40% of the aggregate principal amount of the 2014 Notes issued under the 2014 Notes Indenture at a redemption price equal to 110.500% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, if any, to (but excluding) the applicable Redemption Date, subject to the right of Holders of 2014 Notes of record on the relevant record date to receive interest due on the relevant interest payment date, with the net cash proceeds of one or more equity offerings to the extent such net cash proceeds are received by or contributed to Mid-Holdings; provided that (a) at least 60% of the 2014 Notes issued under the Indenture (including any Additional Notes) remain outstanding immediately after the occurrence of each such redemption and (b) each such redemption occurs within 90 days of the date of closing of each such equity offering.

***ABL Credit Facility***

On June 13, 2014 (the "Merger Closing Date"), the Company entered into a new senior secured asset-based revolving credit facility (as amended, the "ABL Credit Facility") with Jellies Finance LLC, as administrative agent, and a syndicate of lenders. The ABL Credit Facility provides for a five-year \$125.0 million revolving credit facility, with potential to further increase the maximum commitment amount to up to \$230.0 million, subject to the conditions set forth in the credit agreement, including the requirement to find lenders willing to make such additional commitments. There is a sublimit of \$80.0 million for the issuance of letters of credit under the ABL Credit Facility. Availability under the ABL Credit Facility is based on a borrowing base comprised of cash and eligible consumer receivables of the borrowers and guarantors.

Borrowings under the ABL Credit Facility may be denominated in US dollars, British pounds, euros or Canadian dollars (and other currencies as may be approved by the lenders), as selected by the borrower. As of June 30, 2016, interest on borrowings under the ABL Credit Facility accrued at a rate equal to London Interbank Offered Rate ("LIBOR") (or in the case of Canadian dollar loans, Canadian Dollar Offered Rate ("CDOR")) for the relevant currency of borrowing, plus a margin of 400 basis points, or if selected by the borrower, the applicable alternate base rate ("ABR") (in the case of borrowings denominated in US dollars) or the Canadian prime rate (for loans denominated in Canadian dollars) for such currency of borrowing, plus a margin of 300 basis points.

The ABL Credit Facility allows for borrowings by the Issuer, NMM, DFUK and DF Eurozone (and any additional borrowers added to the ABL Credit Facility after the Merger Closing Date, subject to the conditions thereto). Borrowings are guaranteed by Mid-Holdings, Holdings and by each existing direct or indirect wholly-owned restricted subsidiary of Mid-Holdings organized in the US, Canada, the Republic of Ireland and the UK (other than the Issuer), other than immaterial subsidiaries and certain other subsidiaries. The obligations of the borrowers and guarantors under the ABL Credit Facility are secured by substantially all the assets of such borrowers and guarantors, with certain exceptions, with the collateral agent under the ABL Credit Facility, for the benefit of the lenders under the ABL Credit Facility and certain other secured parties having a first priority perfected lien on collateral consisting of current assets, including cash and consumer receivables, and the 2014 Notes Trustee, for the benefit of the holders of the 2014 Notes having a first priority perfected lien on the fixed assets and other collateral of the borrowers and guarantors.

The credit agreement governing the ABL Credit Facility contains customary covenants, representations and warranties and events of default, including covenants which limit our ability to engage in certain transactions or activities, representations and warranties which we must be able to make in order to obtain borrowings under the facility, and financial maintenance covenants and events of default which could result in the facility being terminated and any outstanding debt becoming due prior to its scheduled maturity. The financial maintenance covenants under the ABL Credit Facility are a minimum fixed charge coverage ratio test (which will be tested only if availability is less than 15% of the commitments as of the last day of any fiscal quarter) and a maximum total net leverage ratio test. The Company was in compliance with all such covenants as of June 30, 2016. Based on the Company's forecasted earnings and cash flows (which include proceeds of debt or equity issuances from its parent companies or other third parties), the Company expects to be in compliance with such covenants for the succeeding twelve months. The Company's ability to continue to meet those covenants will depend largely on its fiscal year 2017 performance (including proceeds of debt or equity issuances from its parent companies or other third parties). If the Company was to breach the covenants under the senior secured credit agreement, the lenders would be entitled to declare all amounts borrowed under it immediately due and payable. This acceleration of debt, if not paid by the Company, would trigger defaults under, and possibly cause the acceleration of obligations under the senior secured notes issued or guaranteed by the Company (described above).

As of June 30, 2016, there was \$120.8 million outstanding under the ABL Credit Facility, and such amount has been classified as long-term since we have no obligation to repay such amounts within one year from the balance sheet date. At June 30, 2016, we had \$1.4 million of letters of credit outstanding under the ABL Credit Facility. The ABL Credit Facility matures on December 13, 2018. In connection with the Exchange Offer, we entered into an amendment to our ABL Credit Facility to expressly permit the additional indebtedness, including capitalized interest, incurred in respect of the 2016 Notes and to make certain other changes.

#### *Promissory Note - Lone Star Affiliate*

At June 30, 2016, an affiliate of Lone Star had a loan to the Company totaling \$26.0 million for general corporate purposes. This loan is payable on demand and bears interest at 5% per annum. (see also "Note 20 - Subsequent Events" below).

#### *Scandinavian Credit Facilities*

The Company had borrowings under Scina's existing secured credit facilities in Sweden and Finland, consisting of two working capital facilities and overdraft facilities in Sweden and Finland.

In February 2014, the Company refinanced the EUR 10.75 million (approximately \$11.9 million) Finnish revolving credit facility extending the maturity date from February 15, 2014 to February 15, 2016. In February 2016, the Company extended this facility to February 15, 2020. As of June 30, 2016, EUR 8.4 million (approximately \$9.2 million) was outstanding under this revolver facility. The facility bears an interest rate of one month Euribor plus 155 basis points (1.56% at June 30, 2016) with unused fees of 100 basis points on the unused portion of the facility.

The Finnish term loan of EUR 8.0 million (approximately \$8.8 million at June 30, 2016) was originally due in February 2016, and had an interest rate of the nine month Euribor plus 300 basis points (2.99% at June 30, 2016). In February 2016, the Company extended this loan to February 15, 2020, and remains in compliance with all covenants under the facility. The Finnish loans are secured by the assets of the Company's pawn lending operating subsidiary in Finland.

In June 2012, we entered into a new secured credit facility which replaced and refinanced the outstanding borrowings under the prior Swedish facilities. The Swedish credit facility consisted of a term loan facility of SEK 240.0 million and a revolving credit facility of SEK 125 million. In July 2014, the Company entered into an amended and restated agreement for the Swedish entity which increased the revolving credit facility from SEK 115 million to SEK 250 million and extended the maturity date to June 2016.

In June 2016 the Company's Swedish subsidiary, Scina Svensk Panbäckning AB, refinanced and replaced the 2012 Swedish credit facility with a new Term Loan and Revolving Credit Facility Agreement with Danske Bank A/S, Danmark. Sverige Filial, as lender, providing for a revolving credit facility with a maximum principal amount of SEK 250.0 million. The 2016 Swedish revolving credit facility matures in June 2017. Borrowings under the revolving credit facility bear interest at Stockholm Interbank Offered Rate ("STIBOR") plus a margin of 2.50% per annum. The 2016 Swedish credit facility secured by collateral in the form of business mortgage certificates. The 2016 Swedish credit facility contains various negative covenants and financial covenants. We remain in compliance with all covenants under this facility.

#### *Other Debt*

Other debt consists primarily of debt assumed as part of the Suttons and Robertsons acquisition in the UK in December 2010. In December 2014, the Company negotiated an extension of this facility, which now consists of a £5.1 million revolving credit facility of which £4.1 million (approximately \$5.4 million) was outstanding at June 30, 2016. The revolving credit facility matures in December 2017.

