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March 30, 2009

Billing Services Group Limited

(“BSG” or the “Company”)

Audited results for the year ended 31 December 2008

SOLID PERFORMANCE CREATES SOUND PLATFORM FOR CURRENT YEAR

BSG, a leading provider of clearing, settlement, payment and financial risk management solutions to the telecommunications industry, today announces its audited results for the twelve months ended 31 December 2008.

Financial Highlights

Note: Unless otherwise indicated, the 2007 revenue and EBITDA figures below exclude the results of the wireless business, which was sold in December 2007 and is accordingly treated as a “discontinued operation” in the accompanying financial statements. Net income in 2007, however, includes the results of discontinued operations, under applicable accounting rules.

- Turnover grew by 12% to \$142.6 million (2007: \$127.5 million).
- EBITDA⁽¹⁾ increased by 23% to \$37.2 million (2007: \$30.2 million). Excluding corporate overhead expenses, EBITDA was \$41.2 million (2007: \$37.5 million).
- Income from continuing operations was \$7.9 million (2007: Loss of \$6.7 million)
- Net income of \$7.9 million or \$0.028 per share (2007: \$27.4 million or \$0.098 per share) was composed of the following:

<i>\$ millions</i>	<u>2008</u>	<u>2007</u>
Net income (loss) from continuing operations	\$ 7.9	\$ (6.7)
Net income from discontinued operations	-	5.5
Gain on disposal of wireless business	-	28.6
Total net income	<u>\$ 7.9</u>	<u>\$ 27.4</u>

- The Company reduced long-term debt by \$18.9 million, or 17%, to \$93.6 million (31 December 2007: \$112.5 million), inclusive of all unamortized original issue discount.

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

Operational Highlights

- Gained \$10.7 million of incremental revenue from enhanced billing services, both through aggressive recruitment of new customers and volume increases from historical customers.
- Reduced corporate overhead expenses by \$3.3 million as a result of the planned transition and separation of several senior managers.

Current Trading

- Year-to-date results are in line with expectations.

Commenting on the results, Pat Heneghan, Non-Executive Chairman, said:

“I am pleased to report a solid performance amid economic turbulence.

We have benefited from our tightly focused approach and prudent cost management, as well from strong growth in our customers’ enhanced service offerings, and we have been able to use our robust cash flow aggressively to pay down a significant portion of outstanding debt.

Trading to date in 2009 has remained in line with expectations, and we believe this will be another year of satisfactory performance.”

ENQUIRIES:

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NOTE TO EDITORS:

BSG (www.bsgclearing.com) was admitted to the AiM market of the London Stock Exchange in June 2005 and trades under the symbol BILL. The Company’s operating subsidiary, BSG Clearing Solutions, is the leading provider of third party clearinghouse services for the North American telecommunications industry. In addition to the core clearing business, BSG is fast becoming the company of choice for specialized risk management and credit card processing services specifically designed for communications providers and e-commerce merchants.

CHIEF EXECUTIVE'S STATEMENT

As I conclude my first year as Chief Executive Officer, I am extremely proud of the success our team achieved in 2008. Despite a troubled economy and accompanying competitive pressures, we

- increased group turnover by 12% through aggressive sales efforts;
- achieved a \$3.3 million reduction in corporate overhead expenses through rationalizing our management structure;
- generated a 23% increase in EBITDA; and
- reduced indebtedness by \$18.9 million to \$93.6 million, inclusive of all unamortized original issue discount.

Our success in 2008 reflects a strategy focused on offering high quality clearinghouse services to the North American telecommunications industry. This is an industry which we understand, in which we have established ourselves, over the past two decades, as the leading payment service provider and which knows us for technological sophistication, efficiency and integrity.

While our core business was largely responsible for the growth in 2008, modest gains were also achieved in our complementary payment services such as credit card processing, risk management and Bill2Phone™. Bill2Phone™ was selected by a high-profile global communications company to place end-user technical support charges on the local telephone bill. We remain confident that this payment alternative will continue to gain attention and acceptance in the markets we serve, although we do not expect a material financial contribution in 2009.

Current Trading and Prospects

We anticipate that a small percentage of the \$10.7 million incremental revenue recorded in 2008 for enhanced billing services will discontinue in 2009 due to the short life cycles of the customers' underlying products. We are actively managing this process from our perspective, however, we are taking a prudent view that this could result in a modest reduction of current year turnover, which may in turn have a likewise modest effect on the Company's 2009 earnings. We otherwise expect another satisfactory performance from other components of our business in 2009, and maintain our focus on sales and operations, expense reduction, rapid debt amortization and all other means to enhance shareholder value.

The Company's trading activities to date in 2009 are in line with management expectations, and we anticipate achieving another satisfactory performance by year end.

Gregory Carter
Chief Executive Officer

FINANCIAL REVIEW

Note: Unless otherwise indicated, the 2007 revenue and EBITDA figures below exclude the results of the wireless business, which was sold in December 2007 and is accordingly treated as a “discontinued operation” in the accompanying financial statements. Net income in 2007, however, includes the results of discontinued operations, under applicable accounting rules.

Financial Review of the Twelve Months Ended 31 December 2008

BSG’s consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The financial statements should be read in conjunction with the notes incorporated in the audited financial statements.

Certain Terms

Operating Revenues. North American revenues are derived primarily from fees charged to wireline service providers for data clearing, financial settlement, information management, payment and financial risk management, third party verification and customer service functions.

Cost of Services and Gross Profit. BSG’s cost of services primarily includes fees charged by local exchange carriers (“LECs”) for billing and collection services. Such fees are assessed for each record submitted and for each bill rendered to end-user customers. BSG charges its customers a negotiated fee for LEC services. Accordingly, gross profit generated is generally dependent upon transaction volume, processing fees charged per transaction and any differential between the LEC fees charged to customers by BSG and the related fees charged to BSG by LECs.

Cash Operating Expenses. Cash operating expenses include all selling, marketing, customer service, facilities and administrative costs (including payroll and related expenses) incurred in support of operations and settled through the payment of cash.

Depreciation and Amortization. Depreciation expense applies to software, furniture and fixtures, telecommunications and computer equipment. Amortization expense relates to definite-lived intangible assets that are amortized in accordance with SFAS No. 142 “*Goodwill and Other Intangible Assets.*” These assets consist primarily of contracts with both our customers and the LECs. The assets are depreciated or amortized over their respective useful lives. In addition, deferred finance fees are amortized over the term of the related loans.

Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”). Earnings before interest expense, income taxes, depreciation and amortization, a non-GAAP metric, is a measurement of profitability often used by investors and lenders. EBITDA excludes non-cash charges and non-recurring expenses.

Comparison of Results for Year Ended 31 December 2008 to Year Ended 31 December 2007

Operating Revenues. Total revenues of \$142.6 million in 2008 were \$15.1 million, or 12%, higher than the \$127.5 million of revenues recorded during the year ended December 31, 2007. The increase in revenues resulted primarily from \$10.7 million of year-over-year growth in enhanced billing transaction revenue as well as LEC rate increases across major geographic areas.

Cost of Services and Gross Profit. The Company's cost of services in 2008 was \$82.6 million, compared to \$72.6 million in 2007. The \$10.0 million, or 14%, increase in cost of services reflected higher billing and collection charges from LECs on expanded transaction volumes related to enhanced services and to higher unit fees for most LEC services across major geographic areas. The Company's gross profit was \$60.0 million in 2008, compared to \$54.9 million in 2007. The Company's gross profit margin in 2008 was 42.1%, compared to 43.1% in 2007. The 1.0 percentage point decrease resulted from a change in revenue components with proportionately more revenue arising from service offerings with lower gross margins.

