Consolidated Financial Statements

Billing Services Group Limited
Years Ended December 31, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

Ernst & Young

Billing Services Group Limited

Consolidated Financial Statements

Years Ended December 31, 2011 and 2010

Contents

Ernst & Young LLP
Frost Bank Tower
Suite 1800
100 West Houston Street
San Antonio, TX 78205
Tel: +1 210 228 9696
Fax: +1 210 242 7252
www.ey.com

Report of Independent Auditors

The Board of Directors
Billing Services Group Limited

We have audited the accompanying consolidated balance sheets of Billing Services Group Limited (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Billing Services Group Limited as of December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

March 23, 2012

Billing Services Group Limited

Consolidated Balance Sheets

(In thousands, except shares)

	December 31	
	2011	**2010**
Assets		
Current assets:		
Cash and cash equivalents	**$ 10,922**	$ 12,557
Accounts receivable	**13,030**	16,532
Purchased receivables	**6,111**	9,053
Income tax receivable	**842**	1,213
Prepaid expenses and other current assets	**403**	729
Deferred taxes – current	**1,106**	1,817
Total current assets	**32,414**	41,901
Property, equipment and software	**42,759**	40,776
Less accumulated depreciation and amortization	**28,952**	24,249
Net property, equipment and software	**13,807**	16,527
Deferred finance costs, net of accumulated amortization of $78 and $879 at December 31, 2011 and 2010, respectively	**269**	467
Intangible assets, net of accumulated amortization of $68,271 and $59,613 at December 31, 2011 and 2010, respectively	**24,580**	34,288
Goodwill	**34,374**	34,433
Other assets	**534**	534
Total assets	**$ 105,978**	$ 128,150

Continued on following page

Billing Services Group Limited

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

	December 31 2011	December 31 2010
Liabilities and shareholders' equity		
Current liabilities:		
Trade accounts payable	**$ 9,271**	$ 10,630
Third-party payables	**18,154**	14,321
Accrued liabilities	**1,231**	1,972
Current portion of long-term debt	**10,400**	3,844
Total current liabilities	**39,056**	30,767
Long-term debt, net of current portion and unamortized original issue discount of $0 and $1,575 at December 31, 2011 and 2010, respectively	**25,600**	55,410
Deferred taxes – noncurrent	**3,951**	4,935
Other liabilities	**2,348**	3,920
Total liabilities	**70,955**	95,032
Commitments and contingencies		
Shareholders' equity:		
Common stock, $0.59446 par value; 350,000,000 shares authorized and 280,165,748 shares issued and outstanding at December 31, 2011 and 2010	**166,433**	166,433
Additional paid-in capital (deficit)	**(174,667)**	(175,125)
Retained earnings	**43,148**	42,959
Accumulated other comprehensive income (loss)	**109**	(1,149)
Total shareholders' equity	**35,023**	33,118
Total liabilities and shareholders' equity	**$ 105,978**	$ 128,150

See accompanying notes.

Billing Services Group Limited

Consolidated Statements of Operations

(In thousands, except per share amounts)

	Year Ended December 31 2011	2010
Operating revenues	**$ 96,775**	$ 133,695
Cost of services	**57,722**	79,858
Gross profit	**39,053**	53,837
Selling, general, and administrative expenses	**16,489**	21,393
Depreciation and amortization expense	**13,361**	13,428
Restructuring expense	**–**	761
Trademark impairment charge	**1,050**	–
Stock-based compensation expense	**458**	667
Operating income	**7,695**	17,588
Other income (expense):		
Interest expense, net of $0 and $62 capitalized in 2011 and 2010, respectively	**(5,062)**	(6,361)
Settlement of derivatives	**(1,760)**	(202)
Interest income	**263**	593
Other expense, net	**(266)**	(216)
Total other expense, net	**(6,825)**	(6,186)
Income before income taxes	**870**	11,402
Income tax expense	**681**	4,839
Net income	**$ 189**	$ 6,563

