

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

Audited results for the year ended December 31, 2018

EXPENSE CONTROL LEADS TO STABLE EBITDA

(March 29, 2019) San Antonio, Texas, USA – 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, 2018.

Financial Highlights
(All amounts in US\$)

| | Year Ended December 31 | |
|-------------------------------|-------------------------------|---------------------|
| | 2018 | 2017 |
| Revenues | \$ 16.1 million | \$ 21.1 million |
| Gross margin | 60.4% | 56.6% |
| Cash operating expenses | \$ 9.0 million | \$ 11.0 million |
| EBITDA ⁽¹⁾ | \$ 0.8 million | \$ 0.9 million |
| Net loss | \$ (7.8) million | \$ (6.7) million |
| Net loss per basic share | \$ (0.05) per share | \$ (0.02) per share |
| Cash balance at end of period | \$ \$9.2 million | \$ 11.5 million |

⁽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).

- Experienced \$5.0 million decline in revenue (\$16.1 million vs. \$21.1 million in 2017) due largely to discontinuation of third-party billing by Verizon, a large local exchange carrier (LEC)
- Improved gross margin by 3.8 percentage points (60.4% vs. 56.6% in 2017)
- Reduced operating expenses by \$2.0 million (\$9.0 million vs. \$11.0 million in 2017)
- Generated \$0.8 million of EBITDA (2017: \$0.9 million)
- Recognized \$10.0 million of non-cash impairment charges against goodwill (2017: \$15.3 million)
- Distributed \$1.2 million in cash dividends
- Ended year with \$9.2 million of cash (2017: \$11.5 million)
- Ended year with \$6.6 million of working capital (2017: \$5.9 million)

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

- Renewed our hub and WLDS contract with AT&T with new terms that increase monthly revenue potential
- Renegotiated our hub and mobile applications contracts with Comcast to increase the revenue opportunity
- Signed a new hub contract with Spectrum (Charter)
- Reduced expenses at BSG Wireless by \$1.7 million on an annualized basis
- Reduced costs and improved stability by replacing the legacy UK data center with new cloud infrastructure
- Renewed our contract with a national cable company, including additional TPV volume in new markets
- Launched new TPV markets with Constellation Energy
- Increased both TPV volumes and revenues with 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. There have been four material actions taken as a result of the review:
 - Completed a \$5.0 million cash tender offer in December 2017
 - Engaged investment banks and initiated discussions to sell BSG Wireless in 2017
 - Paid a \$1.2 million cash dividend in July 2018
 - Renewed discussions with possible buyers for all or parts of the business in 2018
- Following a sale of any portion of the group’s businesses, the Board will consider further cash distributions and other actions with respect to any remaining assets or business lines.
- Trading for the year ended December 31, 2018 was in line with the Board’s expectations and consistent with the recent trading conditions experienced by the Company.
- During the second half of 2018, the Company recognized \$10.0 million of non-cash impairment charges relating to goodwill recorded in its wireline billing and clearing business and its third-party verification business. Goodwill impairment charges during 2018 eliminated all goodwill recorded on the Company’s balance sheet.
- The Company will not provide guidance on projected future financial performance at this time.

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

“The 2018 results demonstrate both the Company’s disciplined response to challenging circumstances and the resiliency of its business model. The \$0.8 million of EBITDA generated during the year enabled the Company to pay \$1.2 million of cash dividends and maintain a strong balance sheet.”

INQUIRIES:

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Norman M. Phipps

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

About BSG:

BSG’s headquarters is located in San Antonio, Texas, USA. The Company’s shares are traded on the London Stock Exchange (AIM: BILL). For more information on BSG, visit (www.bsgclearing.com).

CHIEF EXECUTIVE'S STATEMENT

Our 2018 financial performance reflects the resilience of our business model. The Company generated \$0.8 million of EBITDA, in line with 2017 EBITDA of \$0.9 million, on revenues which declined by \$5.0 million. We distributed \$1.2 million in cash dividends and ended the year with \$9.2 million in cash and \$6.6 million of working capital.

Financial performance

Proactive measures allowed the Company to maintain positive EBITDA despite a 24% decline in revenues.

The sizable decrease in revenues was expected. As announced in May 2017, Verizon withdrew from third-party billing services effective January 1, 2018. Verizon's action paralleled AT&T's withdrawal effective in December 2016.

