

Billing Services Group Limited
(“BSG” or the “Company”)

Audited results for the year ended December 31, 2017

**POSITIVE CASH FLOW FROM OPERATIONS AND
RETURN OF \$5.0 MILLION TO SHAREHOLDERS**

(March 26, 2018) San Antonio, Texas, USA and Aldermaston, United Kingdom – BSG, a leading provider of telecommunications clearing and financial settlement products, Wi-Fi data solutions and verification services, today announces its audited results for the year ended December 31, 2017.

Financial Highlights
(All amounts in US\$)

	Year Ended December 31	
	2017	2016
Revenues	\$ 21.1 million	\$ 30.2 million
EBITDA ⁽¹⁾	\$ 0.9 million	\$ 5.7 million
Net (loss) income	\$ (6.7) million	\$ 10.9 million
Net (loss) income per basic and diluted share	\$ (0.02) per share	\$ 0.04 per share

⁽¹⁾ EBITDA is computed as earnings before interest, income taxes, depreciation, amortization and other non-cash and nonrecurring income or expense items. EBITDA is not a recognized measure under generally accepted accounting principles (GAAP).

- Completed a \$5.0 million cash tender offer under which the Company purchased 117,647,059 shares at a price per share of \$0.0425, reducing outstanding shares from 282,415,748 to 164,768,689
- Repaid \$2.1 million to the Federal Trade Commission pursuant to the 2016 settlement (\$1.0 million outstanding balance owed as of the date of this announcement)
- Generated \$0.9 million of EBITDA (2016: \$5.7 million)
- Provided \$1.1 million of cash from operating activities (2016: used \$0.5 million)
- Improved gross margin by 3.6 percentage points (56.6% in 2017 vs. 53.0% in 2016)
- Recognized \$15.3 million of non-cash impairment charges against goodwill (no impairment in 2016)
- Ended the year with \$11.5 million of cash (2016: \$15.1 million)

BSG Wireless and Third Party Verification (“TPV”) Operational Highlights

- Completed the delivery of the new Wi-Fi Location Data Service (WLDS) product to AT&T, Boingo and Telus
- Signed a new contract with XLN (a UK-based business telecom provider) to provide Wi-Fi hub services
- Extended our hotspot finder and connection product suite with delivery to VAST Networks (a Wi-Fi network infrastructure provider based in South Africa)
- Enhanced the hub service product suite to include Alerting and delivered to AT&T
- Deployed TPV services to 14 states on behalf of Direct Energy

Current Trading and Strategy

- In 2016, the Company initiated a strategic review to assist the Board in determining the future composition of the group, including capital structure and business lines. The decision to initiate and complete a \$5.0 million cash tender offer (completion of which was announced on December 15, 2017) was one of the initial conclusions of the review. In addition, the Company is in discussions to sell its Wi-Fi data solutions business. Following a successful sale of the Wi-Fi data solutions business, if any, the Board will consider further cash distributions and other actions with respect to its remaining business lines.
- During the second half of 2017, the Company recognized \$15.3 million of impairment charges relating to its wireline billing and clearing business and its third-party verification business. The impairment charges were necessitated due to declining operating income in the affected business lines, attributable in large part to the discontinuation of third-party billing by AT&T and Verizon.
- The Company’s direct billing initiative has developed solid traction, and we expect this to continue over the course of 2018. However, as evidenced by our 2017 financial performance, this initiative did not offset the effects of AT&T’s discontinuation of third-party billing during 2017, and it will not offset the effects of Verizon’s discontinuation during 2018.
- The Company expects that revenues and earnings in 2018 will compare unfavorably with 2017 due largely to Verizon’s discontinuation of third-party billing in December 2017, as described in the Company’s announcement dated May 24, 2017.
- The Company will not be providing any additional financial performance guidance at this time.

Commenting on the results, Denham Eke and Jason Wolff, Non-Executive Co-Chairmen, said:

“The 2017 results demonstrate the Company’s agility under difficult circumstance and our commitment to maximize shareholder value. Most significantly, the Company succeeded in returning \$5.0 million of cash to shareholders through the tender offer, and delivering \$1.1 million of cash flow from operating activities.”

INQUIRIES:

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Norman M. Phipps

finnCap Limited +44 (0) 20 7220 0500
Stuart Andrews/Scott Mathieson

About BSG:

BSG has locations in San Antonio, Texas, USA and Aldermaston, United Kingdom. The Company is traded on the London Stock Exchange (AIM: BILL). For more information on BSG, visit (www.bsgclearing.com).

CHIEF EXECUTIVE'S STATEMENT

2017 unfolded within a particularly challenging environment. Revenues and earnings declined, and we wrote down \$15.3 million of goodwill. On the positive side, the Company generated \$0.9 million of EBITDA, provided \$1.1 million of cash from operating activities and returned \$5.0 million to shareholders by way of a tender offer, the completion of which was announced on December 15, 2017. The Company's performance in 2017 demonstrated once again its agility in adapting to changing circumstances.

Our largest challenge in 2017 arose from AT&T's decision to discontinue third-party billing in December 2016. AT&T was our largest third-party biller. Their withdrawal from the market had a significant effect on our 2017 revenues, which declined by 30% (from \$30.2 million to \$21.1 million). In May 2017, Verizon informed us of its similar withdrawal from third-party billing, which took effect at the end of 2017. We will feel the financial effects of Verizon's action in our 2018 results.

The cumulative fallout from the actions by AT&T and Verizon was largely responsible for \$15.3 million of non-cash goodwill impairment charges recorded during 2017. A substantial portion of the underlying goodwill had been originally recorded in 2003, when the predecessor to BSG purchased the wireline billing and clearing business. The non-cash goodwill impairment charges in 2017 were largely responsible for the \$6.7 million (\$0.02 per share) net loss incurred during the year. In the absence of any goodwill impairment charges, the Company would have earned \$6.3 million of pre-tax income.

Strategic review

In 2016, the Company initiated a strategic review to assist the Board in determining the future composition of the group, including capital structure and business lines.

The most visible action taken to date pursuant to the strategic review was a \$5.0 million cash tender offer initiated and completed in December 2017. The amount of the tender offer reflected due consideration of foreseeable cash requirements in our operating business units and the maintenance of reserves for unforeseeable events. At the end of 2017, after completion of the tender offer, the Company held \$11.5 million of cash.