#### *Interest Expense*

Interest expense, net was \$107.3 million, \$4.3 million, \$95.9 million and \$108 million and for the Predecessor period ended June 13, 2014, the Successor period ended June 30, 2014, for the year ended June 30, 2015 and June 30, 2016, respectively. Included in interest expense for the Predecessor period ended June 13, 2014, the Successor period ended June 30, 2014, June 30, 2015 and June 30, 2016 is approximately, \$23.1 million, \$0.2 million, \$7.1 million and \$8.6 million respectively, of non-cash interest expense related to the amortization of accumulated charges related to the

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discontinuance of hedge accounting for the Company's cross currency interest rate swaps, the non-cash interest expense associated with its Convertible Notes and the amortization of various deferred issuance costs.

As of June 30, 2016, long-term debt, maturing in each of the years subsequent to June 30, 2016, is as follows (in millions):

Fiscal years ended June 30,	June 30, 2016
2018	105.5
2019	120.8
2020	808.8
2021	1.7
Total	<u>\$ 1,036.8</u>

**11. Fair Value Measurements**

FASB ASC 820 • *Fair Value Measurement* establishes a fair value hierarchy that distinguishes between observable and unobservable market participant assumptions. Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs include quoted prices for similar assets and liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value in its entirety requires judgment and considers factors specific to the asset or liability.

Periodically, the Company uses foreign currency options and cross currency interest rate swaps to manage its interest rate and foreign currency risk and a gold collar to manage its exposure to variability in gold prices. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity and uses observable market-based inputs, including interest rate curves, foreign exchange rates, gold forward curves and implied volatilities. The Company incorporates credit valuation adjustments to reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. As of June 30, 2014, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. As disclosed in Note 12, "Derivative Instruments and Hedging Activities" the Company terminated the cross-currency swaps which was held by UK subsidiary. As of June 30, 2015, there were no Derivative financial instruments required to be measured at fair value.

The tables below presents the Company's assets and liabilities measured at fair value on a recurring basis as of June 30, 2016, aggregated by the level in the fair value hierarchy within which those measurements fall.

**Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2016**  
**(in millions)**

	Balance at June 30, 2015	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2016
<b>Liabilities</b>					
Derivative financial instruments	—	—	\$ 0.9	—	\$ 0.9

**STERLING MID-HOLDINGS, LTD.**  
**(SUCCESSOR TO DFC GLOBAL CORP)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

**11. Fair Value Measurements (continued)**

The tables below presents the Company's assets and liabilities measured at fair value on a non-recurring basis as of June 30, 2015, aggregated by the level in the fair value hierarchy within which those measurements fall.

**Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis at June 30, 2015**  
**(in millions)**

	Balance at June 30, 2015	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
DFS trade name and other intangibles	\$ —	\$ —	\$ —	\$ —	\$ (10.2) <sup>(1)</sup>
DFS goodwill	—	—	—	—	(5.8) <sup>(2)</sup>
Rest of World goodwill	—	—	—	65.6	(16.2) <sup>(2)</sup>

(1) In accordance with ASC 360-10, the DFS trade name and other intangible asset was written down to its fair value of \$0.0 million, resulting in an impairment charge of \$10.2 million, which is included in earnings for the fiscal year ended June 30, 2015. See Note 4 for a description of the valuation techniques and the significant unobservable inputs used to determine fair value.

(2) In accordance with ASC-350-20, goodwill with a carrying amount of \$5.8 million and \$16.2 million for DFS and Rest of World reporting units, respectively, were written down to their implied fair value of \$0.0 million, \$65.6 million, respectively, resulting in impairment charges of \$5.8 million and \$16.2 million, respectively, which are included in earnings for the fiscal year ended June 30, 2015. See Note 4 for a description of the valuation techniques and the significant unobservable inputs used to determine fair value.

There were no changes to assets and liabilities measured at fair value on a non-recurring basis during the year ended June 30, 2016.

The table below presents the Company's financial assets and liabilities that are not measured at fair value in the consolidated balance sheets as of June 30, 2015 and June 30, 2016:

**Financial Assets and Liabilities Not Measured at Fair Value at June 30, 2015 and at June 30, 2016**  
**(in millions)**

**STERLING MID-HOLDINGS, LTD.**  
**(SUCCESSOR TO DFC GLOBAL CORP)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

**11. Fair Value Measurements (continued)**

	Estimated Fair Value				Balance at June 30, 2015
	Carrying Value at June 30, 2015	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 138.0	\$ 138.0	\$ —	\$ —	\$ 138.0
Consumer loans, net	132.4	—	—	132.4	132.4
Pawn loans, net	117.0	—	—	117.0	117.0
Loans in default	21.6	—	—	21.6	21.6
<b>Total financial assets</b>	<b>\$ 409.0</b>	<b>\$ 138.0</b>	<b>\$ —</b>	<b>\$ 271.0</b>	<b>\$ 409.0</b>
<b>Financial liabilities:</b>					
ABL credit facility	\$ 83.0	\$ —	\$ 83.0	\$ —	\$ 83.0
10.50% Senior Secured Notes	800.0	—	604.5	—	604.5
Scandinavian credit facilities	44.7	—	44.7	—	44.7
Other debt	9.7	—	9.7	—	9.7
<b>Total financial liabilities</b>	<b>\$ 937.4</b>	<b>\$ —</b>	<b>\$ 741.9</b>	<b>\$ —</b>	<b>\$ 741.9</b>

	Estimated Fair Value				June 30, 2016
	Carrying Value at June 30, 2016	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 148.1	\$ 148.1	\$ —	\$ —	\$ 148.1
Consumer loans, net	206.9	—	—	206.9	206.9
Pawn loans, net	97.8	—	—	97.8	97.8
Loans in default	27.9	—	—	27.9	27.9
Long term consumer loans	41.8	—	\$ —	41.8	41.8
<b>Total financial assets</b>	<b>\$ 522.5</b>	<b>\$ 148.1</b>	<b>\$ —</b>	<b>\$ 374.4</b>	<b>\$ 522.5</b>
<b>Financial liabilities:</b>					
ABL credit facility	\$ 120.8	\$ —	\$ 120.8	\$ —	\$ 120.8
10.50% Senior Secured Notes	800.0	—	487.0	—	487.0
Scandinavian credit facilities	45.1	—	45.1	—	45.1
Receivables Securitization facility	100.0	—	100.0	—	100.0
Note Payable-Lone Star affiliate	26.0	—	26.0	—	26.0
Other debt	8.2	—	8.2	—	8.2
<b>Total financial liabilities</b>	<b>\$ 1,100.1</b>	<b>\$ —</b>	<b>\$ 787.1</b>	<b>\$ —</b>	<b>\$ 787.1</b>

Cash equivalents are defined as short-term, highly liquid investments both readily convertible to known amount of cash and so near maturity that there is insignificant risk of changes in values because of changes in interest rates.

Consumer loans are carried on the consolidated balance sheet net of the allowance for estimated loan losses, which is calculated by applying historical loss rates combined with current collection patterns and current economic trends to the gross consumer loan balance. The unobservable inputs used to calculate the carrying value of consumer loans include historical loss

**STERLING MID-HOLDINGS, LTD.**  
**(SUCCESSOR TO DFC GLOBAL CORP)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

**11. Fair Value Measurements (continued)**

rates and the current collection patterns and current economic trends. Consumer loans generally have terms ranging from 1 to 45 days and for longer term installment loans up to 3 years. The carrying value of consumer loans approximates the fair value.

Pawn loans are short-term in nature and are secured by the customer's personal property ("pledge"). Pawn loans are secured by the customer's pledged item, which is generally 50% to 80% of the appraised fair value of the pledged item, thus reducing the Company's exposure to losses on defaulted pawn loans. The Company's historical redemption rate on pawn loans is in excess of 80%, which means that for more than 80% of its pawn loans, the customer pays back the dollars borrowed, plus interest and fees, and the Company returns the pledged item to the customer. In the instance where the customer defaults on a pawn loan (fails to redeem), the pledged item is either sold at auction or sold to a third party in the Company's retail stores within several weeks of the customer default. Generally, excess amounts received over and above the Company's recorded asset and auction-related administrative fees are returned to the customer. The unobservable inputs used to calculate the carrying value of loans in default include historical redemption rates and the current redemption patterns and current economic trends, such as gold prices. The carrying value of pawn loans approximates the fair value.