To lessen the earnings effect from Verizon's discontinuation of third-party billing, we reduced operating expenses by \$2.0 million. Much of this was accomplished through the realignment of BSG Wireless, our Wi-Fi data solutions business. Specifically, we moved a portion of sales, data management, accounting and financial functions from the UK to the US. The realignment resulted in a substantial reduction in compensation and other expenses. The Company's gross margin concurrently improved by 3.8 percentage points, largely as a result of a mix of revenues favoring higher margin services.

BSG's \$9.4 million pre-tax loss in 2018 largely reflects \$10.0 million of non-cash impairment charges to goodwill. The impairment charges related to our wireline billing and clearing business and our third-party verification business. During 2017, the Company had partially written down the goodwill value carried in both businesses. The additional impairment charges during 2018 eliminated all goodwill value carried in both businesses.

Business lines

BSG's core business, a billing and clearing service for wireline phone transactions, is far smaller than it was a decade ago because 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 over time of transaction volume has extensively affected the profitability of the business.

We have taken several actions aimed to ensure the viability of the business. In 2016, for example, we introduced a direct billing service under which BSG submits invoices and collects funds directly from consumers, rather than bill through LECs. The direct billing service is a good fit, because it operates efficiently using the Company's third-party billing platform to perform all critical data management functions.

In our TPV business, branded as VoiceLog, we independently confirm transactions mostly for utility services, cable/telecommunication companies and healthcare providers in the US. The business is growing as we add high-volume customers.

Our wireless business (BSG Wireless) provides Wi-Fi data clearing services to wireless network operators in the US and Europe. As discussed above, we made substantial expense reductions within the operation during 2018.

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 following are the most visible actions taken to date in connection with the strategic review:

- 2017 Engaged in discussions with possible acquirers of BSG Wireless
- 2017 Completed a \$5.0 million tender offer
- 2018 Distributed \$1.2 million in a cash dividend
- 2018 Renewed discussions with possible buyers for all or parts of the business

Going Forward

Our pursuit of strategic objectives is not diminishing our focus on the fundamentals of the business lines. We are endeavouring to maximize cash flow through better pricing, new sources of revenue, expense control and opportunities to leverage the billing platform. The Board will remain focused on the future composition of the group and the optimization of capital allocation.

In light of the potentially significant changes in the business, we will not provide guidance on future financial performance.

Our Board and Employees

We have a small Board—two non-executive directors (who serve as Co-Chairmen) and me. The three of us own (or represent parties who own) approximately 55% of shares outstanding. For that reason, shareholder interests are of paramount importance to all three of us. The Co-Chairmen are highly engaged in strategic decisions. Their insights and guidance have added value for shareholders and management.

It would be impossible for me to overstate the dedication and innovation of our employees. They thoroughly understand the subtleties of all our business services. They collaborate and implement changes with extraordinary teamwork and precision. They have been able to make operations run smoothly, even under the strain of lower headcount and the ever-increasing complexity of our businesses. To them, I extend my heartfelt thanks.

Sincerely,

Norman M. Phipps
Chief Executive Officer

FINANCIAL REVIEW

Financial Review of the Year Ended December 31, 2018

The Company's audited results for the year ended December 31, 2018 are compared against the year ended December 31, 2017 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 in the clearinghouse business 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. [A1]

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, 2018 to the Year Ended December 31, 2017

Total Revenues. Total revenues of \$16.1 million in 2018 were \$5.0 million, or 24%, lower than the \$21.1 million of revenues recorded during 2017. The \$5.0 million decrease primarily reflects lower transaction volumes across all clearing, settlement and customer service activities provided for wireline service providers primarily caused by Verizon's exit from third-party billing, partially offset by higher managed service fees arising from TPV's verification services.

Cost of Services and Gross Profit. Cost of services in 2018 was \$6.4 million, compared to \$9.1 million in 2017. The \$2.7 million, or 30%, decrease in cost of services largely reflects lower fees for billing and collection services attributable to the lower level of transaction volumes. The Company generated \$9.7 million of gross profit in 2018, compared to \$11.9 million in 2017. The gross margin of 60.4% in 2018 is 3.8 percentage points higher than the 56.6% margin achieved in 2017. The improved gross margin in 2018 resulted from a larger percentage of revenue from the verification and wireless businesses, which operate at a higher gross margin level than the wireline business.

Operating Expenses. Operating expenses were \$9.0 million in 2018, compared to \$11.0 million in 2017. The \$2.0 million, or 18%, decrease largely reflects \$1.1 million of reductions in compensation and other expenses in BSG Wireless, a \$0.4 million reduction in professional fees and a \$0.4 million reduction in directors' fees and expenses.

Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”). The Company generated \$0.8 million of EBITDA during 2018, compared to \$0.9 million during 2017. A reconciliation of net income and EBITDA in each period follows:

| \$ millions | Year Ended December 31 | |
|-----------------------------|-------------------------------|----------------------|
| | 2018 | 2017 |
| Net loss | \$ (7.8) | \$ (6.7) |
| Depreciation expense | 1.2 | 1.3 |
| Amortization of intangibles | 0.6 | 0.6 |
| Impairment charges | 10.0 | 15.3 |
| Income tax (benefit) | (1.6) | (2.4) |
| Other income, net | (1.6) | (7.5) |
| All other, net | - | 0.3 |
| EBITDA | <u>\$ 0.8</u> | <u>\$ 0.9</u> |

Depreciation and Amortization Expense. Depreciation and amortization expenses totaled \$1.8 million in 2018, compared to \$1.9 million in 2017. 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. During 2018 and 2017, the Company recorded \$10.0 million and \$15.3 million, respectively, of non-cash impairment charges against goodwill. Goodwill, which resulted from acquisitions made by the Company over ten years ago, was deemed impaired because 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 \$1.6 million of other income, net during 2018, compared to \$7.5 million in 2017. Other income, net in 2018 arose largely from \$2.1 million of adjustments to reserves related to class action litigation and recoveries from customers, offset by \$0.5 million of nonrecurring expenses associated with severance and similar payment obligations arising primarily from headcount reductions and other changes in the BSG Wireless business. 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 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, 2018 was \$9.2 million, compared to \$11.5 million at December 31, 2017. The \$2.3 million decrease in cash during 2018 is largely attributable to a \$1.2 million dividend paid in June 2018, a \$1.2 million use of cash in operating activities, \$0.4 million of exchange rate differences and \$0.3 million of capital expenditures, partially offset by \$0.5 million released from restricted cash and \$0.5 million of net receipts on purchased receivables.

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, 2016, pursuant to a 2012 agreement with one LEC, the LEC released a net of \$1.7 million of cash reserves. The cash was transferred into a restricted

Company bank account used for funding the Company's indemnification obligations under class action litigation against the LEC. During 2018 and 2017, net amounts of \$0.5 million and \$0.8 million, respectively, were transferred from the restricted cash account to satisfy indemnification obligations, reducing restricted cash to \$0.3 million at December 31, 2018.

Change in Third-Party Payables. Third-party payables at December 31, 2018, inclusive of long-term liabilities, were \$4.4 million, compared to \$6.7 million at December 31, 2017. The \$2.3 million decrease in third-party payables during 2018 resulted largely from ordinary course settlement activities, which in turn were affected by the reduction of transaction volume in third-party billing.

Change in Accrued Liabilities. Accrued liabilities at December 31, 2018 were \$0.2 million, compared to \$2.8 million at December 31, 2017. The \$2.6 million decrease in accrued liabilities was attributable to \$1.6 million of settlement payments to the Federal Trade Commission, a \$0.5 million reduction in accrued legal fees and \$0.5 million of ordinary course payments and adjustments.

Capital Expenditures. During 2018, the Company invested \$0.3 million in capital expenditures, primarily for capitalized software development costs and computer equipment. In 2017, capital expenditures totaled \$0.9 million.

Cash Flows for the Year Ended December 31, 2018

Cash flow used in operating activities. Net cash used in operating activities was \$1.2 million during 2018. Net cash used was principally attributable to a \$7.8 million loss, a \$2.6 million reduction in accrued liabilities, a \$2.3 million reduction in third-party payables and a \$1.4 million increase in deferred taxes, offset by \$10.0 million of non-cash impairment charges, \$1.8 million of depreciation and amortization and a \$1.3 million decrease in accounts receivable.

Cash flow provided by investing activities. Net cash provided by investing activities was \$0.2 million, reflecting \$0.5 million in net receipts on purchased receivables offset by \$0.3 million of capital expenditures.

Cash flow used in financing activities. Cash used in financing activities was \$1.3 million, principally attributable to \$1.2 million of dividends and \$0.1 million of payments on long-term debt.

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 because of new information, future events or otherwise.