Recurring Cash Operating Expenses. Cash operating expenses were \$22.8 million in 2008, compared to \$24.7 million in 2007. The \$1.9 million, or 8%, improvement largely resulted from a \$3.3 million reduction in corporate overhead costs, offset by increases in compensation and other non-corporate costs. Cash operating expenses for corporate overhead were \$4.0 million in 2008 and \$7.3 million in 2007.

Earnings Before Interest, Taxes, Depreciation, Amortization and Other Non-Cash and Non-Recurring Expenses ("EBITDA"). The Company generated \$37.2 million of EBITDA in 2008, compared to \$30.2 million in 2007. Excluding corporate overhead expenses, EBITDA was \$41.2 million in 2008, compared to \$37.5 million in 2007.

Depreciation and Amortization Expense. Depreciation and amortization expense in 2008 totaled \$13.7 million, compared to \$12.8 million in 2007. The \$0.9 million increase resulted from additional depreciation on assets placed into service during 2008 and additional amortization of intangibles within a previously acquired entity. Goodwill was not impaired in either period; however, the Company made adjustments in both periods to reduce goodwill in connection with adjustments to liabilities recorded in a previous acquisition, net of related income taxes. Goodwill was accordingly reduced by \$5.3 million in 2008 and \$3.6 million in 2007.

FTC Settlement Costs. During 2007, the Company recorded a \$5.6 million expense related to litigation initiated by the U.S. Federal Trade Commission. The litigation was finalized in 2008 without additional expense. The expense recorded in 2007 reflects both the settlement amount and related legal expenses. Due to its non-recurring nature, this expense is not included as a deduction to earnings for purposes of computing EBITDA.

Impairment Loss. In 2008, the Company recognized a \$0.1 million impairment charge on internally developed software. In 2007, the Company recognized a comparable \$1.3 million charge. Due to their non-recurring nature, these expenses are not included as deductions to earnings for purposes of computing EBITDA.

Restructuring Expense. During 2008, the Company recorded \$2.8 million of restructuring charges related to a cost reduction program. Restructuring charges consisted primarily of severance and related compensation costs paid or reserved for terminated employees. In 2007, the Company reversed \$0.4 million of restructuring expense based on actual expenditures compared to reserves at December 31, 2006. Neither the 2008 expenses nor the 2007 reversals are included as deductions or additions to earnings for purposes of computing EBITDA.

Stock-Based Compensation Expense. Stock-based compensation expense in 2008 was \$0.2 million, compared to \$1.4 million in 2007. The reduction in expense in 2008 resulted from (i) the issuance of new options with a substantially lower fair market value at the grant date than options issued in prior periods; and (ii) the expiration of options owned by terminated employees. The expense is a non-cash charge, and it is not included as a deduction to earnings for purposes of computing EBITDA.

Interest Expense. Interest expense was \$10.4 million in 2008, compared to \$13.0 million in 2007. Interest expense includes cash payments of interest, amortization of original issue discount, amortization of deferred finance fees and debt extinguishment costs. Cash expense in 2008 was \$9.1 million, compared to \$11.9 million in 2007. The \$2.8 million reduction resulted from lower market interest rates and lower outstanding debt balances.

Settlement and Mark-to-Market of Derivatives. The Company borrows funds on a floating rate basis, typically related to the London Interbank Offered Rate (“LIBOR”). As required by its credit agreement, the Company is obligated to enter into interest rate swap contracts which have the effect of fixing the interest rate on a portion of outstanding debt. In 2008, the Company incurred a loss of \$0.8 million related to a decline in fair market value of certain interest rate swap contracts. In 2007, the Company recorded a \$3.2 million loss related to the cancellation of interest rate swap contracts or a decline in their fair market value. Due to their non-operational nature, the charges in both periods are not included as deductions to earnings for purposes of computing EBITDA.

Write-off of Deferred Finance Costs. In 2007, the Company wrote off \$3.0 million of deferred finance costs incurred in connection with debt arranged in 2006. Because the cash payment associated with the deferred finance costs was made in the year the debt was arranged, the write-off is not included as a deduction to earnings for purposes of computing EBITDA.

Changes in Cash and Working Capital. The Company’s unrestricted cash balance at 31 December 2008 was \$27.4 million, compared to \$33.1 million at 31 December 2007. The Company’s working capital position (net of funded debt) at 31 December 2008 was \$7.4 million, compared to \$1.2 million at 31 December 2007. The Company can operate with a small or even negative working capital position, because a significant portion of its current liabilities would require payment over time, typically over an 18-month period, only if customers were to reduce significantly the volume of business done with the Company or terminate their relationships.

Capital Expenditures. During 2008, the Company recorded \$2.8 million of capital expenditures. Capital expenditures are related to the costs of ongoing software development projects, purchases of telecommunications and computer equipment and capitalized interest. Capital expenditures totaled \$4.3 million in 2007. The \$1.5 million reduction in capital expenditures during 2008 is largely attributable to substantial hardware and software purchases made by the Company in 2007.

Compliance with Credit Agreement Covenants

The Company was in compliance with all covenants under its credit agreement during 2008.

Cash Flow for the Year Ended 31 December 2008

Cash flow from operating activities. Net cash provided by operating activities was \$6.1 million, largely attributable to \$9.3 million of amortization of intangibles, \$7.9 million of net income, a \$4.7 million decrease in income taxes receivable, \$4.3 million of depreciation, a \$1.8 million increase in trade accounts payable and \$1.4 million of amortization of deferred finance costs, offset by a \$14.4 million decrease in third-party payables, a \$5.9 million decrease in accrued liabilities, a \$1.5 million increase in accounts receivable, a \$0.9 million reduction in the provision of deferred taxes and a \$0.9 million decrease in other liabilities.

Cash flow from investing activities. Net cash used in investing activities was \$1.1 million. Net cash used included \$2.8 million of capital expenditures offset by a \$1.7 million reduction in advances to customers for purchased receivables.

Cash flow from financing activities. Cash used in financing activities was \$10.8 million. Net cash used largely reflected \$18.7 million in payments and purchases on long-term debt (to retire \$18.9 million of debt at face value), offset by a \$7.9 million reduction in restricted cash.

A copy of this statement, along with the consolidated financial statements of Billing Services Group Limited for the years ended December 31, 2008 and 2007 may be found on the Company's website (www.bsgclearing.com) under "AiM Rule 26," "Annual Reports & Accounts."

A copy of this statement is also available from BSG's Nominated Advisor at the address below.

Billing Services Group Limited
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100 Wood Street
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This report contains certain "forward-looking" statements and information relating to the Company that are based on the beliefs of the Company's management as well as assumptions made by and information currently available to the Company's management. When used in this report, the words "anticipate," "believe," "estimate," "expect" and "intend" and words or phrases of similar import, as they relate to the Company or its subsidiaries or Company management, are intended to identify forward-looking statements. Such statements reflect the current risks, uncertainties and assumptions related to certain factors including, without limitation, competitive factors, general economic conditions, customer relations, relationships with vendors, interest rates, foreign exchange rates, litigation, governmental regulation and supervision, seasonality, product introductions and acceptance, technological change, changes in industry practices, onetime events and other factors described herein and in other announcements made by the Company. Based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended. The Company does not intend to update these forward-looking statements.