Less visible, but equally significant, was the decision to engage in discussions to sell BSG Wireless, our Wi-Fi data solutions business. In the event of a successful sale of the Wi-Fi data solutions business, the Board will consider further cash distributions to shareholders and other actions with respect to its remaining business lines.

We will not be providing financial performance guidance at this time.

Business lines

BSG's core business, a billing and clearing service for wireline phone transactions, is far smaller than it was a decade ago as a result of an unfavorable secular trend in wireline phone usage and the more recent withdrawals of AT&T and Verizon from third-party billing. Scale has been the historically essential ingredient to financial success in the business, because major components of operating costs are largely fixed. The erosion of transaction volume over time has extensively affected the profitability of the business.

We have taken several actions aimed to ensure the viability of the business. Most importantly, we introduced a direct billing option at the end of 2016 under which BSG submits invoices and collect funds directly from consumers, rather than bill through local exchange carriers (LECs). The direct billing service relies on the Company's third-party billing platform to perform all critical data management functions.

The direct billing service gained traction in 2017 for our customers who previously relied on AT&T for third-party billing. Many of our customers now affected by Verizon's action have also converted to our direct billing service. The effect of such conversions is not readily discernible in our income statement, however, because revenue from a direct billing transaction is much lower than for a third-party billing transaction.

Our TPV business, branded as VoiceLog, in which we independently confirm transactions mostly for utility services, cable companies, health care and long distance providers, is enjoying a higher level of transaction volume due to several new customers added during the second half of 2017.

Capital management

Capital structure and capital allocation continue to be of paramount importance to our management and Board of Directors, whose current members directly represent parties owning 56% of the Company's outstanding shares. The most significant capital allocation action taken in 2017, as discussed above, was the Company's repurchase of \$5.0 million of shares by way of a tender offer. The corresponding reduction in cash did not alter the conservative character of the Company's balance sheet and capitalization. At December 31, 2017, the Company had \$11.5 million of cash, \$5.9 million of working capital, minimal long-term debt and \$10.1 million of tangible net worth.

Special thanks to retired directors

Patrick D. Heneghan, Leighton W. Smith and Greg M. Carter all retired from the Board at the end of 2017. Pat and Leighton served as directors from the formation of BSG in 2005. Greg served as our CEO from 2008 to 2012. All three typically looked at issues from different perspectives reflecting their varied backgrounds, and all three could be counted on for insightful and constructive counsel. We thank them for their service.

Employees

Employees have stepped up to every challenge during the transformation and recalibration of our business. Their enthusiasm and willingness to stretch have never wavered. I am proud of each one of them.

Sincerely,

Norman M. Phipps
Chief Executive Officer

FINANCIAL REVIEW

Financial Review of the Year Ended December 31, 2017

The Company's audited results for the year ended December 31, 2017 are compared against the year ended December 31, 2016 in the accompanying consolidated financial statements. BSG's consolidated financial statements are prepared in conformity with United States GAAP.

Certain Terms

Revenues. Revenues are derived primarily from fees charged to wireline and wireless service providers for data clearing, financial settlement, information management, payment and financial risk management, third-party verification and customer service functions. During 2016, the Company introduced a direct billing service under which end-user consumers are invoiced directly by the Company, rather than through LECs as third-party billers. Revenue recognized under third-party billing includes the Company's service fees plus amounts necessary to compensate the LECs for their third-party billing services. Revenue for direct billing does not include any components other than the Company's service fees.

Cost of Services and Gross Profit. Cost of services arises primarily in the Company's wireline billing and clearing business. Cost of services includes billing and collection fees charged by LECs and other service providers for payment processing. Such fees are assessed for each record submitted and for each bill rendered to end-user consumers. BSG charges its customers a negotiated fee for billing and collection services. Accordingly, gross profit is generally dependent upon transaction volume, processing fees charged per transaction and any differential between the fees charged to customers by BSG and the related fees charged to BSG by LECs and other service providers.

Operating Expenses. Operating expenses include all selling, marketing, customer service, facilities and administrative costs (including payroll and related expenses) incurred in support of operations, substantially all of which are 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 Accounting Standards Codification (ASC) 350, *Intangibles – Goodwill and Other*. These assets consist of contracts with customers and LECs. Assets are depreciated or amortized, as applicable, over their respective useful lives.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA). Earnings before interest, income taxes, depreciation and amortization, a non-GAAP metric, is a measurement of profitability often used by investors and lenders. The computation of EBITDA also excludes other non-cash and nonrecurring items as additions or deductions to earnings.

Third-Party Payables. Third-party payables include amounts owed to customers in the ordinary course of clearinghouse activities and additional amounts maintained as reserves for retrospective charges from LECs and other parties. In its clearinghouse business, the Company aggregates call records received from its customers. It then submits the call records either to

(i) LECs for billing to end-user consumers; or (ii) end-user consumers. The Company collects funds from LECs and directly-billed end-user consumers each day.

Under normal circumstances, funds collected from LECs are distributed to the Company's customers approximately ten days after receipt, under weekly settlement protocols. The Company withholds a portion of the funds received from LECs to pay (i) the Company's processing fees, (ii) billing and collection fees of LECs, (iii) sales and other taxes paid by the Company and (iv) an amount deemed necessary to serve as a reserve against retrospective charges from LECs.

Funds collected from directly-billed end-user consumers are credited to the Company's customers when received. The Company withholds a portion of the funds received from end-user consumers to pay (i) the Company's processing fees, (ii) sales and other taxes paid by the Company and (iii) an amount deemed necessary to serve as a reserve against retrospective charges from payment processors or other parties.

When LECs, payment processors and other parties make payments to the Company, they withhold funds to cover a variety of expenses and potential retrospective charges. As noted above, the Company similarly withholds funds from its customers to cover expenses and retrospective charges. The third-party payables balance is computed as the excess of (i) funds owed to the Company's customers, inclusive of reserves for retrospective charges, over the sum of (ii) amounts owed from the Company's customers and (iii) reserves withheld for retrospective charges by LECs, payment processors and other parties.

Comparison of Results for the Year Ended December 31, 2017 to the Year Ended December 31, 2016

Total Revenues. Total revenues of \$21.1 million in 2017 were \$9.1 million, or 30%, lower than the \$30.2 million of revenues recorded during 2016. The \$9.1 million decrease reflects lower transaction volumes across all clearing, settlement and customer service activities provided for wireline service providers, partially offset by higher managed service fees from BSG Wireless' offerings.