Loans in default consist of short-term consumer loans originated by the Company which are in default status. An allowance for the defaulted loans receivable is established and is included in the loan loss provision in the period that the loan is placed in default status. The reserve is reviewed monthly and any change to the loan loss allowance as a result of historical loan performance, current and expected collection patterns and current economic trends is included with the Company's loan loss provision. If the loans remain in a defaulted status for an extended period of time, typically 90 to 180 days, an allowance for the entire amount of the loan is recorded and the receivable is ultimately charged off. The unobservable inputs used to calculate the carrying value of loans in default include historical loss rates and the current collection patterns and current economic trends. The carrying value of loans in default approximates the fair value.

The outstanding borrowings under the Company's ABL credit facility and Scandinavian credit facilities are variable interest debt instruments and their carrying value approximates fair value.

The Company reviews trading activity and pricing for the corporate bond as of the measurement date and determines if pricing data of sufficient frequency and volume in an active market exists in order to support Level 1 classification of the fair value of the 10.5% Senior notes. When sufficient quoted pricing for the bond is not available, the Company obtains market pricing and other observable market inputs for instruments of similar characteristics from a number of industry standard data providers to determine the fair value of the 10.5% Senior notes at period end.

**12. Derivative Instruments and Hedging Activities**

**Risk Management Objective of Using Derivatives**

The Company is exposed to risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and by the use of derivative financial instruments. The primary risks managed by using derivative instruments are interest rate risk, foreign currency exchange risk and commodity price risk. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which is determined by interest rates, foreign exchange rates or commodity prices.

The Company's operations in Canada and Europe expose the Company to fluctuations in foreign exchange rates. The Company's goal is to reduce its exposure to such foreign exchange risks on its foreign currency cash flows and fair value fluctuations on recognized foreign currency denominated assets, liabilities and unrecognized firm commitments to acceptable levels primarily through the use of foreign exchange-related derivative financial instruments. From time to time, the Company enters into derivative financial instruments to protect the value or fix the amount of certain obligations in terms of its functional currency, the US dollar.

**Cash Flow Hedges of Foreign Exchange Risk**

Operations in Europe and Canada have exposed the Company to changes in foreign exchange rates. From time to time, the Company's UK and Canadian subsidiaries purchase investment securities denominated in a currency other than their functional currency. The subsidiaries from time to time hedge the related foreign exchange risk typically with the use of out of



**STERLING MID-HOLDINGS, LTD.**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

**12. Derivative Instruments and Hedging Activities (continued)**

the money put options because they cost less than completely averting risk using at the money put options, and the maximum loss is limited to the purchase price of the contracts.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges of foreign exchange risk is recorded in other comprehensive income and subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivative, as well as amounts excluded from the assessment of hedge effectiveness, is recognized directly in earnings.

**Cash Flow Hedges of Multiple Risks**

On April 20, 2012, the Company's UK subsidiary entered into swap agreements to hedge currency exchange risk related to intercompany transactions stemming from the convertible notes issued in April 2012. The swaps were to mature on April 12, 2017. Between December 26, 2014 and December 29, 2014, the Company terminated the cross-currency swaps which its UK subsidiary had entered into in April 2012. The termination of the swaps was effected pursuant to negotiated transactions with the respective counter-parties to such swaps. The Company received net proceeds in the aggregate amount of \$0.4 million as a result of the terminations and recorded a gain of \$16.1 million in its consolidated statement of operations for the year ended June 30, 2015, in accordance with FASB ASC 815 - *Derivatives and Hedging*. As of June 30, 2015, there were no derivative financial instruments required to be measured at fair value.

**Cross Currency Swap Agreements**

We use foreign currency options and cross currency interest rate swaps to manage our interest rate and foreign currency risk and a gold collar to manage our exposure to variability in gold prices. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity and uses observable market-based inputs, including interest rate curves, foreign exchange rates, gold forward curves and implied volatilities. We incorporate credit valuation adjustments to reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and our counterparties. As of June 30, 2016, we have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and have determined that the credit valuation adjustments are not significant to the overall valuation of our derivatives. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

On September 16, 2015, the Company entered into two swap agreements with a Lone Star affiliate, LSF8 HedgeCo, Ltd., to hedge the US dollar exposure associated with interest obligation on a \$570.0 million intercompany note between the Company's Canadian operating subsidiary, NMM, and a US subsidiary, DFC Finance. The US dollars received by DFC Finance will be used to support US denominated interest obligations on the Company's external \$800.0 million 10.50% senior secured notes due 2020. The swaps mature on June 15, 2018.

These intercompany cross-currency swaps were designated as a cash flow hedge of interest payments on its US dollar denominated debt due by its Canadian operating subsidiary that is subject to fluctuation in foreign exchange rates.

As of June 30, 2016, the Company had the following outstanding derivatives:

Foreign Currency Derivatives	Number of Instruments	Pay Notional	Receive Notional	Average Pay Fixed Strike Rate	Average Receive Fixed Strike Rate
CAD-USD Cross Currency Swaps	2	CAD 751,602,000	USD 570,000,000	10.604%	10.50%

**Non-designated Hedges of Commodity Risk**

**STERLING MID-HOLDINGS, LTD.**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

**12. Derivative Instruments and Hedging Activities (continued)**

In the normal course of business, the Company maintains inventories of gold at its pawn and retail shops. From time to time, the Company enters into derivative financial instruments to manage the price risk associated with forecasted gold inventory levels. Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to commodity price risk but do not meet the strict hedge accounting requirements of ASC 815 - *Derivatives and Hedging*. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings.

As of June 30, 2016, the Company's subsidiary in the UK had no outstanding commodity derivatives:

The tables below present the fair values of the Company's derivative financial instruments on the consolidated balance sheets as of June 30, 2015 and June 30, 2016 (in millions).

Tabular Disclosure of Fair Values of Derivative Instruments				
Successor	Derivatives As of June 30, 2015		Liability Derivatives As of June 30, 2016	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments:				
Cross Currency Swaps	Derivatives	—	Derivatives	\$ 0.9
Commodity Options	Derivatives	\$ —	Derivatives	\$ —

**Credit-risk-related Contingent Features**

The Company has agreements with each of its derivative counter-parties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations.

During the year ended June 30, 2016, the Company did not have any realized gains or losses from derivatives. During the year ended June 30, 2015, the Company recorded a gain of \$16.1 million related to its cross-currency swaps, which is included in Gain on derivatives not designated as hedges in the consolidated statement of operations.

**13. Income Taxes**

The Company's US and foreign income before income taxes for the period from July 1, 2013 to June 13, 2014 (the Predecessor period), the period from June 14, 2014 to June 30, 2014 (Successor period) and the year ended June 30, 2015 and June 30, 2016 (collectively the Successor periods) as indicated are set forth below (in millions). Adjustments have been made in respect to the period from June 14, 2014 to June 30, 2014 amounts reported for income tax as a result of finalizing purchase accounting during the one year measurement period. The tax disclosures below for the Successor period ending June 30, 2014 reflect the impact of these adjustments. See Note 3 for additional information.

	Predecessor	Successor	
	July 1, 2013 - June 13, 2014	June 14, 2014 - June 30, 2014	June 30, 2015    June 30, 2016
United States	\$ (49.6)	\$ (0.2)	\$ (39.3)    \$ (17.1)
Foreign	(158.7)	(36.1)	(271.7)    (225.1)
Total	<u>\$ (208.3)</u>	<u>\$ (36.3)</u>	<u>\$ (311.0)    \$ (242.2)</u>

The details of the Company's income tax provision on the period from July 1, 2013 to June 13, 2014 (the Predecessor period), the period from June 14, 2014 to June 30, 2014 (Successor period) and the year ended June 30, 2015 and June 30,

**STERLING MID-HOLDINGS, LTD.**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

**13. Income Taxes (continued)**

2016 (collectively the Successor periods) as indicated are set forth below (in millions).:

		Predecessor	Successor			
		July 1, 2013 - June 13, 2014	June 14, 2014 - June 30, 2014	Year ended June 30, 2015	Year ended June 30, 2016	
Current:	U.S. Federal	\$ —	\$ —	\$ —	\$ 0.3	
	Foreign	3.5	—	4.0	10.2	
	State	0.1	—	—	—	
	Total	\$ 3.6	\$ —	\$ 4.0	\$ 10.5	
Deferred:	U.S. Federal and State	\$ 4.4	\$ 21.5	\$ (2.5)	\$ 5.6	
	Foreign	0.2	—	4.5	(7.2)	
	Total	\$ 4.6	\$ 21.5	\$ 2.0	\$ (1.6)	
Total income tax provision		\$ 8.2	\$ 21.5	\$ 6.0	\$ 8.9	

The June 30, 2014 income tax provision amount of \$21.5 million reflects a reduction of \$15.8 million in U.S. Federal and State tax from the amount originally reported due to changes as a result of finalizing purchase accounting during the one year measurement period.