Billing Services Group Limited

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

	December 31	
	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 27,354	\$ 33,129
Restricted cash	–	7,858
Accounts receivable	22,188	20,664
Purchased receivables	18,259	19,932
Income tax receivable	–	3,414
Prepaid expenses and other current assets	535	649
Deferred taxes – current	3,752	2,534
Total current assets	72,088	88,180
Property, equipment and software	35,352	32,683
Less accumulated depreciation and amortization	14,710	10,387
Net property, equipment and software	20,642	22,296
Deferred finance costs, net of accumulated amortization of \$375 and \$10 at December 31, 2008 and 2007, respectively	971	1,336
Intangible assets, net of accumulated amortization of \$42,322 and \$32,981 at December 31, 2008 and 2007, respectively	51,453	60,794
Goodwill	34,739	40,063
Other assets	534	408
Total assets	\$ 180,427	\$ 213,077

Billing Services Group Limited

Consolidated Balance Sheets (continued)

(In thousands, except shares)

	December 31	
	2008	2007
Liabilities and shareholders' equity		
Current liabilities:		
Trade accounts payable	\$ 13,409	\$ 11,665
Third-party payables	45,247	59,655
Accrued liabilities	4,923	15,701
Income tax payable	1,064	–
Current portion of long-term debt	8,562	11,250
Total current liabilities	73,205	98,271
Long-term debt, net of current portion and unamortized original issue discount of \$3,273 and \$4,467 at December 31, 2008 and 2007, respectively	81,769	96,783
Deferred taxes – noncurrent	5,428	7,385
Other liabilities	11,362	7,470
Total liabilities	171,764	209,909
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$0.59446 par value; 350,000,000 shares authorized and 279,863,248 shares issued and outstanding at December 31, 2008 and 2007	166,368	166,368
Additional paid-in capital (deficit)	(174,611)	(174,824)
Retained earnings	19,538	11,677
Accumulated other comprehensive loss	(2,632)	(53)
Total shareholders' equity	8,663	3,168
Total liabilities and shareholders' equity	\$ 180,427	\$ 213,077

See accompanying notes.

Billing Services Group Limited

Consolidated Statements of Operations (In thousands, except per share amounts)

	Years Ended December 31	
	2008	2007
Operating revenues	\$ 142,611	\$ 127,494
Cost of services	82,635	72,583
Gross profit	59,976	54,911
Selling, general, and administrative expenses	22,769	24,662
Depreciation and amortization expense	13,664	12,802
FTC settlement costs	–	5,564
Impairment loss	120	1,307
Restructuring expense	2,808	(402)
Stock-based compensation expense	213	1,388
Other nonrecurring expenses	182	(34)
Operating income	20,220	9,624
Other income (expense):		
Interest expense, net of \$99 and \$146 capitalized in 2008 and 2007, respectively	(10,354)	(12,971)
Settlement and mark-to-market of derivatives	(813)	(3,217)
Write-off of deferred finance costs	–	(2,954)
Interest income	1,626	2,182
Equity in loss from investment	–	(1,230)
Other income (expense), net	1,777	(235)
Total other expense, net	(7,764)	(18,425)
Income (loss) from continuing operations before income taxes	12,456	(8,801)
Income tax expense (benefit)	4,595	(2,092)
Income (loss) from continuing operations	7,861	(6,709)
Discontinued operations:		
Income from operations of BSG Luxembourg (net of tax expense of \$0 and \$470 in 2008 and 2007, respectively)	–	5,507
Gain on disposal (net of taxes of \$-0-)	–	28,568
Net income	\$ 7,861	\$ 27,366

Billing Services Group Limited

Consolidated Statements of Operations (continued)

(In thousands, except per share amounts)

	Years Ended December 31	
	2008	2007
Net income (loss) per basic and diluted share:		
Continuing operations	\$ 0.028	\$ (0.024)
Discontinued operations	—	0.122
Net income per share	<u>\$ 0.028</u>	<u>\$ 0.098</u>
Weighted-average shares outstanding	<u>279,863</u>	<u>279,863</u>

See accompanying notes.

Billing Services Group Limited

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

	Number of Shares	Common Stock	Additional Paid- In Capital (Deficit)	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Shareholders' equity, December 31, 2006	279,863	\$ 279,863	\$ (171,471)	\$ (15,689)	\$ 11,203	\$ 103,906
Reduction in par value	–	(113,495)	113,495	–	–	–
Stock-based compensation expense recognized in earnings	–	–	1,388	–	–	1,388
Distribution in the form of a reduction of capital	–	–	(118,236)	–	–	(118,236)
Translation adjustment	–	–	–	–	10,086	10,086
Transfer of cumulative other comprehensive loss related to translation gains and FASB Statement 158 of BSG Luxembourg	–	–	–	–	(21,169)	(21,169)
Net income	–	–	–	27,366	–	27,366
Derivative loss, net of taxes of \$92	–	–	–	–	(173)	(173)
Total comprehensive income						16,110
Shareholders' equity, December 31, 2007	279,863	166,368	(174,824)	11,677	(53)	3,168
Stock-based compensation expense recognized in earnings	–	–	213	–	–	213
Translation adjustment	–	–	–	–	9	9
Net income	–	–	–	7,861	–	7,861
Derivative loss, net of taxes of \$1,395	–	–	–	–	(2,588)	(2,588)
Total comprehensive income						5,282
Shareholders' equity, December 31, 2008	279,863	\$ 166,368	\$ (174,611)	\$ 19,538	\$ (2,632)	\$ 8,663

See accompanying notes.

Billing Services Group Limited

Consolidated Statements of Cash Flows (In thousands)

	Years Ended December 31	
	2008	2007
Operating activities		
Net income	\$ 7,861	\$ 27,366
Less income from discontinued operations, net	–	(34,075)
Net income (loss) from continuing operations	7,861	(6,709)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	4,323	4,027
Amortization of intangibles	9,341	8,665
Amortization of deferred finance costs	1,386	721
Write-off of deferred finance costs	–	2,954
Impairment loss	120	1,307
Equity in loss from investment	–	1,230
Stock-based compensation expense	213	1,388
Gain on extinguishment of debt	(83)	–
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(1,524)	1,064
Decrease (increase) in income taxes receivable, net	4,725	(2,578)
(Increase) decrease in prepaid expenses and other assets	(12)	865
Increase (decrease) in trade accounts payable	1,845	(574)
Decrease in third-party payables	(14,408)	(983)
(Decrease) increase in accrued liabilities	(5,915)	618
Provision for deferred taxes	(873)	(1,090)
Decrease in other liabilities	(885)	(31)
Net cash provided by operating activities	6,114	10,874
Investing activities		
Proceeds from sale of BSG Luxembourg, net of cash retained by BSG Luxembourg	–	132,749
Purchase of VoiceLog	–	(1,276)
Purchase of VeriSign toll clearinghouse	–	(775)
Purchases of property, equipment, and software, including \$99 and \$146 of capitalized interest in 2008 and 2007, respectively	(2,789)	(4,327)
Net receipts on purchased receivables	1,673	162
Net cash (used in) provided by investing activities	(1,116)	126,533

Billing Services Group Limited

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

	Years Ended December 31	
	2008	2007
Financing activities		
Borrowings of long-term debt	\$ —	\$ 108,000
Payments on long-term debt	(18,640)	(141,063)
Distributions paid	—	(118,236)
Net receipts on BSG Luxembourg receivables	—	1,952
Restricted cash	7,858	(6,928)
Financing costs	—	(1,478)
Net cash used in financing activities	(10,782)	(157,753)
 Cash flows provided by discontinued operations:		
Net cash provided by operating activities	—	20,145
Net cash used in investing activities	—	(5,446)
Net cash used in financing activities	—	(2,817)
Effect of exchange rate changes on cash	—	637
Net cash provided by discontinued operations	—	12,519
 Effect of exchange rate changes on cash	9	5
Net decrease in cash and cash equivalents	(5,775)	(7,822)
Cash and cash equivalents at beginning of year	33,129	40,951
Cash and cash equivalents at end of year	\$ 27,354	\$ 33,129
 Supplemental cash information		
Cash paid during the year for:		
Interest	\$ 9,073	\$ 11,896
Taxes	\$ 2,950	\$ 950
 Noncash investing and financing activities		
Adjustment to goodwill, third-party payables, accrued liabilities, and other liabilities, net of tax effect	\$ 5,324	\$ 3,649
Derivative loss, net of tax benefit of \$1,395 and \$92	\$ (2,588)	\$ (173)
Purchase price payable for VoiceLog and VeriSign toll clearing house	\$ —	\$ (155)

See accompanying notes.