Cost of Services and Gross Profit. Cost of services in 2017 was \$9.1 million, compared to \$14.2 million in 2016. The \$5.1 million, or 36%, decrease in cost of services largely reflects lower fees for billing and collection services related to the lower level of transaction volumes. The Company generated \$11.9 million of gross profit in 2017, compared to \$16.0 million in 2016. The gross margin of 56.6% in 2017 is 3.6 percentage points higher than the 53.0% margin achieved in 2016. The improved gross margin in 2017 resulted from a larger percentage of revenue from the wireless business, which operates at a higher gross margin level than the wireline business.

Operating Expenses. Operating expenses were \$11.0 million in 2017, compared to \$10.3 million in 2016. The \$0.7 million, or 7%, increase largely reflects a \$0.8 million increase in fees for legal and professional services.

Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"). The Company generated \$0.9 million of EBITDA during 2017, compared to \$5.7 million during 2016. A reconciliation of net income and EBITDA in each period follows:

\$ millions	Year Ended December 31	
	2017	2016
Net (loss) income	\$ (6.7)	\$ 10.9
Depreciation expense	1.3	1.4
Amortization of intangibles	0.6	0.6
Impairment charges	15.3	-
Income tax (benefit) expense	(2.4)	2.4
Other income, net	(7.5)	(9.6)
All other, net	0.3	-
EBITDA	\$ 0.9	\$ 5.7

Depreciation and Amortization Expense. Depreciation and amortization expenses totaled \$1.9 million in 2017, compared to \$2.0 million in 2016. The \$0.1 million decline reflects cessation of depreciation charges on components of capitalized software development costs for which accumulated depreciation reached the assets' respective gross carrying values.

Impairment Charges. The Company recorded \$15.3 million of non-cash impairment charges against goodwill during 2017. Goodwill, which resulted from acquisitions made by the Company over ten years ago, was deemed impaired as a result of reduced transaction volumes and operating income. The non-cash impairment charges were not included as deductions to earnings for purposes of calculating EBITDA.

Other Income, Net. The Company realized \$7.5 million of other income, net during 2017, compared to \$9.6 million in 2016. Other income, net in 2017 was largely attributable to adjustments to indemnification reserves and customer accounts in connection with their indemnification obligations to the Company under class action litigation. Other income, net in 2016 was largely attributable to accounting treatment adjustments to indemnification amounts under class action litigation and a net gain arising from the translation of assets and liabilities denominated in British Sterling.

Other income arises from miscellaneous items typically of a nonrecurring nature. Accordingly, other income items were not included as earnings for purposes of calculating EBITDA.

Change in Cash. BSG's cash balance at December 31, 2017 was \$11.5 million, compared to \$15.1 million at December 31, 2016. The \$3.6 million decrease in cash during 2017 is largely attributable to a \$5.0 million tender offer implemented in December 2017 under which the Company repurchased 117,647,059 million shares of stock and to \$0.9 million in capital expenditures, partially offset by \$1.1 million of cash provided by operating activities, \$0.8 million released from restricted cash and \$0.1 million of exchange rate differences.

Change in Restricted Cash. In the ordinary course of business, LECs withhold funds from their payments to the Company in order to create a reserve securing potential future obligations of the Company to the LEC. Through December 31, 2015, pursuant to a 2012 agreement with one LEC, the LEC released a net of \$9.3 million of cash reserves. The cash was transferred into a restricted Company bank account to be used for funding the Company's indemnification obligation under pending class action litigation against the LEC. During 2016 and 2017, net amounts of \$7.7 million and \$0.8 million, respectively, were transferred from the restricted cash account to satisfy indemnification obligations, reducing restricted cash to \$0.8 million at December 31, 2017.

Change in Third-Party Payables. Third-party payables at December 31, 2017, inclusive of long-term liabilities, were \$6.7 million, compared to \$10.3 million at December 31, 2016. The \$3.6 million decrease in third-party payables during 2017 resulted largely from \$3.3 million of net adjustments to customer accounts in connection with their indemnification obligations to the Company and from \$0.3 million of ordinary course settlement activities.

Change in Accrued Liabilities. Accrued liabilities at December 31, 2017 were \$2.9 million, compared to \$6.3 million at December 31, 2016. The \$3.4 million decrease in accrued liabilities resulted from \$2.1 million of settlement payments to the Federal Trade Commission, \$0.6 million of net payments and adjustments to indemnification liabilities to LECs under pending class action litigation and \$0.7 million of net reductions arising from ordinary course payments and adjustments.

Capital Expenditures. During 2017, the Company invested \$0.9 million in capital expenditures, primarily for capitalized software development costs and computer equipment. In 2016, capital expenditures totaled \$1.3 million.

Cash Flows for the Year Ended December 31, 2017

Cash flow provided by operating activities. Net cash provided by operating activities was \$1.1 million during 2017. Net cash provided was principally attributable to a \$15.3 million of non-cash impairment charges to goodwill, \$1.9 million of depreciation and amortization and a \$0.7 million decrease in trade accounts receivable, offset by a \$6.7 million net loss, a \$3.6 million reduction in third-party payables, a \$3.4 million reduction in accrued liabilities, a \$2.3 million reduction in deferred taxes and a \$0.8 million decrease in accounts payable.

Cash flow used in investing activities. Net cash used in investing activities was \$0.6 million, reflecting \$0.9 million of capital expenditures offset by \$0.3 million of net receipts on purchased receivables.

Cash flow used in financing activities. Cash used in financing activities was \$4.1 million, principally attributable to stock purchases totaling \$5.0 million under a tender offer, offset by a \$0.8 million reduction in restricted cash.

A copy of this statement is available on the Company's website (www.bsgclearing.com), and copies are available from BSG's Nominated Advisor at the address below:

Billing Services Group Limited

c/o finnCap Limited
60 New Broad Street
London EC2M 1JJ
United Kingdom

Forward Looking Statements

This report contains certain "forward-looking" statements and information relating to the plans, objectives, expectations and intentions of 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," "intend," "projects," "could," "should," "will" and words or phrases of similar meaning are intended to identify forward-looking statements. Forward-looking statements reflect the Company's current views with respect to future events and financial performance. Such statements, including certain information set forth herein under "Financial Review" that is not historical fact or statement of current condition, reflect management's assessment of the current risks, uncertainties and assumptions related to certain factors including, without limitation, the competitive environment, general economic conditions, customer relations, relationships with local exchange carriers and other vendors, availability of credit, borrowing terms, interest rates, foreign exchange rates, litigation, governmental regulation and supervision, capital expenditures, product development, product acceptance, technological change and disruption, changes in industry practices, one-time events and other factors described herein. Based upon changing conditions or circumstances arising from any one or more of these risks or uncertainties, or should any underlying assumptions prove incorrect, actual results may vary materially from historical or anticipated results as described herein.