Below is the reconciliation of income tax expense from the US federal statutory rate to the Company's effective tax rate for the period July 1, 2013 - June 13, 2014 (the Predecessor period). For the Successor period June 14, 2014 - June 30, 2014, the year ended June 30, 2015 and the year ended June 30, 2016 the parent company Sterling Mid Holdings Ltd. is incorporated in Jersey Channel Islands where the statutory rate is zero (in millions):

		Predecessor	Successor			
		July 1, 2013 - June 13, 2014	June 14, 2014 - June 30, 2014	Year ended June 30, 2015	Year ended June 30, 2016	
Tax provision (benefit) at federal statutory rate		\$ (72.9)	\$ —	\$ —	\$ —	
Add(deduct)						
State tax provision		0.9	—	—	—	
Convertible debt discount		2.8	—	—	—	
Effect of foreign operations		6.9	(10.2)	(57.5)	(41.9)	
Change in uncertain tax position		3.1	120.0	5.6	2.3	
Other		3.4	—	—	—	
Non-deductible Goodwill impairment		51.1	—	—	—	
Valuation allowance		12.9	(88.3)	57.9	48.5	
Tax provision at effective tax rate		\$ 8.2	\$ 21.5	\$ 6.0	\$ 8.9	

**STERLING MID-HOLDINGS, LTD.**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

**13. Income Taxes (continued)**

The June 30, 2014 tax provision amount of \$21.5 million reflects a reduction of \$15.8 million from the amount previously reported due to an \$11.2 million additional benefit for valuation allowance and a \$4.6 million decrease in uncertain tax position as a result of finalizing purchase accounting during the one year measurement period.

The details of the Company's deferred tax assets and liabilities as of June 30, 2015 and 2016 are set forth below (in millions):

	June 30, 2015	June 30, 2016
Deferred tax assets		
Allowance for loan losses	\$ 12.4	\$ 11.0
Depreciation and amortization	6.7	12.8
Accrued compensation	7.0	10.2
Other accrued expenses	7.8	8.8
Net operating loss and capital loss carryforwards	70.9	101.6
Foreign tax credit carryforwards	6.7	14.0
Amortization and other temporary differences	10.7	3.0
Accrued litigation	4.9	4.8
Acquisition and restructuring charges	0.3	—
Other	2.3	7.5
Total deferred tax assets	129.7	173.7
Valuation Allowance	(122.7)	(169.5)
Net deferred tax asset	7.0	4.2

The Company provides a full valuation allowance against losses in certain jurisdictions in which it operates. Management will continue to evaluate the Company's ability to benefit from its net deferred tax assets and identify whether any significant changes in circumstances or assumptions occur that could materially affect its ability to benefit from its deferred tax assets. Management expects to release the valuation allowance when sufficient positive evidence exists, including, but not limited to, cumulative earnings in successive recent periods to overcome the negative evidence the Company has encountered from cumulative losses during the current and prior fiscal years.

At June 30, 2015 and 2016, the Company provided a valuation allowance against a portion of its deferred tax assets where realization is not assured in the amount of \$122.7 million and \$169.5 million respectively. Of the \$46.8 million increase, the amount charged to tax expense was \$48.5 million with \$1.7 million charged to currency translation adjustment.

The federal, state and foreign net operating loss carry forwards available to offset future taxable income at June 30, 2016 were \$179.5 million, \$504.5 million and \$364.8 million, respectively compared to \$158.8 million, \$447.2 million and \$178.1 million respectively at June 30, 2015. The federal net operating loss carry forwards will begin to expire in 2025, if not utilized. The state net operating loss carryforwards are comprised mostly of Pennsylvania and California and may be subject to utilization limitations. These NOLs begin to expire at various times if not utilized. The foreign net operating loss carry forwards will begin to expire in 2018 and in some countries are indefinite. The Company has foreign tax credit carryforwards of approximately \$60.8 million as of June 30, 2016, which will begin to expire in 2017 if not utilized.

The Company is a multinational organization with operations in various foreign countries. As of June 30, 2016, the Company has not provided deferred taxes on the excess of the amount recorded for financial reporting purposes over the tax basis of investment in subsidiaries, including \$80.8 million of undistributed earnings of certain subsidiaries, as these amounts are intended to be indefinitely reinvested. While management presently does not intend to do so upon repatriation of the undistributed earnings or a sale or liquidation of the subsidiary, the amount of such temporary difference may be subject to both income and withholding taxes payable to various taxing jurisdictions. Determination of the amount of unrecognized deferred

**STERLING MID-HOLDINGS, LTD.**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

**13. Income Taxes (continued)**

income tax liability and withholding tax on this temporary difference is not practicable at this time because such liability is dependent upon circumstances existing if and when remittance occurs.

On November 20, 2015, the FASB issued ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17"), to simplify the presentation of deferred income taxes. ASU 2015-17 requires that deferred tax assets and liabilities be classified as non-current in a classified statement of financial position. Under prior guidance, an entity was required to separate deferred income tax assets and liabilities into current and non-current amounts. The current requirement that deferred tax assets and liabilities of a tax-paying component of an entity be offset and presented as a single amount is not affected. For non-public entities, the new guidance is effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018, with early adoption permitted. We adopted the new guidance on a prospective basis for the fiscal year ended June 30, 2016. Financial statements for prior periods were not retrospectively adjusted. There was no impact on our results of operations as a result of the adoption of ASU 2015-17.

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-11 ("ASU 2013-11") "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists". ASU 2013-11 states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss ("NOL") carryforward, a similar tax loss, or a tax credit carryforward. The exception to this treatment is as follows: to the extent an NOL carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date or if the entity is not required to use and does not intend to use the deferred tax asset, then the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The Company adopted this accounting standard effective for the year beginning July 1, 2014 and applied the standard prospectively to unrecognized tax benefits that existed as of the effective date. The Company has reported \$108.3 million of unrecognized tax benefits as a reduction to non-current deferred tax assets for net operating loss and foreign tax credit carryforwards as of June 30, 2015 and June 30, 2016.

A reconciliation of the gross unrecognized tax benefits for the Predecessor period ended June 13, 2014 and the Successor periods ended June 30, 2014, June 30, 2015 and June 30, 2016 as indicated, follows (in millions):

	Predecessor	Successor		
	July 1, 2013 - June 13, 2014	June 14, 2014 - June 30, 2014	Year ended June 30, 2015	Year ended June 30, 2016
Beginning balance	\$ 18.0	\$ 20.0	\$ 150.6	\$ 151.6
Currency translation	(0.5)	(0.1)	(2.8)	(2.0)
Increases — current year positions	2.3	—	3.8	3.1
Increases — prior year positions	0.2	119.1	—	—
Settlements	—	—	—	(1.0)
Increases — related to measurement period adjustments	—	11.6	—	—
Statute expired	—	—	—	(1.0)
Ending balance	<u>\$ 20.0</u>	<u>\$ 150.6</u>	<u>\$ 151.6</u>	<u>\$ 150.7</u>

The June 30, 2014, gross unrecognized tax benefit of \$150.6 million reflects an increase of \$11.6 million from the amount previously reported due to an increase in unrecognized tax benefits recorded as a result of finalizing purchase accounting during the one year measurement period.