Billing Services Group Limited

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

1. Organization and Summary of Significant Accounting Policies

Organization

Billing Services Group Limited (the “Company” or “BSG Limited”) commenced operations effective with the completion of its admission to AiM (a market operated by the London Stock Exchange plc) on June 15, 2005. The Company was formed to succeed to the business of Billing Services Group, LLC and its subsidiaries. The Company is a leading provider of clearing and settlement, payment services, and financial risk management solutions to communications service providers. The Company was incorporated and registered in Bermuda on May 13, 2005.

Principles of Consolidation

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

Cash and Cash Equivalents

Cash and cash equivalents include all cash and highly liquid investments with original maturities of three months or less. The Company holds cash and cash equivalents at several major financial institutions in amounts which often exceed Federal Deposit Insurance Corporation insured limits for United States deposit accounts. The Company has entered into control agreements with its lenders and certain financial institutions covering certain of its deposit accounts.

Purchased Receivables

The Company offers participation in advance funding arrangements to certain of its customers. Under the terms of the arrangements, the Company purchases the customer’s accounts receivable for an amount equal to the face amount of the call record value submitted to the local exchange carriers (“LECs”) by the Company, less various items, including financing fees, LEC charges, rejects, and other similar items. The Company advances 15% to 80% of the purchased amount and charges financing fees at rates up to 8% per annum over prime (prime was 3.25% per annum at December 31, 2008) to the customer until the funds are received from the LECs. The face amount of the call record value is recorded as purchased receivables in the consolidated balance sheets.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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

Financial Instruments

Due to their short maturity, the carrying amounts of accounts and purchased receivables, accounts payable, and accrued liabilities approximated their fair values at December 31, 2008 and 2007. The fair value of long-term debt approximates its face value and is based on the amounts at which the debt could be settled (either transferred or paid back) in a current transaction exclusive of transaction costs.

Concentration of Credit Risk and Significant Customers

At December 31, 2008, ten customers represented approximately 27% of accounts receivable, and ten customers represented approximately 70% of outstanding purchased receivables. At December 31, 2007, ten customers represented approximately 33% of accounts receivable, and ten customers represented approximately 78% of outstanding purchased receivables. Credit risk with respect to trade accounts receivable generated through billing services from continuing operations is limited as the Company collects its fees through receipt of cash directly from the LECs. The credit risk with respect to the purchase of accounts receivable is reduced as the Company only advances 15% to 80% of the gross accounts receivable purchased. Management evaluates accounts receivable balances on an ongoing basis and provides allowances as necessary for amounts estimated to eventually become uncollectible. In the event of complete nonperformance of accounts receivable, the maximum exposure to the Company is the recorded amount shown on the balance sheet. During the year ended December 31, 2008, twenty customers represented approximately 46% of consolidated continuing revenues. During the year ended December 31, 2007, twenty customers represented approximately 52% of consolidated continuing revenues.

Property, Equipment and Software

Property, equipment and software are primarily composed of furniture and fixtures, office equipment, computer equipment and software, and leasehold improvements, including capitalized interest, which are recorded at cost. The cost of additions and substantial improvements to property and equipment, including software being developed for internal use, is capitalized. The cost of maintenance and repairs of property and equipment is charged to operating expenses. Property, equipment and software are depreciated using the straight-line

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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

method over their estimated useful lives, which range from three to seven years. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life of the asset. Upon disposition, the cost and related accumulated depreciation are removed from the accounts, and the resulting gain or loss is reflected in other income (expense) for that period.

Capitalized Software Costs

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

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

Completed capitalized software development costs, including capitalized interest, are transferred to computer software and are then depreciated using the straight-line method over their estimated useful lives, which generally range from four to seven years. For the years ended December 31, 2008 and 2007, the Company capitalized \$2.6 million and \$2.9 million, respectively, of software development costs. During 2008 and 2007, the Company transferred \$4.2 million and \$20.3 million, respectively, of completed software development costs to computer software. Additionally, in 2008 and 2007, the Company wrote-off \$0.1 million and \$1.3 million, respectively, related to the impairment of certain software. Depreciation expense on completed capitalized software related to continuing operations was \$3.2 million and \$3.0 million for the years ended December 31, 2008 and 2007, respectively. As of December 31, 2008 and 2007, the Company had undepreciated software costs of \$18.5 million and \$17.5 million, respectively, related to continuing operations.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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

Purchase Accounting

The Company accounts for its business acquisitions under the purchase method of accounting. The total cost of acquisitions is allocated to the underlying identifiable net assets, based on their respective estimated fair values generally resulting from a third-party valuation performed at the Company's request. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, asset lives, and market multiples, among other items. In addition, reserves have been established on the Company's balance sheets related to acquired liabilities based on assumptions made at the time of acquisition. The Company evaluates the reserves on a regular basis to determine the adequacies of the amounts.

Goodwill

The Company accounts for goodwill in accordance with Statement of Financial Accounting Standards No. ("Statement") 142, *Goodwill and Other Intangible Assets* ("Statement 142"). Statement 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets.

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. Goodwill is reviewed annually for potential impairment, or more frequently, if events or changes in circumstances indicate that the assets might be impaired. An impairment may exist when the carrying amount of net assets exceeds its implied fair value.

Long-Lived Assets

The Company accounts for the impairment and disposition of long-lived assets in accordance with Statement 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("Statement 144"). In accordance with Statement 144, long-lived assets are reviewed when events or changes in circumstances indicate that their carrying value may not be recoverable. These evaluations include comparing the future undiscounted cash flows of such assets to the carrying value. If the carrying value exceeds the future undiscounted cash flows, the assets are written down to their fair value.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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

During 2008, the Company evaluated the ongoing value of capitalized software associated with one of its product offerings. Based on this evaluation, the Company determined that software with a \$0.1 million carrying value was no longer recoverable, and accordingly recorded an impairment charge of \$0.1 million. During 2007, the Company evaluated the ongoing value of capitalized software associated with another one of its product offerings. Based on this evaluation, the Company determined that software with a \$1.3 million carrying value was no longer recoverable, and accordingly recorded an impairment charge of \$1.3 million. In both periods, fair value was based on expected future cash flows to be generated by the product, discounted at the risk-free rate of interest.

Third-Party Payables

The Company's North American operations provide clearing, settlement, payment, and financial risk management solutions to telecommunications and other service providers (customers) through billing agreements with LECs, which maintain the critical database of end-user names and addresses of the billed parties. The Company receives individual call records from various telecommunications and other service providers and processes and sorts the records for transmittal to various LECs. Invoices to end-users are generated by the LECs, and the collected funds are remitted to the Company, which in turn remits these funds, net of fees, reserves, and other charges to its customers.