Readers are cautioned not to place undue reliance on forward-looking statements. The Company does not intend to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

***Full Weaver audit report to follow,
excluding the cover page, table of
contents and audit opinion***

Billing Services Group Limited

Consolidated Balance Sheets (In thousands, except shares)

	Notes	December 31	
		2017	2016
Assets			
Current assets:			
Cash and cash equivalents		\$ 11,528	\$ 15,111
Restricted cash	9	831	1,655
Accounts receivable		3,616	4,323
Purchased receivables		460	744
Prepaid expenses and other current assets		383	355
Total current assets		<u>16,818</u>	22,188
Property, equipment and software		50,008	48,593
Less accumulated depreciation		45,925	44,462
Net property, equipment and software	2	<u>4,083</u>	4,131
Intangible assets, net of accumulated amortization of \$75,915 and \$75,229 at December 31, 2017 and 2016, respectively	3	5,962	6,427
Deferred taxes	5	391	-
Goodwill	3	9,964	25,275
Other assets, net		65	65
Total assets		<u>\$ 37,283</u>	<u>\$ 58,086</u>

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Billing Services Group Limited
Consolidated Balance Sheets (continued)
(In thousands, except shares)

		December 31	
	Notes	2017	2016
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade accounts payable		\$ 1,423	\$ 2,206
Third-party payables		6,546	10,284
Accrued liabilities	9	2,848	6,270
Income tax payable		-	22
Term loan note payable	4	105	57
Total current liabilities		10,922	18,839
Term loan note payable - noncurrent	4	147	121
Deferred taxes	5	-	1,923
Other liabilities		194	89
Total liabilities		11,263	20,972
Shareholders' equity:			
Common stock, \$0.59446 par value; 350,000,000 shares authorized; 164,768,689 and 282,415,748 shares issued and outstanding at December 31, 2017 and 2016, respectively	6	97,948	167,885
Additional paid-in capital (deficit)		(110,611)	(175,577)
Retained earnings		39,104	45,779
Accumulated other comprehensive loss		(421)	(973)
Total shareholders' equity		26,020	37,114
Total liabilities and shareholders' equity		\$ 37,283	\$ 58,086

See accompanying notes.

Billing Services Group Limited

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

	Notes	Years Ended December 31	
		2017	2016
Operating revenues		\$ 21,057	\$ 30,151
Cost of services		9,144	14,165
Gross profit		11,913	15,986
Selling, general and administrative expenses		10,995	10,296
Depreciation and amortization expense	2, 3	1,901	2,012
Impairment charge	3	15,309	-
Operating (loss) income		(16,292)	3,678
Other income (expense):			
Interest expense		(181)	(5)
Interest income		36	84
All other income, net		7,381	9,555
Total other income, net		7,236	9,634
(Loss) income before income taxes		(9,056)	13,312
Income tax benefit (expense)	5	2,381	(2,399)
Net (loss) income		(6,675)	10,913
Other comprehensive income (loss)		552	(648)
Comprehensive (loss) income		\$ (6,123)	\$ 10,265

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Billing Services Group Limited

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

	Notes	Years Ended December 31	
		2017	2016
Net (loss) income per basic and diluted share:			
Basic net (loss) income per share	7	\$ (0.02)	\$ 0.04
Diluted net (loss) income per share	7	\$ (0.02)	\$ 0.04
Basic weighted-average shares outstanding		278,870	282,416
Diluted weighted-average shares outstanding		286,098	289,806

See accompanying notes.

Billing Services Group Limited

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

	<u>Number of Shares</u>	<u>Common Stock</u>	<u>Additional Paid-In Capital (Deficit)</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
Shareholders' equity, December 31, 2015	282,416	167,885	(175,606)	34,866	(325)	\$ 26,820
Stock-based compensation expense	-	-	29	-	-	29
Net income	-	-	-	10,913	-	10,913
Translation adjustment	-	-	-	-	(648)	(648)
Shareholders' equity, December 31, 2016	282,416	167,885	(175,577)	45,779	(973)	37,114
Share repurchase	(117,647)	(69,937)	64,937	-	-	(5,000)
Stock-based compensation expense	-	-	29	-	-	29
Net loss	-	-	-	(6,675)	-	(6,675)
Translation adjustment	-	-	-	-	552	552
Shareholders' equity, December 31, 2017	164,769	\$ 97,948	\$ (110,611)	\$ 39,104	\$ (421)	\$ 26,020

See accompanying notes.

Billing Services Group Limited
Consolidated Statements of Cash Flows
(In thousands)

	Years Ended December 31	
	2017	2016
Operating activities		
Net (loss) income	\$ (6,675)	\$ 10,913
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation	1,276	1,380
Amortization of intangibles and other assets	625	632
Impairment loss	15,309	-
Stock-based compensation expense	29	29
(Benefit) expense in provision for deferred taxes	(2,314)	2,523
Changes in operating assets and liabilities:		
Decrease in accounts receivable	707	1,397
Increase in prepaid expenses and other assets	(28)	(10)
(Decrease) increase in income taxes payable, net	(22)	556
Decrease in trade accounts payable	(783)	(728)
(Decrease) increase in third-party payables	(3,633)	744
Decrease in accrued liabilities	(3,422)	(17,923)
Net cash provided by (used in) operating activities	1,069	(487)
Investing activities		
Purchases of property, equipment and software	(943)	(1,255)
Net receipts on purchased receivables	284	1,533
Net cash (used in) provided by investing activities	(659)	278

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Billing Services Group Limited

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

	2017	2016
Financing activities		
Borrowings on term loan note payable	\$ 142	\$ 178
Payments on long-term debt	(68)	-
Restricted cash	824	7,662
Stock repurchase	(5,000)	-
Net cash (used in) provided by financing activities	(4,102)	7,840
Effect of exchange rate changes	109	53
Net (decrease) increase in cash and cash equivalents	(3,583)	7,684
Cash and cash equivalents at beginning of year	15,111	7,427
Cash and cash equivalents at end of year	\$ 11,528	\$ 15,111
Supplemental cash flow information		
Cash paid during the year for:		
Interest	\$ 9	\$ -
Taxes	\$ -	\$ 350

See accompanying notes.