At June 30, 2015 and 2016, the Company had \$160.2 million and \$159.6 million, respectively, of liabilities for uncertain tax positions, including interest and penalty, related to transfer pricing matters and certain restructuring transactions. If recognized in the future, \$42.4 million of these currently unrecognized income tax benefits would impact the income tax provision.

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### STERLING MID-HOLDINGS, LTD. (SUCCESSOR TO DFC GLOBAL CORP) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)

#### 13. Income Taxes (continued)

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of June 30, 2016, the Company had approximately \$5.3 million and \$3.6 million of accrued interest and penalties, respectively, related to uncertain tax position which represents a \$0.3 million increase from the prior year amount of \$8.6 million.

The increase in the Successor period ended June 30, 2014 was \$119.9 million resulting from restructuring transactions undertaken to align the legal structure of the Company with its new owner, Sterling Mid-Holdings Ltd., a Jersey Channel Islands company. These restructuring transactions included the taxable sale of shares of wholly owned subsidiaries from the U.K. to Canada and the U.K., a non-taxable Canadian amalgamation, and the taxable purchase by Sterling Mid-Holdings Ltd. of direct interests in indirect U.K. subsidiaries of DFC Global Corp.

Uncertain tax positions have been classified as non-current income tax liabilities or as a reduction to deferred tax assets pursuant to ASU 2013-11 unless they are expected to be paid within one year as of June 30, 2016. The Company does not anticipate significant increases or decreases in the amount of unrecognized tax benefits reported to occur in the next 12 months.

Tax years ending June 30, 2013 through 2016 remain open to examination by the Internal Revenue Service in the United States, tax years ending June 30, 2014 through 2016 in the United Kingdom by HMRC, tax years ending June 30, 2006 through 2016 for Canada by the Canadian Revenue Authority ("CRA"), and tax years ending 2010 through 2016 in various other jurisdictions. In some US Federal, state and foreign jurisdictions, tax authorities have a period longer than the normal statutory period to conduct an examination in cases where net operating losses or credit carryforwards exist. The CRA has assessed tax for fiscal years ending June 30, 2006 through 2013, related to intercompany transfer pricing. We have not agreed with these proposed assessments and are contesting them through administrative processes available to us. To the extent we have transfer pricing adjustments sustained in Canada, it is our intent to seek corollary adjustments with the appropriate competent authority in the United States and the United Kingdom.

#### 14. Accumulated Other Comprehensive Income (Loss)

In accordance with ASU 2013-2- *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* the reclassification adjustments from accumulated other comprehensive income (loss) to net income were as follows (in millions):

	Year Ended June 30, 2015		Year Ended June 30, 2016	
	Derivatives	Foreign currency translation adjustment	Derivatives	Foreign currency translation adjustment
Balance at beginning of period	\$ —	16.6	—	(138.1)
Other comprehensive income before reclassifications, net	\$ —	(154.7)	(0.6)	31.0
Amounts reclassified from accumulated other comprehensive income, net	\$ —	—	—	—
Balance at end of period	\$ —	(138.1)	(0.6)	(107.1)

#### 15. Restructuring Activities

During the year ended June 30, 2015, the Company incurred \$48.6 million for store closures and other exit costs of underperforming stores located primarily in the UK, Europe and North America. In addition \$16.4 million was expensed for employee related costs for personnel affected by the restructuring.

The store closing costs are included in loss on store closings on the consolidated statement of operations. The Company expects the majority of this amount will be paid within one year.

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The following table summarizes activity for liabilities related to the Company's restructuring activities during the year ended June 30, 2015 (in millions):

	Store closures/exit costs	Employee related costs	Total
Balance at June 30, 2014	\$ 3.6	\$ 0.3	\$ 3.9
Expensed during the year ended June 30, 2015	\$ 56.9	\$ 22.7	\$ 79.6
Payments	\$ (11.3)	\$ (6.4)	\$ (17.7)
Foreign currency translation adjustment	(0.6)	(0.2)	(0.8)
Total	<u>\$ 48.6</u>	<u>\$ 16.4</u>	<u>\$ 65.0</u>

As of June 30, 2016, the Company's liability for store closures and employee related costs was \$24.5 million and \$0.2 million, respectively. Total restructuring expense of \$79.6 million and \$26.4 million for the year ended June 30, 2015 and 2016 respectively are included in Other Expenses, net.

The following table summarizes activity for liabilities related to the Company's restructuring activities during the year ended June 30, 2016 (in millions):

	Store closures/ exit costs	Employee- related costs	Total
<b>Balance at June 30, 2015</b>	<b>\$ 48.6</b>	<b>\$ 16.4</b>	<b>65.0</b>
Expensed during the year ended June 30, 2016	21.0	5.4	26.4
Payments	(40.5)	(21.5)	(62.0)
Foreign currency translation adjustment	(4.6)	(0.1)	(4.7)
<b>Balance at June 30, 2016</b>	<b><u>\$ 24.5</u></b>	<b><u>\$ 0.2</u></b>	<b><u>24.7</u></b>

The following table summarizes activity for liabilities related to asset retirement obligations for the year ended June 30, 2015 (in millions):

	Balance at Beginning of Period	Settlement on store closures	Accretion Expense	Foreign Currency Translation Adjustments	Balance at End of Period
Asset retirement obligations:	<u>\$ 7.7</u>	<u>(4.8)</u>	<u>(0.4)</u>	<u>(0.6)</u>	<u>\$ 1.9</u>

Asset retirement obligations for the year ended June 30, 2016 were as follows (in millions):

	Balance at Beginning of Period	Settlement on store closures	Accretion Expense	Foreign Currency Translation Adjustments	Balance at End of Period
Asset retirement obligations:	<u>\$ 1.9</u>	<u>(0.4)</u>	<u>0.2</u>	<u>(0.2)</u>	<u>\$ 1.5</u>

**16. Commitments**

The Company has various noncancelable leases for office and retail space and certain equipment with terms primarily ranging from one to five years, most of which contain standard optional renewal clauses. Total rent expense under operating leases amounted to \$66.9 million, \$3.5 million, \$64.8 million and \$45.0 for the Predecessor period July 1, 2013 to June 13, 2014 and the Successor period from June 14, 2014 to June 30, 2014, June 30, 2015 and June 30, 2016, respectively.

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At June 30, 2016, future minimum lease payments for operating leases are as follows (in millions):

Year	Amount
2017	40.0
2018	33.3
2019	25.5
2020	18.9
2021	13.0
Thereafter	14.9
Total	<u>\$ 145.6</u>

At June 30, 2016, the Company had unused commitments to extend credit for loans of approximately \$9.0 million. Such commitments arise from agreements with customers for unused lines of credit on certain loan products.

As of June 30, 2016, our liability for uncertain tax positions amounted to \$159.6 million, including interest and penalties. Due to the nature and timing of the ultimate outcome of these uncertain tax positions, we cannot make a reliable estimate of the amount and period of related future payments. Therefore, our liability has been excluded from the above contractual obligations table.

#### **17. Contingent Liabilities**

The Company is subject to various asserted and unasserted claims during the course of business. Due to the uncertainty surrounding the litigation process, except for those matters for which an accrual is described below, the Company is unable to reasonably estimate the range of loss, if any, in connection with the asserted and unasserted legal actions against it. Although the outcome of many of these matters is currently not determinable, the Company believes that it has meritorious defenses and that the ultimate cost to resolve these matters will not have a material impact on the Company's consolidated financial position, results of operations or cash flows. In addition to the legal proceedings discussed below, the Company is involved in routine litigation and administrative proceedings arising in the ordinary course of business.

The Company assesses the materiality of litigation by reviewing a range of qualitative and quantitative factors. These factors include the size of the potential claims, the merits of the Company's defenses and the likelihood of plaintiffs' success on the merits, the regulatory environment that could impact such claims and the potential impact of the litigation on our business. The Company evaluates the likelihood of an unfavorable outcome of the legal or regulatory proceedings to which it is a party in accordance with ASC Topic 450, *Contingencies*. An accrual for a loss contingency is recorded if it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. When the liability with respect to a matter is reasonably possible, the Company estimates the possible loss or range of loss or determines why such an estimate cannot be made. This assessment is subjective based on the status of the legal proceedings and is based on consultation with in-house and external legal counsel. The actual outcomes of these proceedings may differ from the Company's assessments.