Continued on following page

Billing Services Group Limited

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

	Year Ended December 31	
	2011	**2010**
Net income per basic and diluted share:		
Basic net income per share	**$ 0.00**	$ 0.02
Diluted net income per share	**$ 0.00**	$ 0.02
Basic weighted-average shares outstanding	**280,166**	279,914
Diluted weighted-average shares outstanding	**280,166**	280,920

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, 2009	279,863	$ 166,368	$ (175,786)	$ 36,396	$ (1,714)	$ 25,264
Stock-based compensation expense recognized in earnings	–	–	667	–	–	667
Stock-based compensation expense tax adjustment	–	–	(6)	–	–	(6)
Common stock issuance	303	65	–	–	–	65
Net income	–	–	–	6,563	–	6,563
Translation adjustment	–	–	–	–	(46)	(46)
Derivative gain, net of taxes of $220	–	–	–	–	611	611
Total comprehensive income						7,128
Shareholders' equity, December 31, 2010	280,166	166,433	(175,125)	42,959	(1,149)	33,118
Stock-based compensation expense recognized in earnings	**–**	**–**	**458**	**–**	**–**	**458**
Net income	**–**	**–**	**–**	**189**	**–**	**189**
Translation adjustment	**–**	**–**	**–**	**–**	**16**	**16**
Reclassification of loss on settlement of derivative, net of taxes of $668	**–**	**–**	**–**	**–**	**1,242**	**1,242**
Total comprehensive income						**1,447**
Shareholders' equity, December 31, 2011	**280,166**	**$ 166,433**	**$ (174,667)**	**$ 43,148**	**$ 109**	**$ 35,023**

See accompanying notes.

Billing Services Group Limited

Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31	
	2011	**2010**
Operating activities		
Net income	**$ 189**	$ 6,563
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**4,703**	4,779
Amortization of intangibles	**8,658**	8,649
Amortization of deferred finance costs	**2,120**	965
Stock-based compensation expense	**458**	667
Settlement of derivatives	**1,760**	–
Trademark impairment charge	**1,050**	–
Changes in operating assets and liabilities:		
Decrease in accounts receivable	**3,502**	2,473
Decrease (increase) in income taxes receivable, net	**502**	(4)
Decrease (increase) in prepaid expenses and other assets	**326**	(267)
Decrease in trade accounts payable	**(1,359)**	(1,817)
Increase (decrease) in third-party payables	**4,099**	(10,670)
Decrease in accrued liabilities	**(741)**	(420)
Decrease in provision for deferred taxes	**(940)**	(1,230)
Decrease in other liabilities	**(1,760)**	(462)
Net cash provided by operating activities	**22,567**	9,226
Investing activities		
Purchases of property, equipment and software, including $0 and $62 of capitalized interest in 2011 and 2010, respectively	**(1,983)**	(2,200)
Net receipts on purchased receivables	**2,942**	10,337
Net cash provided by investing activities	**959**	8,137

Continued on following page

Billing Services Group Limited

Consolidated Statements of Cash Flows (continued)

(In thousands)

	Year Ended December 31	
	2011	**2010**
Financing activities		
Payments on long-term debt – former loan facility	**$ (60,829)**	$ (19,250)
Payments on long-term debt – current loan facility	**(12,000)**	–
Borrowings on long-term debt	**48,000**	–
Financing costs	**(348)**	–
Proceeds from issuance of common stock	**–**	65
Net cash used in financing activities	**(25,177)**	(19,185)
Effect of exchange rate changes on cash	**16**	(46)
Net decrease in cash and cash equivalents	**(1,635)**	(1,868)
Cash and cash equivalents at beginning of year	**12,557**	14,425
Cash and cash equivalents at end of year	**$ 10,922**	$ 12,557
Supplemental cash flow information		
Cash paid during the year for:		
Interest	**$ 2,975**	$ 5,354
Taxes	**$ 850**	$ 6,465
Noncash investing and financing activities		
Reclassification of loss/derivative gain, net of tax expense of $668 and $220, respectively	**$ 1,242**	$ 611

See accompanying notes.