These reserves represent cash withheld from customers to satisfy future obligations on behalf of the customers. The obligations consist of bad debt, sales and excise taxes, and other miscellaneous charges. The Company records trade accounts receivable and service revenue for fees charged to process the call records. When the Company collects funds from the LECs, the Company's trade receivables are reduced by the amount corresponding to the processing fees, which are retained by the Company.

The remaining funds due to its customers are recorded as liabilities and reported in third-party payables in the consolidated balance sheets. The Company also retains a reserve from its customers' settlement proceeds to cover the LECs' bad debts, billing fees, and sales taxes.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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

Revenue Recognition

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

Earnings Per Share

The Company computes earnings per share under the provisions of Statement 128, *Earnings per Share*, whereby basic earnings per share is computed by dividing net income or loss attributable to common shareholders by the weighted average number of shares of common stock outstanding during the applicable period. Diluted earnings per share is determined in the same manner as basic earnings per share except that the number of shares is increased to assume exercise of potentially dilutive stock options using the treasury stock method, unless the effect of such increase would be anti-dilutive. For the years ended December 31, 2008 and 2007, the diluted earnings per share amounts equal basic earnings per share because the exercise price of the outstanding stock options is greater than the weighted-average market price over the measurement period, or the exercisability of the outstanding stock options is based upon market conditions that have not been met as of the end of the reporting year.

Advertising Costs

The cost of advertising is expensed as incurred. The Company incurred \$0.1 million and \$0.2 million in advertising costs from continuing operations for the years ended December 31, 2008 and 2007, respectively.

Income Taxes

The Company accounts for income taxes under Statement 109, *Accounting for Income Taxes* ("Statement 109"). Under Statement 109, deferred taxes are recognized using the liability method and tax rates are applied to cumulative temporary differences based on when and how they are expected to affect the tax return.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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

The Company is not subject to tax on profits, income or capital gains in Bermuda. For U.S. tax purposes, the Company has elected to be treated as a partnership. Subject to local tax regulations, shareholders may be required to report their allocable share of the Company's income, deductions, gain, or loss on their respective tax returns.

The Company's U.S. subsidiaries file a consolidated federal income tax return with their U.S. parent, BSG North America. The U.S. subsidiaries pay their proportionate share of the taxes to BSG North America, which is ultimately liable for the payment of the taxes to the Internal Revenue Service. The Company's other subsidiaries had filed separate income tax returns with the applicable tax authorities.

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes*, which clarifies the accounting treatment of uncertain tax positions in the financial statements in accordance with Statement 109. FIN 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, and required disclosures. The new provision was adopted by the Company on January 1, 2007, and did not result in recording any additional liability on its consolidated financial statements.

Stock-Based Compensation

The Company has a stock-based employee compensation plan, which is described more fully in Note 14. The Company accounts for share-based compensation in accordance with Statement No. 123(R), *Share-Based Payment* ("Statement 123(R)"), using the modified-prospective-transition method. Under that transition method, compensation cost recognized includes: (a) compensation cost for all share-based payments granted prior to but not yet vested as of January 1, 2006, based on the fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R).

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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

Derivative Instruments and Hedging Activities

Statement 133, *Accounting for Derivative Instruments and Hedging Activities*, requires the Company to recognize all of its derivative instruments as either assets or liabilities in the consolidated balance sheet at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship, and further, on the type of hedging relationship. For derivative instruments that are designated and qualify as hedging instruments, the Company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions. The Company formally assesses both at inception and at least quarterly thereafter, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in either the fair value or cash flows of the hedged item. If a derivative ceases to be a highly effective hedge, the Company discontinues hedge accounting. The Company does not enter into derivative instruments for speculation or trading purposes. See Notes 8 and 16 for a discussion of the Company's specific derivative instruments and hedging activities.

Foreign Currency

Results of operations for foreign subsidiaries are translated into U.S. dollars using the average exchange rates during the year. The assets and liabilities of those subsidiaries are translated into U.S. dollars using the exchange rates at the balance sheet date. The related translation adjustments are recorded in a separate component of shareholders' equity, accumulated other comprehensive loss. Foreign currency transaction gains and losses are included in operations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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

New Accounting Standards and Disclosures

In September 2006, the FASB issued Statement 157, *Fair Value Measurements* (“Statement 157”). Statement 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements for fair value measurements. Statement 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. Statement 157 does not expand the use of fair value in any new circumstances. Effective January 1, 2008, companies will need to apply the recognition and disclosure provisions of Statement 157 for financial assets and financial liabilities and for nonfinancial assets and nonfinancial liabilities that are remeasured at least annually. The effective date in Statement 157 is delayed for one year for certain nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company’s adoption of Statement 157 has had no impact on its financial position or results of operations.

Statement 141(R), *Business Combinations* (“Statement 141(R)”), was issued in December 2007. Statement 141(R) requires that upon initially obtaining control, an acquirer will recognize 100% of the fair values of acquired assets, including goodwill, and assumed liabilities, with only limited exceptions, even if the acquirer has not acquired 100% of its target. Additionally, contingent consideration arrangements will be fair valued at the acquisition date and included on that basis in the purchase price consideration and transaction costs will be expensed as incurred. Statement 141(R) also modifies the recognition for preacquisition contingencies, such as environmental or legal issues, restructuring plans, and acquired research and development value in purchase accounting. Statement 141(R) amends Statement 109, to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. Statement 141(R) is effective for fiscal years beginning after December 15, 2008. Adoption is prospective and early adoption is not permitted. The Company expects to adopt Statement 141(R) on January 1, 2009. Statement 141(R)’s impact on accounting for business combinations is dependent upon acquisitions following adoption.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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

Statement 159, *The Fair Value Option for Financial Assets and Financial Liabilities — including an amendment of FASB Statement No. 115* (“Statement 159”), was issued in February 2007. Statement 159 permits entities to choose to measure at fair value many financial instruments and certain other items that are not currently required to be measured at fair value. Statement 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. Statement 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. Statement 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in Statements 157, *Fair Value Measurements*, and 107, *Disclosures about Fair Value of Financial Instruments*. Statement 159 is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. The Company’s adoption of Statement 159 has had no material impact on its financial position or results of operations.

In March 2008, the FASB issued Statement 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of Statement 133* (“Statement 161”), which requires enhanced disclosures for derivative and hedging activities. Statement 161 will become effective with the Company’s first quarter of 2009.

2. Discontinued Operations

On December 19, 2007, the Company sold its wireless data and financial clearing operations, Billing Services Group Luxembourg S.a.r.l. (“BSG Luxembourg”) and BSG Clearing Solutions Asia Limited and their wholly owned subsidiaries, for cash of \$152.7 million, net of the repayment of the disposed entities’ borrowings under loan agreements, settlement of certain intercompany accounts, and closing costs. The results of these businesses are accounted for as discontinued operations in the consolidated statement of operations for 2007.

The gain on sale recorded in discontinued operations was \$28.6 million in 2007. The amount of interest expense allocated to discontinued operations was \$6.9 million in the year ended December 31, 2007.

Summarized operating results for the year ended December 31, 2007 for BSG Luxembourg included revenues of \$51.0 million and income, net of taxes, of \$5.5 million.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

3. Property, Equipment and Software

Property, equipment and software consisted of the following at December 31, 2008 and 2007:

	December 31	
	2008	2007
	<i>(In thousands)</i>	
Furniture and fixtures	\$ 236	\$ 236
Telecommunication equipment	1,839	1,839
Computer equipment	4,000	3,784
Computer software	26,628	22,424
Software development, including \$48 and \$368 of capitalized interest at December 31, 2008 and 2007, respectively	477	2,228
Leasehold improvements	2,172	2,172
	35,352	32,683
Less accumulated depreciation	14,710	10,387
Net property, equipment and software	\$ 20,642	\$ 22,296

Depreciation expense from continuing operations was \$4.3 million and \$4.0 million for the years ended December 31, 2008 and 2007, respectively.