Billing Services Group Limited

Consolidated Balance Sheets (In thousands, except shares)

| | | December 31 | |
|--|-------|------------------|------------------|
| | Notes | 2018 | 2017 |
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | | \$ 9,234 | \$ 11,528 |
| Restricted cash | 9 | 342 | 831 |
| Accounts receivable | | 2,321 | 3,616 |
| Purchased receivables | | - | 460 |
| Prepaid expenses and other current assets | | 277 | 383 |
| Total current assets | | <u>12,174</u> | <u>16,818</u> |
| Property, equipment and software | | 49,820 | 50,008 |
| Less accumulated depreciation | | 46,697 | 45,925 |
| Net property, equipment and software | 2 | <u>3,123</u> | <u>4,083</u> |
| Intangible assets, net of accumulated amortization of \$76,457 and \$75,915 at December 31, 2018 and 2017, respectively | 3 | 5,278 | 5,962 |
| Deferred taxes | 5 | 1,811 | 391 |
| Goodwill | 3 | 1 | 9,964 |
| Other assets, net | | 21 | 65 |
| Total assets | | <u>\$ 22,408</u> | <u>\$ 37,283</u> |

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Billing Services Group Limited

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

| | | December 31 | |
|---|-------|-------------|-----------|
| | Notes | 2018 | 2017 |
| Liabilities and Shareholders' Equity | | | |
| Current liabilities: | | | |
| Trade accounts payable | | \$ 1,169 | \$ 1,423 |
| Third-party payables | | 4,040 | 6,546 |
| Accrued liabilities | 9 | 214 | 2,848 |
| Term loan note payable | 4 | 121 | 105 |
| Total current liabilities | | 5,544 | 10,922 |
| Term loan note payable - noncurrent | 4 | 56 | 147 |
| Other liabilities | | 368 | 194 |
| Total liabilities | | 5,968 | 11,263 |
| Shareholders' equity: | | | |
| Common stock, \$0.59446 par value; 350,000,000 shares authorized; 164,768,689 shares issued and outstanding at December 31, 2018 and 2017 | 6 | 97,948 | 97,948 |
| Additional paid-in capital (deficit) | | (110,596) | (110,611) |
| Retained earnings | | 30,035 | 39,104 |
| Accumulated other comprehensive loss | | (947) | (421) |
| Total shareholders' equity | | 16,440 | 26,020 |
| Total liabilities and shareholders' equity | | \$ 22,408 | \$ 37,283 |

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 | |
|--|-------|-------------------------|------------|
| | | 2018 | 2017 |
| Operating revenues | | \$ 16,122 | \$ 21,057 |
| Cost of services | | 6,381 | 9,144 |
| Gross profit | | 9,741 | 11,913 |
| Selling, general and administrative expenses | | 8,988 | 10,995 |
| Depreciation and amortization expense | 2, 3 | 1,825 | 1,901 |
| Impairment charge | 3 | 9,962 | 15,309 |
| Operating loss | | (11,034) | (16,292) |
| Other income (expense): | | | |
| Interest expense | | (16) | (181) |
| Interest income | | 17 | 36 |
| All other income, net | | 1,617 | 7,381 |
| Total other income, net | | 1,618 | 7,236 |
| Loss before income taxes | | (9,416) | (9,056) |
| Income tax benefit | 5 | 1,597 | 2,381 |
| Net loss | | (7,819) | (6,675) |
| Other comprehensive (loss) income | | (526) | 552 |
| Comprehensive loss | | \$ (8,345) | \$ (6,123) |

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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 | |
|---|-------|-------------------------|-----------|
| | | 2018 | 2017 |
| Net loss per basic share | 7 | \$ (0.05) | \$ (0.02) |
| Basic weighted-average shares outstanding | | 164,769 | 278,870 |

See accompanying notes.

Billing Services Group Limited

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

| | Number of Shares | Common Stock | Additional Paid-In Capital (Deficit) | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---------------------------------|-------------------------|---|------------------------------|--|------------------|
| Shareholders' equity, December 31, 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 |
| Dividend distribution | - | - | - | (1,250) | - | (1,250) |
| Stock-based compensation expense | - | - | 15 | - | - | 15 |
| Net loss | - | - | - | (7,819) | - | (7,819) |
| Translation adjustment | - | - | - | - | (526) | (526) |
| Shareholders' equity, December 31, 2018 | 164,769 | \$ 97,948 | \$ (110,596) | \$ 30,035 | \$ (947) | \$ 16,440 |

See accompanying notes.