1. Organization and Summary of Significant Accounting Policies

Organization

Billing Services Group Limited (the "Company" or "BSG Limited") commenced operations effective with the completion of its admission to AiM (a market operated by the London Stock Exchange plc) on June 15, 2005. The Company was formed to succeed to the business of Billing Services Group, LLC and its subsidiaries. The Company provides clearing, settlement, payment, and financial risk management solutions to the telecommunications industry, merchants, and on-line stores. The Company also provides third-party verification services. The Company was incorporated and registered in Bermuda on May 13, 2005.

Principles of Consolidation

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

Cash and Cash Equivalents

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

Purchased Receivables

The Company offers advance funding arrangements to certain of its customers. Under the terms of the arrangements, the Company purchases the customer's accounts receivable for an amount equal to the face amount of the call record value submitted to the local exchange carriers ("LECs") by the Company, less various items, including financing fees, LEC charges, rejects, and other similar items. The Company advances 10% to 80% of the purchased receivable to the customer and charges financing fees at rates up to 8% per annum over prime (prime was 3.25% per annum at December 31, 2011) until funds are received from the LECs. The face amount of the call record value is recorded as purchased receivables in the consolidated balance sheets.

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

Financial Instruments

Due to their short maturity, the carrying amounts of accounts and purchased receivables, accounts payable and accrued liabilities approximated their fair values at December 31, 2011 and 2010. The fair value of long-term debt approximates its face value and is based on the amounts at which the debt could be settled (either transferred or paid back) in a current transaction exclusive of transaction costs.

Concentration of Credit Risk and Significant Customers

At December 31, 2011, ten customers represented approximately 44% of accounts receivable, and ten customers represented approximately 89% of outstanding purchased receivables. At December 31, 2010, ten customers represented approximately 36% of accounts receivable, and ten customers represented approximately 87% of outstanding purchased receivables. Credit risk with respect to trade accounts receivable generated through billing services is limited as the Company collects its fees through receipt of cash directly from the LECs. The credit risk with respect to the purchase of accounts receivable is reduced as the Company only advances 10% to 80% of the gross accounts receivable purchased. Management evaluates accounts receivable balances on an ongoing basis and provides allowances as necessary for amounts estimated to eventually become uncollectible. In the event of complete nonperformance of accounts receivable, the maximum exposure to the Company is the recorded amount shown on the balance sheet. For the year ended December 31, 2011, twenty customers represented approximately 57% of consolidated revenues. For the year ended December 31, 2010, twenty customers represented approximately 42% of consolidated revenues.

Property, Equipment and Software

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

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

Capitalized Software Costs

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

The Company also develops software used in providing services. 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 each of the years ended December 31, 2011 and 2010, the Company capitalized $1.7 million of software development costs. During 2011 and 2010, the Company transferred $1.8 million and $1.3 million, respectively, of software development costs to computer software. Depreciation expense on computer software was $4.2 million and $4.0 million for the years ended December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, the Company had undepreciated software costs of $12.4 million and $14.7 million, respectively.

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

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.

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.

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.

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

Third-Party Payables

The Company provides clearing, settlement, payment, and financial risk management solutions to telecommunications and other service providers through billing agreements with LECs, which maintain the critical database of end-user names and addresses of the billed parties. The Company receives individual call records from telecommunications and other service providers and processes and sorts the records for transmittal to various LECs. Invoices to end-users are generated by the LECs, and the collected funds are remitted to the Company, which in turn remits these funds 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, and other miscellaneous charges. The Company records trade accounts receivable and service revenue for fees charged to process the call records. When the Company collects funds from the LECs, the Company's trade receivables are reduced by the amount corresponding to the processing fees, which are retained by the Company. In certain instances, the Company also retains a reserve from its customers' settlement proceeds to cover the LECs' billing fees. 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 provides its services to telecommunications and other service providers through billing arrangements with network operators. Within its clearing and settlement business, the Company recognizes revenue from its services when its customers' records are processed and accepted by the Company. For its third-party verification business, the Company recognizes revenue when services are rendered.