Billing Services Group Limited

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies

Organization

Billing Services Group Limited (the “Company” or “BSG Limited”) commenced operations effective with the completion of its admission to AiM (a market operated by the London Stock Exchange plc) on June 15, 2005. The Company was formed to succeed to the business of Billing Services Group, LLC and its subsidiaries. Through its operating entities, the Company provides clearing and financial settlement products, innovative Wi-Fi roaming solutions to mobile carriers and network operators and third-party verification services to the telecommunications, cable and utilities industries. The Company was incorporated and registered in Bermuda on May 13, 2005.

Principles of Consolidation

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

Cash and Cash Equivalents

Cash and cash equivalents include all cash and highly liquid investments with original maturities of three months or less. The Company holds cash and cash equivalents at several major financial institutions in amounts that often exceed Federal Deposit Insurance Corporation insured limits for United States deposit accounts.

Restricted Cash

Restricted cash represents deposits made under the deposit account security and control agreement (the “Deposit Agreement”) discussed in Note 9.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2017 and 2016

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

Accounts Receivable

The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Losses are charged against the allowance when management believes the uncollectibility of a receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management and is based on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. Management believes all receivables to be collectible, and there is no need for an allowance as of December 31, 2017 and 2016.

Purchased Receivables

The Company offers advance funding arrangements to certain customers. Under the terms of the arrangements, the Company purchases the customer's accounts receivable for an amount equal to the face amount of the call record value submitted to the local exchange carriers ("LECs") by the Company, less various deductions, including financing fees, LEC charges, rejects and other similar charges. The Company advances 40% to 72% of the purchased receivable to the customer and charges financing fees at rates up to 8% per annum over prime (prime was 4.50% and 3.75% per annum at December 31, 2017 and 2016, respectively) until the funds are received from the LECs. The face amount of the call record value is recorded as purchased receivables in the consolidated balance sheets.

Concentration of Credit Risk and Significant Customers

At December 31, 2017, ten customers represented approximately 49% of accounts receivable, and six customers represented 100% of outstanding purchased receivables. At December 31, 2016, ten customers represented approximately 37% of accounts receivable, and seven customers represented 100% of outstanding purchased receivables. Credit risk with respect to trade accounts receivable generated through billing services is limited as the Company collects a significant percentage of its fees through receipt of cash directly from the LECs. For the year ended December 31, 2017, twenty customers represented approximately 70% of consolidated revenues. For the year ended December 31, 2016, twenty customers represented approximately 72% of consolidated revenues.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2017 and 2016

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

Property, Equipment and Software

Property, equipment and software are primarily composed of furniture and fixtures, telecommunication equipment, computer equipment and software and leasehold improvements, including capitalized interest, which are recorded at cost. The cost of additions and substantial improvements to property and equipment, including software being developed for internal use, is capitalized. The cost of maintenance and repairs of property and equipment is charged to operating expenses. Property, equipment and software are depreciated using the straight-line method over their estimated useful lives, which range from three to seven years. Leasehold improvements are depreciated over the shorter of the remaining lease term or the estimated useful life of the asset. Upon disposition, the cost and related accumulated depreciation are removed from the accounts, and the resulting gain or loss is reflected in selling, general and administrative expenses for that period.

Impairment of Long-Lived Assets

The Company reviews the carrying value of property, equipment and software for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, and the effects of obsolescence, demand, competition and other economic factors. The Company did not recognize an impairment of property, equipment and software during the years ended December 31, 2017 and 2016.

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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2017 and 2016

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

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

Capitalized software development costs for completed software development projects, including capitalized interest, are transferred to computer software, and are then depreciated using the straight-line method over their estimated useful lives, which generally range from four to seven years. When events or changes in circumstances indicate that the carrying amount of capitalized software may not be recoverable, the Company assesses the recoverability of such assets based on estimates of future undiscounted cash flows compared to net book value. If the future undiscounted cash flow estimates are less than net book value, net book value would then be reduced to estimated fair value, which generally approximates discounted cash flows. The Company also evaluates the amortization periods of capitalized software assets to determine whether events or circumstances warrant revised estimates of useful lives.

For the years ended December 31, 2017 and 2016, the Company capitalized \$1.3 million and \$0.5 million of software development costs, respectively. During 2017 and 2016, the Company transferred \$1.3 million and \$0.9 million, respectively, of software development costs to computer software. Depreciation expense on computer software was \$1.1 million and \$1.0 million for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, the Company had undepreciated software costs of \$3.5 million and \$3.3 million, respectively.

Intangible Assets and Goodwill

The Company classifies intangible assets as definite-lived, indefinite-lived or goodwill. The Company accounts for its intangible assets and goodwill in accordance with the provisions of Accounting Standards Codification (“ASC”) 350, *Intangibles – Goodwill and Other*.

Definite-lived intangible assets consist of customer and local exchange carrier contracts, both of which are amortized over the respective lives of the agreements. The Company periodically reviews the appropriateness of the amortization periods related to its definite-lived assets. These assets are recorded at amortized cost.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2017 and 2016

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

The Company tests for possible impairment of definite-lived intangible assets whenever events or changes in circumstances, such as a reduction in operating cash flow or a material change in the manner for which the asset is intended to be used, indicate that the carrying amount of the asset may not be recoverable. If such indicators exist, the Company compares the undiscounted cash flows related to the asset to the carrying value of the asset. If the carrying value is greater than the undiscounted cash flow amount, an impairment charge is recorded in amortization expense in the consolidated statements of operations for amounts necessary to reduce the carrying value of the asset to fair value.

The Company's indefinite-lived intangible assets consist of trademarks, which were originally recorded at their acquisition date fair value. The Company's indefinite-lived intangible assets are not subject to amortization but are tested for impairment at least annually. The Company tests its indefinite-lived intangible assets for impairment annually on October 1, or more frequently when events or changes in circumstances indicate that impairment may have occurred.