4. Goodwill

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

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

4. Goodwill (continued)

In accordance with Statement 142, the Company completed step one of the two-step goodwill impairment process as of the fourth quarters of 2008 and 2007. No impairment charges resulted from completion of this test. The Company may incur impairment charges in the future under Statement 142 to the extent the Company does not achieve its expected financial performance, and to the extent that market values and long-term interest rates, in general, decrease and increase, respectively.

The following table presents the changes in carrying amount of goodwill for the years ended December 31, 2008 and 2007:

	United States	Europe	Total
	<i>(In thousands)</i>		
Balance as of December 31, 2006	\$ 43,712	\$ 183,061	\$ 226,773
Foreign currency	–	16,509	16,509
Reduction in connection with the sale of BSG Luxembourg	–	(199,570)	(199,570)
Adjustment	(3,649)	–	(3,649)
Balance as of December 31, 2007	40,063	–	40,063
Adjustment	(5,324)	–	(5,324)
Balance as of December 31, 2008	\$ 34,739	\$ –	\$ 34,739

During 2007, the Company sold BSG Luxembourg, representing its foreign operations, and removed all of the related goodwill. The Company also made adjustments to reduce goodwill by \$3.6 million, to adjust third-party payables acquired in a previous acquisition, net of related income taxes. During 2008, the Company made adjustments to reduce goodwill by \$5.3 million to adjust accrued liabilities and other liabilities acquired in a previous acquisition, net of related income taxes.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

5. Intangible Assets

The Company has definite-lived intangible assets recorded that are amortized in accordance with Statement 142. These assets consist of local exchange carrier contracts and customer contracts, which are amortized over their respective estimated lives. The weighted-average amortization period is approximately 11 years. The Company also has indefinite-lived trademarks recorded that are not being amortized which are evaluated in accordance with Statement 142. The following table presents the gross carrying amount and accumulated amortization for each major class of intangible assets:

	2008		2007		Amortization Period
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	
<i>(In thousands)</i>					
Local exchange carrier contracts	\$ 11,310	\$ 3,801	\$ 11,310	\$ 3,047	15 years
Customer contracts	77,065	38,521	77,065	29,934	10 years
Trademarks	5,400	–	5,400	–	Indefinite
	<u>\$ 93,775</u>	<u>\$ 42,322</u>	<u>\$ 93,775</u>	<u>\$ 32,981</u>	

Total amortization expense from definite-lived intangibles from continuing operations was \$9.3 million and \$8.7 million for the years ended December 31, 2008 and 2007, respectively. The estimate of amortization expense for each of the five succeeding fiscal years for definite-lived intangibles is \$8.7 million for the years 2009 through 2012 and \$7.7 million for the year 2013.

6. Investments

In July 2005, the Company entered into a joint venture with Webpay International AG for the purpose of further developing a secure payment solution for broadband service providers and consumers under the brand name of “ClickandBuy.” The Company invested \$1.5 million for a 49% share of the joint venture. The investment was accounted for using the equity method. During 2007, the Company wrote-off the investment, resulting in a \$1.2 million charge to operations.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

7. Debt

Long-term debt is as follows:

	December 31	
	2008	2007
	<i>(In thousands)</i>	
Term Loan Facility, net of unamortized original issue discount of \$3,273 at December 31, 2008 and \$4,467 at December 31, 2007	\$ 90,331	\$ 108,033
Less current portion	8,562	11,250
	\$ 81,769	\$ 96,783

On December 19, 2007, the Company refinanced its debt and entered into a new credit agreement totaling \$112.5 million. The new credit agreement consists of a \$112.5 million term loan (the “Term Loan Facility”). The Term Loan Facility is secured by all of BSG North America’s assets and guarantees from most of the Company’s subsidiaries. At December 31, 2008 and 2007, borrowings under the Term Loan Facility were \$93.6 million and \$112.5 million, respectively.

Loans under the Term Loan Facility were issued net of an original issue discount of \$4.5 million. Interest is charged, at the Company’s option, at the U.S. prime rate plus 3.25% per annum, or the London Interbank Offered Rate (“LIBOR”) plus 4.25% per annum. At December 31, 2008, the nominal interest rate on outstanding loans was 5.75% per annum, but the effective interest rate, including the impact of interest rate swap contracts (see Note 8) was 8.34% per annum.

The Term Loan Facility requires quarterly principal payments of \$2.8 million through September 2014 and a payment of \$36.6 million at its maturity in December 2014. It also requires mandatory prepayments relating to (i) the excess of \$7.9 million over costs related to settlement with the U.S. Federal Trade Commission (“FTC”) (see Note 12); (ii) 75% of the Company’s excess cash flow, as defined, beginning in 2008; and (iii) certain other occurrences for which mandatory prepayment is a usual and customary consequence in credit agreements of this nature. Outstanding loans may be prepaid at any time without any prepayment premium or penalty.

In connection with the settlement with the FTC, the Company paid \$3.6 million and \$2.0 million in 2008 and 2007, respectively, and made a debt repayment of \$2.3 million during 2008. At December 31, 2007, \$7.9 million was classified as restricted cash related to this obligation, which restriction was removed in 2008 as the result of these payments.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

7. Debt (continued)

During 2008, the Company extinguished \$5.0 million of principal amount of debt through the repurchase of a portion of the Term Loan Facility which resulted in a gain of \$84 thousand, net of accumulated amortization of original issue discount of \$171 thousand.

The credit agreement includes covenants requiring the Company to maintain certain minimum levels of interest coverage and maximum levels of leverage and capital expenditures. The agreement also includes various representations, restrictions, and other terms and conditions which are usual and customary in transactions of this nature.

Former Borrowing Facilities

In connection with the repayment of certain former borrowings in 2007, the Company wrote-off its related unamortized deferred finance costs of \$3.0 million and paid prepayment premiums of \$0.4 million which are included in write-off of deferred finance costs and interest expense, respectively, in 2007.

8. Financial Instruments

Interest Rate Swap

In connection with the Term Loan Facility outstanding at December 31, 2008, the Company entered into a series of interest rate swap contracts during December 2007 for an aggregate notional amount of \$75 million. Under the contracts, the Company will pay fixed rates of 3.91% per annum to 4.18% per annum, thereby fixing the LIBOR portion of the interest rate on the notional amounts during the periods indicated below.

Contract Notional Amount	Contract Period	Contract Fixed Rate
\$ 5,000,000	12/31/07 to 12/31/08	4.12%
15,000,000	12/31/07 to 12/31/09	3.91%
20,000,000	12/31/07 to 12/31/10	4.00%
15,000,000	12/31/07 to 12/31/11	4.11%
20,000,000	12/31/07 to 12/31/12	4.18%
<u>\$ 75,000,000</u>		

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

8. Financial Instruments (continued)

Under the contracts, the counterparty will pay the Company a floating rate, namely LIBOR, on the same notional principal amounts during the same periods. The applicable margin above LIBOR, as defined in the credit agreement, is not included in, and will be paid in addition to, the fixed interest rate. As indicated in the table set forth above, the initial contract, covering a notional amount of \$5 million, expired on December 31, 2008. As of December 31, 2008 and 2007, the contracts, in the aggregate, had a negative value of \$4.2 million and \$0.3 million, respectively, which was recorded in other liabilities in the accompanying consolidated balance sheets. The contracts qualify for hedge accounting, and accordingly, the decline in the contracts' value of \$3.9 million and \$0.3 million during the years ended December 31, 2008 and 2007, respectively, is recorded in accumulated other comprehensive loss, net of tax.