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.

Income Taxes

The Company accounts for income taxes in accordance with the provisions of ASC 740, *Income Taxes*, utilizing the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting bases and tax bases of assets and liabilities and are measured using the enacted tax rates expected to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be realized or settled.

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. If actual results differ significantly from these estimates, the Company's results of operations could be materially impacted.

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

Derivative Instruments and Hedging Activities

The provisions of ASC 815, *Derivatives and Hedging*, require the Company to recognize all of its derivative instruments as either assets or liabilities in the consolidated balance sheets at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship, and further, on the type of hedging relationship. For derivative instruments that are designated and qualify as hedging instruments, the Company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions. The Company formally assesses, both at inception and at least quarterly thereafter, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in either the fair value or cash flows of the hedged item. If a derivative ceases to be a highly effective hedge, the Company discontinues hedge accounting. The Company does not enter into derivative instruments for speculation or trading purposes.

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 (loss)." Foreign currency transaction gains and losses are included in operations.

Advertising Costs

The Company records advertising expense as it is incurred. The Company incurred $0.1 million in advertising costs for each of the years ended December 31, 2011 and 2010.

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

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles ("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

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. This ASU improves the comparability, consistency and transparency of financial reporting and increases the prominence of items reported in other comprehensive income by eliminating the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments require that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The changes apply for interim and annual financial statements and should be applied retrospectively, effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The provisions of ASU No. 2011-05 affect presentation and disclosure only, and therefore adoption will not affect the Company's consolidated financial position or results of operations.

Subsequent Events

Subsequent events were evaluated through March 23, 2012, 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 2011	December 31 2010
	(In thousands)	
Furniture and fixtures	**$ 236**	$ 236
Telecommunication equipment	**1,839**	1,839
Computer equipment	**5,549**	5,188
Computer software	**32,274**	30,464
Software development, including $196 of capitalized interest at December 31, 2011 and 2010	**689**	877
Leasehold improvements	**2,172**	2,172
	42,759	40,776
Less accumulated depreciation	**28,952**	24,249
Net property, equipment and software	**$ 13,807**	$ 16,527

Depreciation expense was $4.7 million and $4.8 million for each of the years ended December 31, 2011 and 2010, 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 11 years.

Indefinite-lived intangible assets consist of trademarks. Trademarks are not subject to amortization but are tested for impairment at least annually. In 2011, using an income approach, the Company recorded an impairment charge of $1.1 million related to the Billing Concepts, Inc. trademark. The impairment resulted from lower projected revenues related to this business.

3. Intangible Assets and Goodwill (continued)

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

	2011		2010		
	Gross Carrying Amount	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**	**Amortization Period**
	(In thousands)				
Customer contracts	**$ 77,192**	**$ 62,208**	$ 77,192	$ 54,305	10 years
Local exchange carrier contracts	**11,310**	**6,063**	11,310	5,308	15 years
Trademarks	**4,349**	**–**	5,400	–	N/A
	$ 92,851	**$ 68,271**	$ 93,902	$ 59,613	

Total amortization expense from definite-lived intangibles was $8.7 million and $8.6 million for the years ended December 31, 2011 and 2010, respectively. The estimate of amortization expense for the five succeeding fiscal years for definite-lived intangibles is $8.6 million for 2012, $7.7 million for 2013, $0.9 million for 2014, and $0.8 million for each of 2015 and 2016.

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 shall be 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 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.

3. Intangible Assets and Goodwill (continued)

The Company performs its annual goodwill impairment test on October 1 of each year. In 2010 and 2011, the first step of the goodwill impairment test resulted in the fair value of the Company being in excess of the carrying amount of the Company. Therefore, the second step of the goodwill impairment test was not required. The Company may incur impairment charges in the future to the extent the Company does not achieve its expected financial performance and to the extent that market values and long-term interest rates, in general, decrease and increase, respectively.