Billing Services Group Limited

Consolidated Statements of Cash Flows (In thousands)

| | Years Ended December 31 | |
|--|--------------------------------|-------------|
| | 2018 | 2017 |
| Operating activities | | |
| Net loss | \$ (7,819) | \$ (6,675) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation | 1,231 | 1,276 |
| Amortization of intangibles and other assets | 594 | 625 |
| Asset disposal | 3 | - |
| Impairment loss | 9,962 | 15,309 |
| Stock-based compensation expense | 15 | 29 |
| Benefit in provision for deferred taxes | (1,420) | (2,314) |
| Changes in operating assets and liabilities: | | |
| Decrease in accounts receivable | 1,295 | 707 |
| Decrease (increase) in prepaid expenses and other assets | 150 | (28) |
| Decrease in income taxes payable, net | - | (22) |
| Decrease in trade accounts payable | (254) | (783) |
| Decrease in third-party payables | (2,332) | (3,633) |
| Decrease in accrued liabilities | (2,634) | (3,422) |
| Net cash (used in) provided by operating activities | (1,209) | 1,069 |
| Investing activities | | |
| Purchases of property, equipment and software | (274) | (943) |
| Net receipts on purchased receivables | 460 | 284 |
| Net cash provided by (used in) investing activities | 186 | (659) |

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Billing Services Group Limited

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

| | Years Ended December 31 | |
|---|-------------------------|-----------|
| | 2018 | 2017 |
| Financing activities | | |
| Borrowings on term loan note payable | \$ 37 | \$ 142 |
| Payments on long-term debt | (112) | (68) |
| Dividend distribution | (1,250) | - |
| Stock repurchase | - | (5,000) |
| Net cash used in financing activities | (1,325) | (4,926) |
| Effect of exchange rate changes | (435) | 109 |
| Net decrease in cash, cash equivalents and restricted cash | (2,783) | (4,407) |
| Cash, cash equivalents and restricted cash at beginning of year | 12,359 | 16,766 |
| Cash, cash equivalents and restricted cash at end of year | \$ 9,576 | \$ 12,359 |
| Supplemental cash flow information | | |
| Cash paid during the year for: | | |
| Interest | \$ 11 | \$ 9 |
| Taxes | \$ - | \$ - |

See accompanying notes.

Billing Services Group Limited

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

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, Cash Equivalents and Restricted Cash

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

At December 31, 2018, the Company had \$9.2 million in cash and cash equivalents in addition to \$0.3 million in restricted cash. At December 31, 2017, the Company had \$11.5 million in cash and cash equivalents in addition to \$0.8 million in restricted cash.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

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, 2018 and 2017.

Purchased Receivables

The Company offered advance funding arrangements to certain customers. Under the terms of the arrangements, the Company purchased 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 advanced 40% to 72% of the purchased receivable to the customer and charged financing fees at rates up to 8% per annum over prime (prime was 4.50% per annum at December 31, 2017) until the funds were received from the LECs. The face amount of the call record value was recorded as purchased receivables in the consolidated balance sheets. The Company terminated the advance funding program in 2018.

Concentration of Credit Risk and Significant Customers

At December 31, 2018, ten customers represented approximately 80% of accounts receivable. At December 31, 2017, ten customers represented approximately 49% of accounts receivable, and six 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, 2018, twenty customers represented approximately 75% of revenues. For the year ended December 31, 2017, twenty customers represented approximately 70% of revenues.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

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, 2018 and 2017.

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, 2018 and 2017

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, 2018 and 2017, the Company capitalized \$0.1 million and \$1.3 million of software development costs, respectively. During 2018 and 2017, the Company transferred \$0.1 million and \$1.3 million, respectively, of software development costs to computer software. Depreciation expense on computer software was \$1.0 million and \$1.1 million for the years ended December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, the Company had undepreciated software costs of \$2.8 million and \$3.5 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, 2018 and 2017

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, 2018 and 2017

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

The Company's revenue is generated from the following products and services:

- LEC billing – The Company processes and remits records to LECs for billing to end-users.
- Third-party verification – Verification services are provided through automated and/or live operators.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

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

- Wi-Fi – Managed service and application development fees are generated from the Company's interconnections, Wireless Location Data System (WLDS) and Mobile/Web Application product lines.

The Company earns the majority of its revenue from LEC billing.

The Company recognizes revenue when it has satisfied a performance obligation by transferring control over a product or delivering a service to a customer. Revenue is based on the terms set forth in each customer's contract. The revenue recognition criteria applied to each of the products and services are as follows:

- LEC billing – Revenue is recognized when the Company electronically delivers end-user records to the LEC for billing. Revenue is based on a number of factors, including the volume of records delivered, the gross transmission value of such records and the number of invoices related to each end-user customer.
- Third-party verification – Revenue is recognized primarily when the verification call is completed. Revenue is based on the length of calls as well as fees related to set-up, script changes, reporting and minimum commitments.
- Wi-Fi – Revenue is derived from monthly managed service fees, software development, transaction fees, set-up fees and minimum commitments. Revenue is recognized when the services are provided. If the Company is paid in advance for these services, the payment is recorded as deferred revenue until the services are completed.