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. Goodwill is not subject to amortization, but is tested for impairment at least annually. Impairment may exist when the carrying amount of the reporting unit exceeds its estimated fair value. Assessing the recoverability of goodwill requires the Company to make estimates and assumptions about sales, operating margins, growth rates and discount rates based on its budgets, business plans, economic projections, anticipated future cash flows and marketplace data. There are inherent uncertainties related to these factors and management's judgment in applying these factors.

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

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2017 and 2016

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

Third-Party Payables

The Company provides clearing and financial settlement solutions to telecommunications and other service providers through billing agreements with LECs and through direct billing with end-user consumers.

For its LEC billing transactions, the Company receives individual call records from telecommunications and other service providers and processes and sorts the records for transmittal to various LECs, which maintain the critical database of end-user names and addresses of the billed parties. Invoices to end-users are generated by the LECs, and the collected funds are remitted to the Company, which in turn remits these funds to its customers, net of fees, reserves, taxes and other charges.

For its direct billing transactions, the Company receives individual call records from telecommunications and other service providers, processes the records and generates and submits invoices to end-users for payment. Funds are collected by the Company, which in turn remits these funds to its customers, net of fees, reserves, taxes and other charges.

Reserves represent cash withheld from customers to satisfy future obligations on behalf of the customers. These obligations consist of bad debt, customer service, indemnification obligations and other miscellaneous charges. The Company records trade accounts receivable and service revenue for fees charged to process the call records. When the Company collects funds from the LECs and end-user consumers, the Company's trade receivables are reduced by the amount corresponding to the processing fees, which are retained by the Company. In certain instances, the Company also retains a reserve from its customers' settlement proceeds to cover the LECs' billing fees and other charges. The remaining funds due to customers are recorded as liabilities and reported in third-party payables in the consolidated balance sheets.

Revenue Recognition

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

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2017 and 2016

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

Earnings Per Share

The Company computes earnings per share under the provisions of ASC 260, *Earnings Per Share*, whereby basic earnings per share are computed by dividing net income or loss attributable to common shareholders by the weighted-average number of shares of common stock outstanding during the applicable period. Diluted earnings per share are determined in the same manner as basic earnings per share except that the number of shares is increased to assume exercise of potentially dilutive stock options using the treasury stock method, unless the effect of such increase would be anti-dilutive.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses and gains and losses be included in net income. Although certain changes in assets and liabilities, such as translation gains and losses, are reported as a separate component of the equity section on the balance sheet, such items, along with net income, are components of comprehensive income.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2017 and 2016

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

U.S. generally accepted accounting principles (“GAAP”) requires that the Company recognize the impact of a tax position that is more likely than not to be disallowed upon examination, including resolution of any appeals or litigation processes, based upon the technical merits of the position. Tax positions taken related to the Company’s tax status and federal and state filing requirements have been reviewed, and management is of the opinion that they would more likely than not be sustained by examination. Accordingly, the Company has not recorded an income tax liability for uncertain tax benefits. As of December 31, 2017, the Company’s tax years 2014 and thereafter remain subject to examination for federal tax purposes, and 2011 and thereafter remain subject to examination for state tax purposes.

The Company and its subsidiaries are subject to federal income taxes in the United States and United Kingdom and various state income taxes in the United States.

Stock-Based Compensation

Under the fair value recognition provisions of ASC 718-10, *Compensation – Stock Compensation*, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense on a straight-line basis over the vesting period. Determining the fair value of stock-based awards at the grant date requires assumptions and judgments about expected volatility and forfeiture rates, among other factors.

Foreign Currency

Results of operations of the Company, as appropriate, are translated into U.S. dollars using the average exchange rates during the year. The assets and liabilities of those entities are translated into U.S. dollars using the exchange rates at the balance sheet date. The related translation adjustments are recorded in a separate component of shareholders’ equity, “Accumulated other comprehensive income.” Foreign currency transaction gains and losses are included in the statement of operations.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2017 and 2016

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

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

New Accounting Standards and Disclosures

Leases

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases*. The guidance in this ASU supersedes the current leasing guidance. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements, with certain practical expedients available. The Company is currently evaluating the impact of its pending adoption of the new standard on its consolidated financial statements and related disclosures.

Deferred Taxes

In November 2015, FASB issued ASU No. 2015-17, *Income Taxes: Balance Sheet Classification of Deferred Taxes*. The standard requires that deferred tax assets and liabilities be classified as noncurrent on the balance sheet rather than being separated into current and noncurrent. ASU 2015-17 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted and the standard may be applied either retrospectively or on a prospective basis to all deferred tax assets and liabilities. The Company has adopted ASU 2015-17.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2017 and 2016

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

Intangibles – Goodwill

In January 2017, FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350)*. This standard simplifies the test for goodwill impairment. This update eliminates Step 2 of the goodwill impairment test related to computing the implied fair value of goodwill. Under the amendments in this update, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of the reporting unit with its carrying amount. An impairment charge should be recognized if the carrying amount exceeds the reporting unit's fair value, however, the loss recognized should not exceed the total amount of the reporting unit. The amendment should be applied prospectively for public entities that are SEC filers, for fiscal years beginning after December 31, 2019, public non-filers, for fiscal years beginning after December 31, 2020, and all other entities, including not-for-profits, fiscal years ending December 31, 2021. Early adoption is permitted for tests performed after January 1, 2017. The Company is currently evaluating the impact of its pending adoption of the new standard on the consolidated financial statements and related disclosures.

Revenue

In May 2014, FASB issued ASU No. 2014-09, *Revenue From Contracts With Customers*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2017. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the effects the adoption of the standard will have on the consolidated financial statements and related disclosures.

Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or retained earnings.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2017 and 2016

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

Subsequent Events

Subsequent events were evaluated through March 23, 2018, the date at which the consolidated financial statements were available to be issued.

2. Property, Equipment and Software

Property, equipment and software consisted of the following:

	December 31	
	2017	2016
	<i>(In thousands)</i>	
Furniture and fixtures	\$ 272	\$ 269
Telecommunication equipment	1,839	1,839
Computer equipment	6,898	6,659
Computer software	38,827	37,654
Leasehold improvements	2,172	2,172
	50,008	48,593
Less accumulated depreciation	45,925	44,462
Net property, equipment and software	\$ 4,083	\$ 4,131

Depreciation expense was \$1.3 million and \$1.4 million for the years ended December 31, 2017 and 2016, respectively.

3. Intangible Assets and Goodwill

Definite-lived intangible assets consist of customer and local exchange carrier contracts, which are amortized over their respective estimated lives. The weighted-average amortization period is approximately ten years.