During 2011, the Company made an adjustment to reduce goodwill by $0.1 million related to the amortization of tax goodwill in excess of book goodwill related to a prior acquisition.

The following table presents the change in carrying amount of goodwill for the year ended December 31, 2011:

	Total
	(In thousands)
Balance as of December 31, 2010	$ 34,433
Adjustment	(59)
Balance as of December 31, 2011	$ 34,374

4. Debt

Long-term debt is as follows:

	December 31	
	2011	**2010**
	(In thousands)	
Term Loan Facility, net of unamortized original issue discount of $0 and $1,575 at December 31, 2011 and December 31, 2010, respectively	**$ 36,000**	$ 59,254
Less current portion	**10,400**	3,844
	$ 25,600	$ 55,410

4. Debt (continued)

On June 30, 2011, the Company refinanced its debt and entered into a new credit agreement. The new credit agreement consists of a $48 million term loan (the “Term Loan Facility”). The Term Loan Facility refinanced in entirety the Company’s previous credit facility (the “Former Loan Facility”). The Term Loan Facility is secured by all of BSG North America’s assets and guarantees from most of its subsidiaries. At December 31, 2011 and 2010, borrowings (including unamortized original issue discount in the case of the Former Loan Facility) were $36.0 million and $60.8 million, respectively.

Loans under the Term Loan Facility had no original issue discount. Loans under the Former Loan Facility were issued net of an original issue discount of $4.5 million. Interest under the Term Loan Facility is charged, at the Company’s option, at the U.S. prime rate plus a specified margin, or the London Interbank Offered Rate (“LIBOR”) plus a specified margin, and if the LIBOR option is selected, a LIBOR floor of 0.75% per annum. The margin is determined based on the Company’s margin ratio as defined in the credit agreement. At December 31, 2011, the interest rate on the outstanding loans was 4.0% per annum.

The Term Loan Facility requires quarterly principal payments of $2.4 million through March 2015 and a payment of any remaining outstanding balance at its maturity in June 2015. It also requires mandatory prepayments relating to (i) 75% of the Company’s excess cash flow, as defined; and (ii) certain other occurrences for which mandatory prepayment is a usual and customary consequence in credit agreements of this nature. Outstanding loans may be prepaid at any time without prepayment premium or penalty.

During 2011 and 2010, the Company made voluntary prepayments of $8.8 million and $8.0 million, respectively.

During 2011, the Company generated $1.1 million of consolidated excess cash flow as defined in the Term Loan Facility. As a result, the Company is required to make an additional principal payment of $0.8 million within thirty days after delivery of the annual financial statements.

During 2010, the Company generated $0.8 million of consolidated excess cash flow as defined in the Company’s Former Loan Facility. As a result, the Company made an additional principal payment of $0.6 million in March 2011.

4. Debt (continued)

The Term Loan Facility includes covenants requiring the Company to maintain certain minimum levels of debt service coverage and maximum levels of leverage and capital expenditures. The agreement also includes various representations, restrictions, and other terms and conditions that are usual and customary in transactions of this nature.

Future maturities of long-term debt as of December 31, 2011, are as follows:

	(In thousands)
2012	$ 10,400
2013	9,600
2014	9,600
2015	6,400
Total	$ 36,000

5. Financial Instruments

Interest Rate Swaps

In connection with the refinancing under the Term Loan Facility in 2011, the Company cancelled interest rate swap contracts that were outstanding at December 31, 2010, and paid $1.8 million in connection with this cancellation.

During 2010, interest rate swap contracts covering a notional principal amount of $13 million expired.

The Company's interest rate swap contracts were designated as a cash flow hedge, and the effective portion of the gain or loss on the swap was reported as a component of other comprehensive income. Ineffective portions of a cash flow hedge's change in fair value were recognized as income or expense in the period of ineffectiveness. No ineffectiveness was recorded related to interest rate swap contracts during 2010 or 2011. Interest expense associated with these interest rate swaps included $0.7 million and $1.8 million of realized losses reclassified into earnings in 2011 and 2010, respectively.