The LECs collect sales tax on end-user billings as required under applicable law. These funds are remitted to the Company and the Company distributes the funds to the applicable taxing jurisdictions. Sales tax collected is not included in revenue; it is recorded as a liability payable to taxing authorities.

The Company generally bills customers for managed services when these services have been completed. The Company may incur costs in delivering the managed services prior to that time. Such costs are generally not material. Accordingly, the Company does not record a contract asset for managed services in process but not yet billed.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

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

The Company incurs incremental costs in the form of sales commissions paid to sales personnel. The Company has elected to apply the practical expedient and as such, these costs are expensed in full at the time revenue is recognized.

See Note 12 for disaggregated revenue information.

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, 2018 and 2017

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, 2018, the Company’s tax years 2015 and thereafter remain subject to examination for federal tax purposes, and 2012 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, 2018 and 2017

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. In accordance with this standard, the operating lease for the corporate office space will be presented accordingly upon implementation beginning with the interim and annual financial statements for 2019.

Revenue

In August 2015, the FASB issued ASU No. 2015-14, *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 replaces most existing revenue recognition guidance in GAAP once effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. ASU No. 2015-14 is effective for annual reporting periods beginning after December 15, 2017. The Company has determined the adoption of the standard will have no effects on the consolidated financial statements.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

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

Statement of Cash Flows – Restricted Cash

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows: Restricted Cash*, requiring the statement of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows and is effective for annual periods beginning after December 15, 2017. The Company implemented the standard during 2018 which resulted in a reduction of financing cash flows for the year ended December 31, 2017 of \$0.8 million and additional disclosure concerning restricted cash accounts included in *Cash, Cash Equivalents and Restricted Cash* above.

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.

Subsequent Events

Subsequent events were evaluated through March 28, 2019, the date at which the consolidated financial statements were available to be issued.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

2. Property, Equipment and Software

Property, equipment and software consisted of the following:

| | December 31 | |
|--------------------------------------|-----------------------|-----------------|
| | 2018 | 2017 |
| | <i>(In thousands)</i> | |
| Furniture and fixtures | \$ 236 | \$ 272 |
| Telecommunication equipment | 1,839 | 1,839 |
| Computer equipment | 6,721 | 6,898 |
| Computer software | 38,852 | 38,827 |
| Leasehold improvements | 2,172 | 2,172 |
| | <u>49,820</u> | 50,008 |
| Less accumulated depreciation | 46,697 | 45,925 |
| Net property, equipment and software | <u>\$ 3,123</u> | <u>\$ 4,083</u> |

Depreciation expense was \$1.2 million and \$1.3 million for the years ended December 31, 2018 and 2017, 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, 2018 and 2017

3. Intangible Assets and Goodwill (continued)

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

| | 2018 | | 2017 | | Amortization Period |
|-------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization | |
| <i>(In thousands)</i> | | | | | |
| Customer contracts | \$ 70,395 | \$ 69,817 | \$ 70,475 | \$ 69,699 | 10 years |
| Local exchange carrier contracts | 6,640 | 6,640 | 6,640 | 6,216 | 15 years |
| Trademarks | 4,700 | - | 4,762 | - | N/A |
| | \$ 81,735 | \$ 76,457 | \$ 81,877 | \$ 75,915 | |

Total amortization expense from definite-lived intangibles was \$0.5 million for the year ended December 31, 2018 and \$0.7 million for the year ended December 31, 2017. The estimate of amortization expense for the five succeeding fiscal years for definite-lived intangibles is \$0.1 million each for 2019, 2020 and 2021 and less than \$0.1 million for the years ended 2022 and 2023.