#### ***Purported Canadian Class Actions***

In 2003 and 2006, class actions were brought against NMM and Dollar Financial Group, Inc. in the Court of Queen's Bench of Alberta, Canada on behalf of a class of consumers who obtained short term loans from NMM in Alberta, alleging, among other things, that the charge to borrowers in connection with such loans was usurious under Canadian federal law (the "Alberta Litigation"). The actions seek restitution and damages, including punitive damages. In April 2010, the plaintiffs in both actions indicated that they would proceed with their claims. Demands for arbitration were served on the plaintiff in each of the actions, and NMM filed motions to enforce the arbitration clause and stay the actions, which were later denied by the court. NMM appealed those decisions and, in July 2013, the Court of Appeal dismissed NMM's appeal. In September 2013, NMM filed an application for leave to appeal to the Supreme Court of Canada, but on January 30, 2014, the Supreme Court denied the application. Motions for class certification of these actions were heard on September 18, 2014; one class was certified as a



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**17. Contingent Liabilities (continued)**

representative action and the other was certified as a class action. The parties are engaged in discovery and the court set a trial date for September 2017. We intend to defend these actions vigorously.

In 2004, an action was filed against NMM in Manitoba on behalf of a purported class of consumers who obtained short term loans from NMM. In early February 2012, a separate action was filed against NMM and Dollar Financial Group, Inc. in Manitoba on behalf of a purported class of consumers which substantially overlaps with the purported class in the 2004 action. In April 2013, NMM filed a motion to enforce the arbitration/mediation terms in the second action. In July 2013, the Court denied the motion to compel arbitration. In October 2013, NMM filed an appeal with the appellate court. In June 2014, the court dismissed NMM's appeal from the dismissal of the stay application. NMM filed an application for leave to appeal the appellate court's dismissal to the Supreme Court of Canada, which dismissed the appeal application in November 2014. In April 2016, the plaintiffs in these actions filed a motion for class certification. In response, NMM filed motions to enforce class action waivers signed by the plaintiffs. Hearings on all of these motions are expected to occur in October and November of 2016. The allegations in each of these actions are substantially similar to those in the Alberta Litigation. We intend to defend these actions vigorously.

As of June 30, 2016, an aggregate of approximately CAD \$26 million is included in the Company's accrued liabilities relating to the purported Canadian class action proceedings pending in Alberta and Manitoba. Previous settlements in our Canadian class action proceedings consisted of a cash component and vouchers to the class members for future services. Although we believe that we have meritorious defenses to the claims in the purported class proceedings in Alberta and Manitoba described above and intend vigorously to defend against such remaining pending claims, the ultimate cost of resolution of such claims may exceed the amount accrued at June 30, 2016 and additional accruals may be required in the future.

***Purported US Class Actions***

In November 2013, the Predecessor was served with a purported shareholder class action lawsuit filed against it and certain of its senior executives in the U.S. District Court for the Eastern District of Pennsylvania (the "Court"). The complaint, which purports to be brought as a class action on behalf of purchasers of the Predecessor's common stock between January 28, 2011 and August 22, 2013, alleges violations of federal securities laws regarding disclosures made by the Predecessor with respect to its compliance with UK regulatory requirements, UK lending practices, and its earnings guidance during the relevant period. On April 9, 2014, the Court named as lead plaintiff in this purported class action a group consisting of the West Palm Beach Police Pension Fund, the Arkansas Teachers Retirement System, the Macomb County Employees Retirement System and the Laborers' District Council and Contractors' Pension Fund of Ohio.

In March 2014, the Predecessor was served with a separate purported class action lawsuit filed against it, certain of its senior executives and directors, and the two underwriters who served as joint book-running managers for our April 7, 2011 common stock offering (the "2011 Offering") in the Court. The named plaintiff is the Arkansas Teachers Retirement System, and its complaint, which purports to be brought as a class action on behalf of purchasers of our common stock in the 2011 Offering, alleges violations of federal securities laws regarding disclosures made by the Predecessor with respect to its prospectus and registration statement relating to the 2011 Offering (the "Offering Materials"), and the Predecessor's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2010 and its Annual Report on Form 10-K for the fiscal year ended June 30, 2010, which were incorporated by reference into the Offering Materials. The complaint seeks unspecified monetary and other relief. The Company believes that the complaint is without merit and intends to defend against it vigorously.

Furthermore, on April 21, 2014, the Court consolidated the above referenced West Palm Beach Police Pension Fund and Arkansas Teachers Retirement System actions. On or about July 21, 2014, the plaintiffs filed their amended consolidated complaint. The consolidated complaint purports to be brought as a class action on behalf of purchasers of the Predecessor's common stock and to expand the class period from January 28, 2011 to February 3, 2014. The consolidated complaint seeks unspecified monetary damages and other relief. Defendants filed a motion to dismiss the consolidated complaint, which the Court denied in June 2015. Plaintiffs filed their motion for class certification in early October 2015 and Defendants filed its opposition to class certification in mid-December 2015. In December 2015, West Palm Beach Police Pension Fund withdrew as a lead plaintiff in the consolidated action. The parties are now engaged in discovery. The consolidated complaint seeks unspecified monetary and other relief. The Company believes that the consolidated complaint is without merit and intends to

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**17. Contingent Liabilities (continued)**

defend against it vigorously. We believe it is too early to determine the likelihood of a favorable or unfavorable outcome or ultimate liability, if any, that may result from this case.

***Litigation Relating to the June 2014 Merger***

Six purported class action lawsuits challenging the Merger were filed in the Delaware Chancery Court (the "Court") between April 8 and May 2, 2014: Michael Marcus v. DFC Global Corp., et al., Civil Action No. 9520-VCP; Maxine Phillips v. DFC Global Corp., et al., Civil Action No. 9558-VCP; Mark Silverstein v. DFC Global Corp., et al., Civil Action No. 9564-VCP; Noh-Joon Choo v. DFC Global Corp., et al., Civil Action No. 9572-VCP; Cordell Jeffrey and Sheila A. Jeffrey v. DFC Global Corp., et al., Civil Action No. 9590-VCP; and KC Gamma Opportunity Fund, LP v. DFC Global Corp., et al., Civil Action No. 9601-VCP.

The initial complaints in the six lawsuits were substantively identical, naming the same defendants and seeking the same relief based on the same asserted claims. The complaints allege that the consideration sought for the Merger was unfair, that the merger was the result of an unfair process and that the terms of the merger were inadequate. The defendants included the Predecessor and its board of directors at the time, as defendants along with the various entities acting as purchaser in the Merger.

The first count in each of the complaints was brought against the Predecessor's directors, alleging that they breached their fiduciary duties to stockholders by approving the merger. The second count in each of the complaints was brought against the Predecessor and the various entities acting as purchaser alleging that those entities aided and abetted the individual defendants' alleged breaches of fiduciary duty. Each of the complaints seeks class-action certification with the respective named plaintiff as class representative. The complaints sought preliminary and permanent injunctions barring the merger and, if the merger were to be completed, rescission of the merger or damages. Each of the complaints also sought an award of attorneys' fees and expenses.

On May 13, 2014, the Court consolidated the six actions and appointed plaintiffs Michael Marcus and KC Gamma Opportunity Fund, LP as lead plaintiffs and their respective counsel as lead counsel. Also, on May 13, 2014, the Court granted the lead plaintiffs' motion for expedited proceedings. On May 28, 2014, the lead plaintiffs withdrew their motion to preliminarily enjoin the special meeting for stockholders to vote on the merger pending the disclosure of additional information. The parties ultimately settled the matter in March 2015, and the Court approved the parties' settlement of this matter for an immaterial amount. Thereafter, the Court issued an order closing this case and relinquishing jurisdiction.