In connection with certain former debt, the Company entered into an interest rate swap contract in 2006 (the "2006 Swap") for a notional amount of \$65 million. The 2006 Swap was canceled on December 14, 2007, and the Company paid \$1.3 million in settlement of this contract. This payment is reflected in settlement and mark-to-market of derivatives in the accompanying statements of operations.

Also, in connection with certain former debt, the Company entered into an interest rate swap contract in 2005 (the "2005 Swap") for a notional amount of \$70 million. The 2005 Swap contract remained in place after the December 19, 2007 refinancing, and it supplemented the contract described above to satisfy the requirements of the Term Loan Facility. The Company canceled the entire 2005 Swap during 2008, and paid \$1.9 million in connection with the cancellation. This payment is reflected in settlement and mark-to-market of derivatives in the accompanying consolidated statements of operations. As the 2006 Swap and 2005 Swap did not qualify for hedge accounting, changes in their fair market values are recorded as expense in the accompanying consolidated statements of operations. In 2007, the Company recorded a loss of \$3.2 million related to the cancellation of the 2006 Swap and the change in the estimated fair value of the 2005 Swap. In 2008, the Company recorded a loss of \$0.8 million related to the additional decline in value of the 2005 Swap.

As discussed in Note 1, the Company adopted Statement No. 157 effective January 1, 2008. Statement No. 157 establishes a three-tier fair value hierarchy, which prioritized the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. As of December 31, 2008, the Company held one type of financial instrument

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

8. Financial Instruments (continued)

subject to valuation under Statement No. 157, interest rate swaps. The interest rate swaps are included in other liabilities in the accompanying consolidated balance sheets. Fair value of interest rate swaps is based on forward-looking interest rate curves as provided by the counterparties, adjusted for the Company's credit risk and are considered Level 2 inputs.

9. Income Taxes

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

	December 31	
	2008	2007
	<i>(In thousands)</i>	
Current expense (benefit):		
Federal	\$ 5,153	\$ (1,709)
State	315	707
	5,468	(1,002)
Deferred expense (benefit):		
Federal	(905)	(680)
State	32	(410)
	(873)	(1,090)
Total income tax expense (benefit)	\$ 4,595	\$ (2,092)

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

	December 31	
	2008	2007
	<i>(In thousands)</i>	
Estimated federal tax expense (benefit) at 35%	\$ 4,362	\$ (3,080)
Increases (reductions) from:		
Change in tax rates	–	206
State tax	226	77
Nondeductible items	–	145
Foreign tax rate differential	75	487
Other	(68)	73
Income tax expense (benefit)	\$ 4,595	\$ (2,092)

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

9. Income Taxes (continued)

There are significant differences among the tax laws of the countries in which the Company was operating, including varying tax rates and deductibility of certain expenses. The Company is not subject to tax on profits, income, or capital gains in Bermuda. For U.S. tax purposes, the Company has elected to be treated as a partnership. Subject to local tax regulations, shareholders may be required to report their allocable share of the Company's income, deductions, gain, or loss on their respective tax returns.

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

	December 31	
	2008	2007
	<i>(In thousands)</i>	
Deferred tax assets:		
Reserve for bad debts	\$ 98	\$ 109
Accrued liabilities	573	701
State taxes	400	432
Stock-based compensation expense	756	718
AMT credit carryover	–	96
Capital loss carryover	122	–
Derivatives	1,487	478
Intangible assets	316	–
Total deferred tax assets	3,752	2,534
Deferred tax liabilities:		
Property, equipment and software	(3,904)	(4,614)
Intangible assets	–	(1,255)
Capitalized interest	(1,335)	(1,302)
Other	(189)	(214)
Total deferred tax liabilities	(5,428)	(7,385)
Net deferred tax liabilities	\$ (1,676)	\$ (4,851)

Management is of the opinion that it is more likely than not that the deferred tax assets will be fully realized.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

9. Income Taxes (continued)

During 2008 and 2007, the Company's United States-based subsidiaries are included in the consolidated federal income tax returns of BSG North America. The tax obligation of the Company's United States-based subsidiaries is paid to BSG North America, which is ultimately liable for payment of the taxes to the Internal Revenue Service.

The Company has Texas state net operating loss credit carryforwards of approximately \$0.6 million which will expire in 2026.

The Company adopted FIN 48 in the first quarter of fiscal 2007, and the adoption of the provision did not have a significant impact on the Company's consolidated financial statements. During the year ended December 31, 2007, the Company established a reserve of \$0.3 million related to state taxes and during the year ended December 31, 2008, the Company established a reserve of \$0.9 million related to an adjustment of liabilities assumed in a prior acquisition. The total reserve as of December 31, 2008 is \$1.2 million. The Company does not expect the recorded liability to change significantly over the next twelve months. It is the Company's policy to recognize interest and penalties related to uncertain tax positions in the provision for income taxes in the consolidated statement of operations. There were no interest or penalties recorded during the years ended December 31, 2008 or 2007.

The Company's tax returns for 2004 through 2008 tax years generally remain subject to examination by the federal and most state tax authorities. The Internal Revenue Service is currently examining the Company's consolidated tax returns for the years ended December 31, 2004 to 2006.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

10. Earnings Per Share

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

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

	December 31	
	2008	2007
	<i>(In thousands, except per share amounts)</i>	
Numerator:		
Income (loss) from continuing operations	\$ 7,861	\$ (6,709)
Income from discontinued operations	–	34,075
Net income	\$ 7,861	\$ 27,366
Denominator:		
Weighted-average shares – basic	279,863	279,863
Effect of diluted securities:		
Options	–	–
Weighted-average shares – diluted	279,863	279,863
Net income (loss) per common share:		
Income (loss) from continuing operations – basic and diluted	\$ 0.028	\$ (0.024)
Income from discontinued operations – basic and diluted	–	0.122
Net income per share	\$ 0.028	\$ 0.098

Options covering 22,926,566 shares at December 31, 2008 have not been included in the calculation of earnings per share because these options were not in the money as calculated over the measurement period during 2008. Options covering 9,641,156 shares at December 31, 2007 have not been included in the calculation of earnings per share because their exercisability is contingent upon the fair market value of the Company's common stock increasing to a specific value, which was not achieved as of December 31, 2007. See Note 14.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

11. Commitments

The Company leases certain office space and equipment under various operating leases. Annual future minimum lease commitments as of December 31, 2008, are as follows:

Year ending December 31:	<i>(In thousands)</i>	
2009	\$	920
2010		926
2011		950
2012		524

Rental expense from continuing operations under these operating leases approximated \$0.9 million for each of the years ended December 31, 2008 and 2007.

12. Contingencies

The Company was a co-defendant in a FTC proceeding originally filed in March 2006 against a former customer for allegedly billing unauthorized charges to consumers. The Company terminated this customer in 2005. In October 2006, the FTC amended its filing to include the Company. During December 2007, the Company entered into an agreement with the FTC to settle this litigation in exchange for a payment of \$1.9 million. On March 17, 2008, the presiding court entered an order approving the settlement agreement, in which the Company did not admit any violation of law. The Company agreed to implement various compliance polices designed to attempt to ensure it does not process unauthorized billing of telecommunication charges by its customers. The 2007 consolidated statement of operations includes a charge of \$5.6 million related to the FTC litigation. As of December 31, 2007, the Company had remaining accrued liabilities of \$1.9 million and \$1.4 million for the FTC settlement costs and legal and other costs, respectively, which were paid during 2008. These amounts are included in the 2007 charge of \$5.6 million.