During 2018 and 2017, the Company made an adjustment to reduce goodwill by \$9.9 million and \$15.3 million, respectively, based on its annual impairment test. The following table presents the change in carrying amount of goodwill for the years ended December 31, 2018 and 2017:

| | Goodwill |
|---------------------------------|-----------------------|
| | <i>(In thousands)</i> |
| Balance as of December 31, 2016 | \$ 25,275 |
| Adjustments – 2017 | (2) |
| Impairment loss | (15,309) |
| Balance as of December 31, 2017 | 9,964 |
| Adjustments – 2018 | (1) |
| Impairment loss | (9,962) |
| Balance as of December 31, 2018 | \$ 1 |

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

4. Debt

On May 22, 2018, the Company financed the purchase of additional computer equipment through a term loan in the amount of \$0.1 million. The term loan note requires 36 equal monthly payments of principal and interest, commencing on June 2018. The interest rate is fixed at 6.70% per annum. The outstanding note may be prepaid at any time without penalty.

In September 2017, the Company financed the purchase of computer equipment through a term loan in the amount of \$0.1 million. The term loan note requires 36 equal monthly payments of principal and interest, ending in September 2020. The interest rate is fixed at 5.56% 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 | |
|-----------------------------|--------------------------------|-------------------|
| | 2018 | 2017 |
| | <i>(In thousands)</i> | |
| Current expense (benefit): | | |
| Federal | \$ - | \$ (22) |
| State | (177) | 57 |
| Foreign | - | (102) |
| | <u>(177)</u> | <u>(67)</u> |
| Deferred expense (benefit): | | |
| Federal | (1,560) | (2,117) |
| State | 140 | (58) |
| Foreign | - | (139) |
| | <u>(1,420)</u> | <u>(2,314)</u> |
| Total income tax benefit | <u>\$ (1,597)</u> | <u>\$ (2,381)</u> |

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

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 | |
|--|--------------------------------|-------------------|
| | 2018 | 2017 |
| | <i>(In thousands)</i> | |
| Estimated federal tax benefit | \$ (1,906) | \$ (3,179) |
| Increases (reductions) from: | | |
| State tax, net of federal deferred tax benefit | (146) | 46 |
| Provision to return adjustment | 327 | (228) |
| Nonrecurring other income | - | (20) |
| Tax credits and permanent differences | 58 | 104 |
| Foreign tax rate differential | - | 13 |
| Goodwill impairment | - | 819 |
| Tax rate change | - | (58) |
| Valuation allowance | 60 | 143 |
| Other | 10 | (21) |
| Income tax benefit | <u>\$ (1,597)</u> | <u>\$ (2,381)</u> |

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

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 | |
|--|-----------------------|---------------|
| | 2018 | 2017 |
| | <i>(In thousands)</i> | |
| Deferred tax assets (liabilities): | | |
| Reserve for bad debts | \$ 13 | \$ 7 |
| Accrued liabilities | 111 | 470 |
| State taxes | 348 | 378 |
| Stock-based compensation expense | 286 | 283 |
| Prepaid expense | (48) | (57) |
| Property, equipment and software | 637 | 377 |
| Intangible assets | (634) | (1,533) |
| Capitalized interest | (827) | (827) |
| Net operating loss/capital loss carryforward | 2,879 | 1,972 |
| Cancellation of debt deferral | (133) | (244) |
| Deferred tax assets | \$ 2,632 | \$ 826 |
| Valuation allowance on NOL | (821) | (435) |
| Net deferred tax assets | <u>\$ 1,811</u> | <u>\$ 391</u> |

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

5. Income Taxes (continued)

At December 31, 2018, BSG North America had a net operating loss carryforward of approximately \$5.2 million with no valuation allowance against it. At December 31, 2018, BSG North America had a state credit carryforward of approximately \$0.4 million with an approximate \$0.1 valuation allowance. At December 31, 2018, BSG Wireless had a net operating loss carryforward of \$9.7 million with a full valuation allowance.

Realization of deferred tax assets is dependent upon, among other things, the ability to generate taxable income of the appropriate character in the future. As of December 31, 2018, a valuation allowance of \$0.2 million has been recorded for the portion of the deferred tax asset that is more likely than not to be realized. As of December 31, 2018, the Company does not have an uncertain tax position and does not anticipate that this amount will change in the near future.

The Company has not undertaken a detailed study in connection with Internal Revenue Code (“IRC”) Section 382 in order to determine if there is any limitation of the utilization of its net operating loss carryforward. If IRC Section 382 limitation was deemed to apply, the Company’s gross deferred tax asset and its corresponding valuation allowance could be reduced. The 2017 Tax Cuts and Jobs Act revised the use of net operating loss carryforwards and limits them to 80% of taxable income each year, but removed the limitation on years carried forward.

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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

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.

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. Common stock equivalents of 3,576,250 and 7,227,813 at December 31, 2018 and 2017, respectively, were anti-dilutive.