Between June and October 2014, five purported beneficial owners of the Predecessor's common stock, Oasis Investment II Master Fund, Ltd., Muirfield Value Partners L.P., Candlewood Special Situation Master Fund, Ltd., CWD OC 522 Master Fund, Ltd., and Randolph Watkins Slitka, filed with the Court petitions for appraisal of 4,604,683 shares of the Predecessor. The appraisal petitions sought, among other things, a determination of the fair value of the appraisal petitioners' shares at the time of the Merger; an order that the Predecessor pay that value to the appraisal petitioners, together with interest at the statutory rate; and an award of costs, attorneys' fees, and other expenses. In May 2015, we agreed to pay Petitioners a portion of the merger consideration in the amount of \$7.50 per share, plus accrued interest, for a total of approximately \$36.4 million. The trial in this matter occurred in October 2015. Subsequently, the Court directed the parties to submit further briefings and scheduled post-trial argument which occurred in March 2016. The Court has discretion to award the share price for the Merger, or award a greater or lesser amount per share to these shareholders. DFC believes these alleged appraisal claims are without merit and intends to vigorously defend this matter. (see also "Note 20 - Subsequent Events" below).

***Other Matters***

***Regulatory Review by FCA***

In February 2015, Instant Cash Loans Limited ("ICL") (our licensed UK HCSTC subsidiary) was required to appoint a "skilled person" under the FSMA to review ICL's customer lending and collection practices. In February 2015, KPMG, the appointed skilled person, concluded that those practices were deficient with respect to loans made to certain customers since January 2013. ICL initiated a customer redress plan for this group, which includes an assessment of amounts that may be due to such customers. In implementing the redress plan, ICL continues to work with KPMG during the payment of financial redress to customers, which was substantially complete by June 2016. ICL commenced sending redress notices to these customers in November 2015 and has since been providing financial and other redress to these customers on an ongoing basis. ICL had fully

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**17. Contingent Liabilities (continued)**

reserved for its customer redress plan in previous year and as of June 30, 2016, the remaining balance of this reserve was \$1.0 million.

*UK VAT Dispute*

Our UK affiliate, Dollar Financial UK Limited, lodged an appeal in 2015 and submitted supporting evidentiary documents to a Tax Tribunal on February 5, 2016, from a HMRC VAT dispute for services supplied to our UK lending companies by a marketing firm and by overseas lead-generators. The VAT amount subject to the appeal is approximately £3.2 million. In August 2016, we received a favorable ruling from the First-Tier Tribunal. HMRC have until October 14, 2016, to appeal the decision to the Upper Tribunal.

*Canada Transfer Pricing and Goods and Services Tax*

In Canada, we are in disputes with the Canadian Revenue Agency ("CRA") regarding our proposed transfer pricing adjustments and are contesting the CRA through the administrative and judicial process. The CRA has assessed taxes for fiscal years ending June 30, 2006 through 2013 related to intercompany transfer pricing and for fiscal years ending June 30, 2009 through 2013 related to goods and service tax ("GST"). We believe our existing reserves for these Canadian audits and assessments are adequate; however, we cannot be certain of the outcome of these tax matters. If any such matters were settled in a manner adverse to us, or we were compelled to pay amounts in excess of our existing reserves, our results of operations or financial condition could be adversely affected.

*Legal Actions in Spain*

Our Spanish affiliate, Super Efectivo, filed an appeal to the Spanish Tax Authorities' assessment of €1.1 million for transfer tax assessments for tax years 2010 to 2013. Super Efectivo's outside tax advisors believe that there is a reasonable basis to challenge the assessments and succeed on the appeal, and therefore Super Efectivo has posted the required security under Spanish law. This tax appeal process is expected to take between two and nine years to complete.

In August 2015, the Catalan Consumer Agency ("Agency") in Spain initiated a proceeding against OK Money Spain in connection with our single payment loan product. The Agency has alleged that the amount of commission charged by OK Money in respect of initial disbursement (30% of principal) violates applicable usury laws. The Agency imposed a fine of €47,000 on OK Money Spain. OK Money Spain is currently appealing this decision. We believe that it is too early in the proceedings to evaluate the probability of a favorable or unfavorable outcome, or to estimate the potential loss, if any.

*Employment Related Litigation*

On May 12, 2014, the case Rodas v. Monetary Management of California, Case No. 2:14-cv-01389-TLN-AC, was filed against our California operating subsidiary, by former employee Rodas and a purported class of similarly situated current and former employees alleging seven employment claims, including failure to pay all overtime wages, to provide rest periods or compensation in lieu thereof, to provide meal periods or compensation in lieu thereof, to provide itemized employee wage statements, to pay wages due at separation of employment in a timely manner, to pay accrued but unused paid time off and vacation, as well as unlawful and unfair business practices under California law. We retained the San Francisco, California based law firm of Bartko Zankel. On April 15, 2015, the parties entered into a Memorandum of Understanding outlining settlement terms. A motion for approval of the settlement terms, including a payment of \$995,000 to the purported class and plaintiffs' class counsel (inclusive of all administration costs), was filed in early June 2015 and approved by the Court's decision on February 23, 2016. In April 2016, the Court gave final approval to the settlement terms.

**18. Geographic Information**

Information concerning geographic areas is as follows (in millions):

	Predecessor period ended June 13, 2014	Successor period ended June 30, 2014	Successor fiscal year ended June 30, 2015	Successor fiscal year ended June 30, 2016
<b>Revenue</b>				
United Kingdom	\$ 431.6	\$ 11.1	\$ 186.4	\$ 151.0
North America	422.3	20.2	421.3	420.9
Rest of the World	96.0	4.9	106.1	111.8
<b>Total</b>	<b>\$ 949.9</b>	<b>\$ 36.2</b>	<b>\$ 713.8</b>	<b>\$ 683.7</b>
<b>Property and equipment, net</b>				
United Kingdom		\$ 72.3	\$ 41.1	\$ 28.1
North America		49.5	50.0	57.7
Rest of the World		15.7	6.5	5.0
<b>Total</b>		<b>\$ 137.5</b>	<b>\$ 97.6</b>	<b>\$ 90.8</b>

## 19. Related Party Transactions

### Asset Advisory Agreement

In connection with the Merger, on May 7, 2014, LSF8 Sterling Merger Sub, L.L.C and Hudson Americas L.L.C (“Manager”), an affiliate of Lone Star, entered into an Asset Advisory Agreement (the “Asset Advisory Agreement”), which was joined by another affiliate of Lone Star. Pursuant to the Asset Advisory Agreement, the Manager provides certain asset management services with respect to us, our subsidiaries and our and their respective assets or acquired equity interests (collectively, the “Assets”), including: (i) communicating and coordinating with any personnel or other service providers hired by us or our subsidiaries with respect to the Assets; (ii) assisting and advising us in the pursuit of our long term plan developed and adopted by us with respect to the Assets; (iii) subject to the availability of sufficient funds, implementing the long term plan and managing the Assets in accordance with the long term plan; and (iv) taking any actions as it deems necessary or appropriate to protect our interests with respect to the Assets in response to certain emergency situations. Pursuant to the Asset Advisory Agreement, we will pay the Manager an amount equal to 110% of the hourly billing rates of the individuals performing management services, and all expenses incurred by Manager on behalf of us will be paid by us. The Asset Advisory Agreement is terminable by us, the Manager or Lone Star’s affiliate party to the agreement upon 30 days’ notice from one party to the others. As of June 30, 2016, the Company had accrued approximately \$3.0 million for expenses paid on our behalf by the Manager.