5. Financial Instruments (continued)

The Company entered into the swaps to effectively convert a portion of its floating-rate debt to a fixed basis, thus reducing the impact of interest rate changes on future interest expense. The Company assessed at inception, and on an ongoing basis, whether its interest rate swap agreements were highly effective in offsetting changes in the interest expense of its floating-rate debt.

The Company adopted ASC 820, *Fair Value Measurements and Disclosures,* on January 1, 2008, and certain of the relevant disclosure provisions in ASU No. 2010-06, *Improving Disclosures about Fair Market Measurements*, on January 1, 2010. ASC 820-10-35 establishes a three-tier fair value hierarchy that prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exist, therefore requiring an entity to develop its own assumptions.

The swap agreements were valued using a discounted cash flow model that took into account the present value of the future cash flows under the terms of the agreements by using market information available as of the reporting date, including prevailing interest rates and credit spreads.

Because the inputs to the model used to estimate fair value of the Company's interest rate swap contracts were either directly or indirectly observable, the Company classified the fair value measurements of these agreements as Level 2.

The table below shows the balance sheet classification and fair value of the Company's interest rate swap contracts designated as hedging instruments:

Classification at December 31, 2011	Fair Value	Classification at December 31, 2010	Fair Value
	(In thousands)		
None	$0	Other liabilities	$1,910

5. Financial Instruments (continued)

The following table details the beginning and ending accumulated other comprehensive loss and the current period activity related to the interest rate swap contracts:

	Accumulated Other Comprehensive Loss
	(In thousands)
Balance at January 1, 2011	$ (1,242)
Reclassification of loss on settlement of derivative, net of taxes of $668	1,242
Balance at December 31, 2011	$ –

6. Income Taxes

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

	December 31 2011	December 31 2010
	(In thousands)	
Current expense:		
Federal	**$ 1,352**	$ 5,791
State	**269**	278
	1,621	6,069
Deferred expense (benefit):		
Federal	**(950)**	(1,239)
State	**10**	9
	(940)	(1,230)
Total income tax expense	**$ 681**	$ 4,839

6. 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:

	December 31	
	2011	**2010**
	(In thousands)	
Estimated federal tax expense at 34% (35% in 2010)	**$ 295**	$ 3,991
Increases (reductions) from:		
State tax	**187**	190
Foreign tax rate differential	**186**	250
Unrecognized tax benefits	**72**	(259)
Settlement of federal audit	**–**	155
Provision to return adjustment	**(63)**	440
Other	**4**	72
Income tax expense	**$ 681**	$ 4,839

6. 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	
	2011	**2010**
	(In thousands)	
Deferred tax assets:		
Reserve for bad debts	**$ 272**	$ 485
Accrued liabilities	**241**	310
State taxes	**366**	376
Stock-based compensation expense	**336**	199
Prepaid expense	**(109)**	(221)
Capital loss carryover	**122**	122
Derivatives	**–**	668
Valuation allowance on capital loss carryover	**(122)**	(122)
Total deferred tax assets	**1,106**	1,817
Deferred tax liabilities:		
Property, equipment and software	**(2,187)**	(2,838)
Intangible assets	**1,490**	860
Capitalized interest	**(1,379)**	(1,335)
Cancellation of debt deferral	**(1,875)**	(1,622)
Total deferred tax liabilities	**(3,951)**	(4,935)
Net deferred tax liabilities	**$ (2,845)**	$ (3,118)

At December 31, 2011, the Company had state net operating loss credit carryforwards of approximately $0.6 million, which will expire in 2026, and $0.1 million of capital loss carryforwards, which will expire in 2013.

Realization of deferred tax assets is dependent upon, among other things, the ability to generate taxable income of the appropriate character in the future. At December 31, 2009, management established a valuation allowance related to the capital loss carryforward, as it does not believe the benefit will be realized in the future. Management is of the opinion that it is more likely than not that all other deferred tax assets will be fully realized.