Indefinite-lived intangible assets consist of trademarks. Trademarks are not subject to amortization but are tested for impairment at least annually.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2017 and 2016

3. Intangible Assets and Goodwill (continued)

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

	2017		2016		Amortization Period
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	
	<i>(In thousands)</i>				
Customer contracts	\$ 70,475	\$ 69,699	\$ 70,350	\$ 69,456	10 years
Local exchange carrier contracts	6,640	6,216	6,640	5,773	15 years
Trademarks	4,762	-	4,666	-	N/A
	\$ 81,877	\$ 75,915	\$ 81,656	\$ 75,229	

Total amortization expense from definite-lived intangibles was \$0.7 million for the year ended December 31, 2017 and \$0.6 million for the year ended December 31, 2016. The estimate of amortization expense for the five succeeding fiscal years for definite-lived intangibles is \$0.6 million for 2018, \$0.2 million each for 2019, 2020 and 2021 and less than \$0.1 million for the year ended 2022.

During 2017, the Company made an adjustment to reduce goodwill by \$15.3 million based on its annual impairment test. The following table presents the change in carrying amount of goodwill for the years ended December 31, 2017 and 2016:

	Goodwill
	<i>(In thousands)</i>
Balance as of December 31, 2015	\$ 25,278
Adjustments – 2016	(3)
Balance as of December 31, 2016	25,275
Adjustments – 2017	(2)
Impairment loss	(15,309)
Balance as of December 31, 2017	\$ 9,964

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2017 and 2016

4. Debt

On September 25, 2017, the Company financed the purchase of additional computer equipment through a second term loan in the amount of \$0.1 million. The term loan note requires 36 equal monthly payments of principal and interest, commencing October 25, 2017. The interest rate is fixed at 5.560% per annum. The outstanding note may be prepaid at any time without penalty.

On December 1, 2016, the Company financed the purchase of computer equipment through a term loan in the amount of \$0.2 million. The term loan note requires 36 equal monthly payments of principal and interest, commencing January 1, 2017. The interest rate is fixed at 4.425% per annum. The outstanding note may be prepaid at any time without penalty.

5. Income Taxes

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

	Years Ended December 31	
	2017	2016
	<i>(In thousands)</i>	
Current expense (benefit):		
Federal	\$ (22)	\$ (5)
State	57	89
Foreign	(102)	(208)
	(67)	(124)
Deferred expense (benefit):		
Federal	(2,117)	2,375
State	(58)	9
Foreign	(139)	139
	(2,314)	2,523
Total income tax (benefit) expense	\$ (2,381)	\$ 2,399

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2017 and 2016

5. Income Taxes (continued)

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

	Years Ended December 31	
	2017	2016
	<i>(In thousands)</i>	
Estimated federal tax (benefit) expense at 35%	\$ (3,179)	\$ 4,659
Increases (reductions) from:		
State tax, net of federal deferred tax benefit	46	68
Provision to return adjustment	(228)	43
Nonrecurring other income	(20)	(843)
Tax credits and permanent differences	104	(400)
Foreign tax rate differential	13	(913)
Goodwill impairment	819	-
Tax rate change	(58)	-
Valuation allowance	143	-
Other	(21)	(215)
Income tax (benefit) expense	\$ (2,381)	\$ 2,399

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2017 and 2016

5. Income Taxes (continued)

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

	December 31	
	2017	2016
	<i>(In thousands)</i>	
Deferred tax assets (liabilities):		
Reserve for bad debts	\$ 7	\$ 12
Accrued liabilities	125	227
State taxes	378	320
Stock-based compensation expense	283	472
Prepaid expense	(57)	(89)
Property, equipment and software	377	1,263
Intangible assets	(1,533)	(4,544)
Capitalized interest	(827)	(1,379)
Net operating loss carryforward	6,272	6,050
Valuation allowance on NOL	(4,735)	(5,015)
Accrued liabilities	345	1,337
Cancellation of debt deferral	(244)	(577)
Net deferred tax assets (liabilities)	\$ 391	\$ (1,923)

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2017 and 2016

5. Income Taxes (continued)

At December 31, 2017, BSG North America had state net operating loss credit carryforwards of approximately \$0.5 million, which will expire in 2026. At December 31, 2017, BSG North America had a gross net operating loss generated during 2017 of \$1.2 million which results in a \$0.25 million deferred tax asset for which there is no valuation allowance. Additionally, BSG North America has a net capital loss credit carryforward of \$0.1 million with a full valuation allowance. At December 31, 2017, BSG Wireless had a gross net operating loss carryforward of \$6.7 million which results in a deferred tax asset of \$1.3 million, for which there is no valuation allowance. At December 31, 2017, BSG Wireless Solutions Ltd. and Connection Services Holdings Ltd., each a subsidiary of BSG Wireless, had net gross operating loss carryforwards of \$18.8 million and \$5.2 million, respectively, each with a fully offsetting valuation allowance. Both BSG Wireless Solutions Ltd. and Connection Services Holdings Ltd. are dormant entities without business operations that could allow realization of their respective net operating loss credit carryforwards.

Realization of deferred tax assets is dependent upon, among other things, the ability to generate taxable income of the appropriate character in the future. Management is of the opinion that it is more likely than not that its deferred tax assets, less applicable valuation allowances, will be realized.

On December 22, 2017, the President of the United States signed the Tax Cuts and Jobs Act (“U.S. Tax Reform”), which enacts a wide range of changes to the U.S. corporate income tax system. The impact of U.S. Tax Reform primarily represents the Company’s estimates of revaluing the Company’s U.S. deferred tax assets and liabilities based on the rates at which they are expected to be recognized in the future. For U.S. federal purposes the corporate statutory income tax rate was reduced from 35% to 21%, effective for the 2018 tax year. Based on the Company’s historical financial performance, at December 31, 2017, the net deferred tax asset position was remeasured at the lower corporate rate of 21% and a tax expense was recognized to adjust net deferred tax assets to the reduced value.