### Lone Star Capital Contributions

In conjunction with the Merger on June 13, 2014, DFC Global Corp. shareholders received from an affiliate of Lone Star \$9.50 in cash for each share of DFC Global Corp.’s common stock they owned. In addition to the 2014 Notes that were issued to retire Predecessor debt, Lone Star contributed \$700.0 million as a capital contribution. Lone Star contributed \$81.8 million in capital during the fiscal year ended June 30, 2015, partially to finance the acquisition of certain assets of Cash Store in Canada (see “Note 3 - Business Combination and Acquisitions” above), to fund loan growth and for general corporate purposes. During the fiscal year ended June 30, 2016, Lone Star contributed an additional \$170.0 million in capital to fund loan growth and for general corporate purposes. (see also “Note 20 - Subsequent Events” below)

### DFC Finance Corp. Senior Secured Notes

An affiliate of the Company’s controlling shareholders (Lone Star Fund VIII (U.S.), L.P. and Lone Star Fund VIII (Bermuda) L.P.), that regularly invests in corporate bonds and other debt obligations as part of its ordinary course of business, purchased from third parties in the open market 2014 Notes issued by DFC Finance Corp. in the amount of \$10 million and \$185.7 million during the fiscal year ended June 30, 2015 and June 30, 2016, respectively. The affiliate at all times held material amounts of the 2014 Notes. (see also “Note 20 - Subsequent Events” below)

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**19. Related Party Transactions (continued)**

**Cross Currency Swap Agreements**

On September 16, 2015, the Company entered into two swap agreements with a Lone Star affiliate, LSF8 HedgeCo, Ltd., to hedge the US dollar exposure associated with the interest obligation on a \$570.0 million intercompany note between NMM and DFC Finance. The swaps mature on June 15, 2018. (see "Note 12 - Derivative Instruments and Hedging" above)

**Promissory Notes - Lone Star Affiliate**

As of June 30, 2016, there were two outstanding loans totaling \$26.0 million made by an affiliate of Lone Star to Mid-Holdings for general corporate purposes. These loans are payable on demand and bear interest at a rate of 5% per annum. (see "Note 10 - Debt" above and also "Note 20 - Subsequent Events" below)

**20. Subsequent Events**

On July 6, 2016, the government of New Brunswick issued proposed regulations governing the consumer lending industry. The proposed regulations provide for a maximum rate for payday lending of \$15 for each \$100 borrowed and cap the proportion of a borrower's net pay, which is used to determine the maximum loan amount, at 30%. These rates and caps are lower than we currently feature in New Brunswick. If adopted as proposed, this legislation will likely severely impact results of our single payment loan product in that Province. There can be no assurance that these regulations or laws, or any amendments to these proposed regulations or laws, or our failure to comply with federal usury laws in New Brunswick, or any other provincial or federal laws or regulations, will not have a detrimental effect on our unsecured short term lending business in Canada in the future. We have been, and could in the future be, the subject of litigation, proceedings, class action lawsuits or enforcement relating to our payday lending activities in New Brunswick.

On July 8, 2016, the Court issued its ruling regarding the litigation of the appraisal price of shares of the Predecessor related to the Merger. (See Note 17 - Contingent Liabilities). The Court ruled that the petitioners are entitled to the fair value on the Merger Closing Date of \$10.21 per share, \$2.71 of which remains unpaid, and to interest accruing on the unpaid amount from June 13, 2014, at the rate of 5% over the Federal Reserve discount rate from time to time, compounded quarterly. However, the Company's counsel determined that there was an error in the Court's determination of this valuation and requested reargument and reduction of the award to \$8.62/share. The petitioners also requested leave and filed a motion for reargument after the Court's deadline had expired requesting a valuation in excess of the original \$10.21/share awarded by the Court. The Court granted both parties' motions for reargument and adjusted its valuation to \$10.30/share. This amount represents an increase for the petitioners of \$0.80 per share over the merger consideration. As a result of the Court's decision, we may be required to pay up to an additional approximately \$7.4 million, in addition to \$7.3 million presently maintained in an escrow account in connection with this litigation. Once the judgment becomes final both parties have the opportunity to appeal.

On July 19, 2016, we entered into a Joinder Agreement to the Receivables Securitization Facility (See Note 10 - Debt) with certain new lenders, pursuant to which the new lenders agreed to provide additional loan commitments of \$10.0 million, which increased total available borrowing capacity under the Receivables Securitization Facility to \$110.0 million. We have drawn this new commitment of \$10.0 million to fund loan book growth and for general corporate purposes. As a result, there remains no excess borrowing capacity under the Receivables Securitization Facility under current commitment levels as of July 19, 2016.

On July 26, 2016, an affiliate of Lone Star Funds subscribed for \$21.0 million of ordinary shares in Sterling Mid-Holdings Limited and lent \$9.0 million to the Company to fund loan growth and for general corporate purposes. The loan is payable on demand and bears interest at a rate of 5% per annum, and, like other loans made by Lone Star to the Company, ranks equally in right of payment with the Company's other senior indebtedness and effectively junior in priority to the Company's secured indebtedness as to the collateral securing such secured indebtedness.

In August 2016, the Court granted plaintiffs' motion for class certification in the Arkansas Teachers Retirement System case.

On August 19, 2016 (the "Settlement Date"), the Issuer settled its private exchange offer to holders of the Company's 2014 Notes and any interest accrued thereon from June 15, 2016 ("Accrued Interest") for up to \$800.0 million principal amount of its

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)**

newly issued 10.50%/12.00% Senior Secured PIK Toggle Notes due 2020 (the "2016 Notes") plus additional 2016 Notes to be issued in respect of Accrued Interest (the "Exchange Offer"). An aggregate principal amount of \$745.1 million (or 93.1% of the outstanding principal amount) of the 2014 Notes (the "Tendered Notes") were validly tendered and accepted for exchange in the Exchange Offer. On the Settlement Date, the Issuer accepted all Tendered Notes and delivered an aggregate principal amount of \$745.1 million of 2016 Notes, plus \$13.9 million aggregate principal amount of additional 2016 Notes issued in respect of Accrued Interest, to holders of 2014 Notes who participated in the Exchange Offer. Following the Settlement Date, a total of \$54.9 principal amount of 2014 Notes that was not tendered in the Exchange Offer remains outstanding. Pursuant to the Exchange Agreement, on the Settlement Date, the Company, the 2016 Notes Trustee and the Lone Star affiliate entered into the Contribution Commitment Letter, pursuant to which the Lone Star affiliate agrees to contribute to the Company an aggregate amount of equity capital of up to \$75.0 million (subject to reduction for any capital contributions made (but not returned) after July 29, 2016 and on or prior to the Settlement Date, the "Commitment Amount") from time to time upon the request of the Company.

On August 19, 2016, the Company entered into a Consent, Limited Waiver and Seventh Amendment to Credit Agreement, dated as of August 19, 2016 (the "ABL Amendment"), together with the Issuer, Sterling Holdings Limited ("Holdings") and certain borrowers, lenders and issuing banks party thereto. The ABL Amendment amends the Credit Agreement, dated June 13, 2014 (as amended, supplemented or modified, the "Credit Agreement"), by and among Holdings, the Company, Jefferies Finance LLC, as Administrative Agent and Collateral Agent, and the borrowers, lenders and other parties thereto. The ABL Amendment was entered in connection with the Exchange Offer (as defined above). Pursuant to the ABL Amendment, the lenders under the Credit Agreement agreed to waive certain provisions under the definition of "Permitted Refinancing Indebtedness" in the Credit Agreement with respect to the certain supplemental arrangements under the Exchange Offer, to the extent such provisions may be considered to be violated by any of the supplemental arrangements.

On August 22, 2016 and September 1, 2016 the Company received a capital contribution of \$8.0 million and \$25.0 million, respectively, from an affiliate of Lone Star Funds which was used to support general corporate purposes and to fund loan growth.

On September 20, 2016, certain of the existing lenders under the Securitization Facility made additional loan commitments to the Borrower in the aggregate principal amount of \$20.0 million and, concurrently, made advances to the Borrower in such aggregate principal amount of \$20.0 million, and the Borrower issued promissory notes in favor of such Lenders reflecting the amount of their increased loan.

The Company has evaluated subsequent events from the balance sheet date through September 28, 2016, the date the financial statements were available to be issued and determined there were no additional items requiring disclosure.

**Sterling Mid-Holdings Limited**  
**(Successor to DFC Global Corp)**  
**Annual Financial Report**  
**For the fiscal year ended June 30, 2016**