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

| | Years ended December 31 | |
|---------------------------------|---|------------------|
| | 2018 | 2017 |
| | <i>(In thousands, except per share amounts)</i> | |
| Numerator: | | |
| Net loss | \$ (7,819) | \$ (6,675) |
| Denominator: | | |
| Weighted-average shares – basic | 164,769 | 278,870 |
| Basic net loss per share | <u>\$ (0.05)</u> | <u>\$ (0.02)</u> |

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

8. Commitments

The Company leases certain office space and equipment under various operating leases. Annual future minimum lease commitments as of December 31, 2018, are as follows (in thousands):

| Year ending December 31: | |
|---------------------------------|--------|
| 2019 | \$ 432 |
| 2020 | 328 |
| 2021 | 2 |
| 2022 | 2 |
| 2023 | 2 |

Rental expense under these operating leases approximated \$0.6 million and \$0.7 million for the years ended December 31, 2018 and 2017, respectively.

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, 2018 and 2017

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, 2018 and 2017 are less than \$0.1 million and \$0.4 million, respectively, in reserves which are comprised of these deposits and other payables available to satisfy potential future obligations.

During 2018 and 2017, the Company allocated approximately \$0.1 million and \$3.9 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 2018 and 2017.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

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, 2018 and 2017, the Company’s matching contributions totaled \$0.1 million and \$0.2 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.

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Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

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 2018 and 2017.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

11. Stock Option Plans (continued)

The following is a summary of option activity:

| | Options Outstanding | Weighted- Average Exercise Price |
|--|--------------------------------|---|
| Options outstanding at December 31, 2016 | 10,089,272 | 6.2 pence |
| Granted | - | |
| Forfeited | (1,738,022) | |
| Options outstanding at December 31, 2017 | <u>8,351,250</u> | 5.9 pence |
| Granted | - | |
| Cancelled | (2,000,000) | |
| Forfeited | (2,775,000) | |
| Options outstanding at December 31, 2018 | <u><u>3,576,250</u></u> | 3.6 pence |
| Options exercisable at December 31, 2018 | <u><u>3,576,250</u></u> | 3.6 pence |
| Options available for grant at December 31, 2018 | <u><u>8,115,771</u></u> | |

During 2018, 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 was recognized.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

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, 2016 | 2,699,375 | 3.5 pence |
| Granted | - | |
| Vested | (1,163,438) | |
| Forfeited | (412,500) | |
| Nonvested options outstanding at December 31, 2017 | <u>1,123,437</u> | 3.5 pence |
| Granted | - | |
| Vested | (804,687) | |
| Forfeited | (318,750) | |
| Nonvested options outstanding at December 31, 2018 | <u><u>-</u></u> | |

12. Segment Information

The FASB requires that public business enterprises report certain information about operating segments in complete sets of financial statements of the enterprise. It also requires that public business enterprises report certain information about their products and services, the geographic areas in which they operate and their major customers.

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, and has two geographical reportable operating segments – North America and EMEA (Europe, the Middle East and Africa). The Company evaluates performance based on business segment operating income before depreciation and amortization expense and impairment charge. Operating income of segments does not include other income, net, interest income, interest expense or income tax expense. Identifiable assets consist of all assets other than intercompany receivables.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

12. Segment Information (continued)

The following table presents the 2018 and 2017 segment information:

| | North America | EMEA | Totals |
|--|-----------------------|-------------|---------------|
| | <i>(In thousands)</i> | | |
| 2018 | | | |
| Operating revenues | \$ 15,654 | \$ 468 | \$ 16,122 |
| Cost of services | 6,196 | 185 | 6,381 |
| Operating expenses | 8,727 | 261 | 8,988 |
| Depreciation and amortization | 888 | 937 | 1,825 |
| Impairment charge | 9,962 | - | 9,962 |
| Operating income before depreciation and amortization expense and impairment charge | 731 | 22 | 753 |
| Identifiable assets | 17,701 | 4,707 | 22,408 |
| 2017 | | | |
| Operating revenues | \$ 20,554 | \$ 503 | \$ 21,057 |
| Cost of services | 8,926 | 218 | 9,144 |
| Operating expenses | 10,732 | 263 | 10,995 |
| Depreciation and amortization | 1,088 | 813 | 1,901 |
| Impairment charge | 15,309 | - | 15,309 |
| Operating income before depreciation and amortization expense and impairment charge | 896 | 22 | 918 |
| Identifiable assets | 30,368 | 6,915 | 37,283 |