6. Common Stock

In connection with a tender offer, on December 6, 2017, the Company announced the authorization of a \$5.0 million share purchase of approximately 118 million shares of its common stock based on a price of \$0.0425 per share. On December 14, 2017, the share purchase was completed, reducing the number of shares in issue from 282 million to 164 million shares. The purchased shares were cancelled on December 21, 2017.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2017 and 2016

7. 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:

	Years ended December 31	
	2017	2016
	<i>(In thousands, except per share amounts)</i>	
Numerator:		
Net (loss) income	\$ (6,675)	\$ 10,913
Denominator:		
Weighted-average shares – basic	278,870	282,416
Effect of diluted securities:		
Options	7,228	7,390
Weighted-average shares – diluted	286,098	289,806
Net (loss) income per common share:		
Basic and diluted	\$ (0.02)	\$ 0.04

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2017 and 2016

8. Commitments

The Company leases certain office space and equipment under various operating leases. Annual future minimum lease commitments as of December 31, 2017, are as follows (in thousands):

Year ending December 31:	
2018	\$ 567
2019	89
2020	87
2021	44
2022	2

Rental expense under these operating leases approximated \$0.7 million for each of the years ended December 31, 2017 and 2016.

9. Contingencies

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

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2017 and 2016

9. Contingencies (continued)

In June 2012, the Company executed an agreement regarding reserves (the “Reserve Agreement”), as well as a deposit account security and control agreement (the “Deposit Agreement”), with one of the largest U.S. LECs. These agreements were prompted by this LEC’s intention to settle a nationwide class action lawsuit and the resulting indemnification obligations that would be owed by the Company to the LEC as a result of the settlement. The Reserve Agreement permits this LEC to deduct funds from amounts otherwise payable to the Company to cover obligations under the Billing and Collection Agreement between the Company and the LEC. The Deposit Agreement permits this LEC to deposit amounts in an account held in the name of both the LEC and Company; however, funds can only be released at the sole direction of the LEC. The amount of restricted cash, as indicated on the consolidated balance sheets, represents the net deposits made by the LEC in connection with the Deposit Agreement.

Included in accrued liabilities at December 31, 2017 and 2016 are approximately \$0.4 million and \$2.4 million, respectively, in reserves which are comprised of these deposits and other payables available to satisfy potential future obligations.

During 2017 and 2016, the Company allocated approximately \$3.9 million and \$1.0 million, respectively, in class action settlement expenses to its customer base. These allocations included both direct end-user payments and shared expenses (*e.g.*, claims administration, counsel fees, *etc.*). These expenses had been previously paid by the local exchange carriers and withheld in the settlement process. This allocation resulted in certain customer accounts payable balances being reclassified to receivable balances and ultimately deemed uncollectible and written off as a non-cash expense. The net sum of these actions is included within the “All other income, net” amount shown in the accompanying Consolidated Statements of Income and Comprehensive Income in 2017 and 2016.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2017 and 2016

10. Employee Benefit Plan

A Company subsidiary sponsors a 401(k) retirement plan (the “Retirement Plan”), which is offered to eligible employees. Generally, all U.S.-based employees are eligible for participation in the Retirement Plan. The Retirement Plan is a defined contribution plan, which provides that participants may make voluntary salary deferral contributions, on a pretax basis, in the form of voluntary payroll deductions, subject to annual Internal Revenue Service limitations. The Company matches a defined percentage of a participant’s contributions, subject to certain limits, and may make additional discretionary contributions. For years ended December 31, 2017 and 2016, the Company’s matching contributions totaled \$0.2 million and \$0.1 million, respectively. No discretionary contributions were made in either period.

11. Stock Option Plans

The Company adopted a stock option plan in 2005. On August 15, 2008, the Board of Directors adopted resolutions to amend and restate both the Billing Services Group Limited Stock Option Plan and the BSG Clearing Solutions North America, Inc. Stock Option Plan (the “BSG Limited Plan” and the “BSG North America Plan,” respectively). In December 2012, the Company’s shareholders approved a resolution to amend the BSG Limited Plan and the BSG North America Plan. This resolution enables the Company’s directors, under the BSG Limited Plan and the BSG North America Plan, to grant options up to an aggregate amount of 15% of the number of common shares in issue at the time of the proposed grant. Prior to this resolution, the aggregate number of options granted was limited to 10% of the number of common shares in issue at the time of the proposed grant.

Options may be granted at the discretion of the remuneration committee to any director or employee and are generally granted with an exercise price equal to or greater than the market price of the Company’s stock at the grant date. Directors may be granted options in the BSG Limited Plan and employees may be granted options in the BSG North America Plan. Options granted under the BSG North America Plan are exercisable into shares of the Company.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2017 and 2016

11. Stock Option Plans (continued)

Outstanding options generally vest over a three-year period following the grant date. One-quarter of the total number of options typically vest on the grant date, and the remaining 75% of options vest in equal tranches on the first, second and third anniversary of the grant. Generally, an option is exercisable only if the holder is in the employment of the Company or one of its affiliates (or for a period of time following employment, subject to the discretion of the remuneration committee), or in the event of a change in control of the Company. Upon a change in control, generally, all options vest immediately. The options have a contractual life of ten years.

No options were granted during 2017 and 2016.

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Notes to Consolidated Financial Statements (continued)

December 31, 2017 and 2016

11. Stock Option Plans (continued)

The following is a summary of option activity:

	Options Outstanding	Weighted- Average Exercise Price
Options outstanding at December 31, 2015	10,729,272	6.0 pence
Granted	-	
Forfeited	(640,000)	
Options outstanding at December 31, 2016	10,089,272	6.2 pence
Granted	-	
Forfeited	(1,738,022)	
Options outstanding at December 31, 2017	8,351,250	5.9 pence
Options exercisable at December 31, 2017	7,227,813	6.3 pence
Options available for grant at December 31, 2017	3,340,771	

As of December 31, 2017, there was less than \$0.1 million of total unrecognized noncash compensation cost related to nonvested share-based compensation arrangements granted under the BSG North America Plan. That cost is expected to be recognized during 2018.

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Notes to Consolidated Financial Statements (continued)

December 31, 2017 and 2016

11. Stock Option Plans (continued)

The following is a summary of nonvested option activity:

	Number of Options	Weighted- Average Exercise Price
Nonvested options outstanding at December 31, 2015	4,523,437	3.5 pence
Granted	-	
Vested	(1,372,187)	
Forfeited	(451,875)	
Nonvested options outstanding at December 31, 2016	2,699,375	3.5 pence
Granted	-	
Vested	(1,163,438)	
Forfeited	(412,500)	
Nonvested options outstanding at December 31, 2017	1,123,437	3.5 pence