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

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

13. Employee Benefit Plans

The Company's subsidiaries participate in 401(k) Retirement Plans (the "Retirement Plans"), which are offered to eligible employees. Generally, all employees who are 21 years of age or older and who have completed six months of service during which they worked at least 500 hours are eligible for participation in the Retirement Plans. The Retirement Plans are defined contribution plans, which provide that participants may make voluntary salary deferral contributions, on a pretax basis, of between 1% and 19% of their compensation in the form of voluntary payroll deductions, subject to annual Internal Revenue Service limitations. The Company matches a defined percentage of a participant's contributions, subject to certain limits, and may make additional discretionary contributions. During the years ended December 31, 2008 and 2007, the Company's matching contributions from continuing operations totaled approximately \$0.3 million in each period. No discretionary contributions were made.

14. Stock Option Plans

2005 Stock Option Plans

On June 8, 2005, the Board of Directors adopted the Billing Services Group Limited Stock Option Plan (the "BSG Plan") and the BSG Clearing Solutions North America, Inc. Stock Option Plan (the "BSG North America Plan"). Options may have been granted at the discretion of the remuneration committee to any director or employee and were generally granted with an exercise price equal to the market price of the Company's stock at the grant date. Directors may have been granted options in the BSG Plan and employees may have been granted options in the BSG North America Plan. Options granted in the BSG North America Plan were exercisable into shares of the Company. The options that may have been granted were limited, in the aggregate, to 10% of the issued common shares of capital stock at the time of grant.

On June 9, 2005, the Board of Directors granted 18,260,447 options at an exercise price of 74.5 pence, representing the fair market value of the Company's common stock on the date of grant to selected executives and other key employees whose vesting was contingent upon meeting an increase in the share price. These options would have vested when the fair market value of the common stock reached 149.0 pence, as adjusted for relative changes in capitalization, but would not have been exercisable unless the holder remained in the employment of the Company or one of its affiliates for three years from June 2005, or in the event of a change in control of the Company. Under such circumstances, the options would have been immediately exercisable subject to the holder being in the employment of the Company or one of its affiliates. The options had a contractual life of ten years.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

14. Stock Option Plans (continued)

The fair value of the options was generally computed using a Monte Carlo single option model. This model estimated the probability the options would have vested and the length of time required to attain the target stock price. The model projected the path of the Company's stock over ten years following the grant date, relying upon historical market data for its peers.

The BSG Plan and the BSG North America Plan described above were amended and restated as set forth below.

2008 Amended and Restated Stock Option Plans

On August 15, 2008, the Board of Directors adopted resolutions to amend and restate both the BSG Plan and the BSG North America Plan (now, the "Amended and Restated BSG Plan" and the "Amended and Restated BSG North America Plan," respectively).

Options may be granted at the discretion of the remuneration committee to any director or employee and are generally granted with an exercise price equal to the market price of the Company's stock at the grant date. Directors may be granted options in the Amended and Restated BSG Plan and employees may be granted options in the Amended and Restated BSG North America Plan. Options granted in the Amended and Restated BSG North America Plan are exercisable into shares of the Company. The options granted are limited, in the aggregate, to 10% of the issued common shares of capital stock at the time of grant.

On August 18, 2008, the Board of Directors granted 22,926,566 options at an exercise price of 10.34 pence, representing the fair market value of the Company's common stock on the date of grant, to all employees and directors of the Company. One-quarter of the total number of options vested on the grant date, and the remaining 75% of options will vest in equal tranches on the first, second and third anniversary of the grant. Generally, an option is exercisable only if the holder is in the employment of the Company or one of its affiliates (or for a period of time following employment subject to the discretion of the remuneration committee), or in the event of a change in control of the Company. Upon a change in control, generally, all options vest immediately. The options have a contractual life of ten years.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

14. Stock Option Plans (continued)

The fair value of the options is computed using the Black-Scholes option pricing model. The weighted-average grant-date fair value of options granted during 2008 amounted to 6.0 pence per share. The following assumptions were used in arriving at the fair value of options granted during 2008: risk-free interest rate of 3.8%; dividend yield of 0%; expected volatility of 59.7%; and expected lives of five years and nine months. Risk free interest rates reflect the yield on the ten-year U.S. Treasury note. Expected dividend yield presumes no set dividend paid. Expected volatility is based on implied volatility from historical market data for the Company. The expected option lives are based on a mathematical average with respect to vesting and contractual terms.

The following is a summary of option activity:

	Options Outstanding	Weighted- Average Exercise Price
Options outstanding at December 31, 2006	9,641,156	75.4 pence
Granted	–	
Exercised	–	
Cancelled	–	
Options outstanding at December 31, 2007	9,641,156	75.4 pence
Granted	22,926,566	
Exercised	–	
Cancelled	9,641,156	
Options outstanding at December 31, 2008	22,926,566	10.34 pence
Options exercisable at December 31, 2008	5,731,642	
Options available for grant at December 31, 2008	5,059,759	

All options outstanding at December 31, 2007, were canceled in August 2008 as a result of the adoption of the Amended and Restated BSG Plan and the Amended and Restated BSG North America Plan.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

14. Stock Option Plans (continued)

Of the 22,926,566 options granted during 2008, a total of 20,187,500 were granted under the Amended and Restated BSG North America Plan and 2,739,066 were granted pursuant to Amended and Restated BSG Plan.

The weighted-average grant-date fair value of options granted in 2008 was 6.0 pence. As of December 31, 2008, there was \$2.0 million of total unrecognized noncash compensation cost related to nonvested share-based compensation arrangements granted under the BSG Plan and the BSG North America Plan. That cost is expected to be recognized during 2009 and 2010.

No options were exercised during 2008 or 2007, and accordingly, there were neither cash receipts received nor tax benefits realized for the tax deductions from option exercise.

15. Restructuring Expense and Other Income

Restructuring Expense

In 2006, in response to changing business conditions, the Company implemented a series of restructuring initiatives to reduce costs and refocus its business strategy, and accrued \$4.5 million through a charge to the consolidated statement of operations. During 2007, the Company paid for substantially all restructuring charges accrued at December 31, 2006, and as a result reversed \$0.4 million of such costs included in accrued liabilities at December 31, 2006. The resulting income is shown in the accompanying consolidated statements of operations.

In 2008, following disposition of the Company's businesses outside of the United States, the Company implemented cost reduction actions largely designed to reduce corporate overhead expenses. In connection with this plan, the Company recorded a \$2.8 million restructuring charge, principally to cover severance and related compensation costs for terminated employees. Of this amount, \$1.7 million was paid during 2008 and \$1.1 million is expected to be paid in 2009.

Other Income

Other income for the year ended December 31, 2008 consists primarily of the reduction of certain accrued liabilities based on changes in the estimation process.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

16. Subsequent Events

In January 2009, the Company repurchased \$2.6 million of its debt under the Term Loan Facility for \$2.4 million. In February 2009, the Company made a voluntary prepayment of \$2.0 million of its debt under the Term Loan Facility. At March 15, 2009, total outstanding term debt was \$89.0 million, inclusive of all original issue discount.

During the first quarter of 2009, the Company canceled \$22 million of notional principal amount in interest rate swaps for a cost of \$0.8 million. Accordingly, the table below sets forth the remaining interest rate swaps in place at March 15, 2009.

Contract Notional Amount	Contract Period	Contract Fixed Rate
\$ 13,000,000	12/31/07 to 12/31/10	4.00%
15,000,000	12/31/07 to 12/31/11	4.11%
20,000,000	12/31/07 to 12/31/12	4.18%
<u>\$ 48,000,000</u>		