6. Income Taxes (continued)

The total reserve for uncertain tax positions as of December 31, 2011 is $1.4 million. There were no changes in the reserve between 2010 and 2011 and the Company does not expect the recorded liability to change significantly over the next twelve months. It is the Company's policy to recognize interest and penalties related to uncertain tax positions in the provision for income taxes in the consolidated statements of operations. During each of the years ended December 31, 2011 and 2010, the Company recorded $0.1 million in interest and penalties.

A reconciliation of beginning and ending amounts of unrecognized tax benefits follows:

	Total
	(In thousands)
Balance at December 31, 2009	$ 2,183
Decreases based on tax positions related to prior years	(331)
Settlements	(422)
Balance at December 31, 2010	1,430
Additions based on tax positions related to the current year	–
Balance at December 31, 2011	**$** 1,430

As indicated in the table above, at December 31, 2011, there were $1.4 million of tax benefits that if recognized in 2011, would reduce the Company's annual effective tax rate.

The Company's tax returns for the 2008 through 2011 tax years remain subject to examination by the federal and most state tax authorities.

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:

	December 31 2011	December 31 2010
	(In thousands, except per share amounts)	
Numerator:		
Net income	**$ 189**	$ 6,563
Denominator:		
Weighted-average shares – basic	**280,166**	279,914
Effect of diluted securities:		
Options	**–**	1,006
Weighted-average shares – diluted	**280,166**	280,920
Net income per common share:		
Basic and diluted	**$ 0.00**	$ 0.02

8. Commitments

The Company leases certain office space and equipment under various operating leases. Annual future minimum lease commitments as of December 31, 2011 are as follows (in thousands):

Year ending December 31:	
2012	$ 616
2013	650
2014	664
2015	392

Rental expense under operating leases approximated $1.0 million and $0.9 million for each of the years ended December 31, 2011 and 2010, 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.

10. Employee Benefit Plan

A Company subsidiary sponsors a 401(k) retirement plan (the “Retirement Plan”), which is offered to eligible employees. Generally, all employees who are 21 years of age or older and who have completed six months of service during which they worked at least 500 hours are eligible for participation in the Retirement Plan. The Retirement Plan is a defined contribution plan, which provides that participants may make voluntary salary deferral contributions, on a pretax basis, of between 1% and 19% of their compensation in the form of voluntary payroll deductions, subject to annual Internal Revenue Service limitations. The Company matches a defined percentage of a participant’s contributions, subject to certain limits, and may make additional discretionary contributions. During the years ended December 31, 2011 and 2010, the Company’s matching contributions totaled $0.2 million and $0.3 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 (the “BSG Limited Plan”) and the BSG Clearing Solutions North America, Inc. Stock Option Plan (the “BSG North America Plan”).

11. Stock Option Plans (continued)

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

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 Company's 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.

The fair value of the options is computed using the Black-Scholes option pricing model. The weighted-average grant-date fair value of options granted during June 2011 amounted to 3.3 pence per share. The following assumptions were used in arriving at the fair value of options granted during June 2011: risk-free interest rate of 3.2%; dividend yield of 0%; expected volatility of 44.5%; and expected lives of five years and nine months.

The weighted-average grant-date fair value of options granted during December 2011 amounted to 5.3 pence per share. The following assumptions were used in arriving at the fair value of options granted during December 2011: risk-free interest rate of 1.9%; dividend yield of 0%; expected volatility of 48.7%; and expected lives of five years and nine months.

Risk-free interest rates reflect the yield on the ten-year U.S. Treasury note. Expected dividend yield presumes no set dividend is paid. Expected volatility is based on implied volatility from historical market data for the Company. The expected option lives are based on a mathematical average with respect to vesting and contractual terms.

11. Stock Option Plans (continued)

The following is a summary of option activity during 2011:

	Options Outstanding	Weighted-Average Exercise Price
Options outstanding at December 31, 2010	10,017,397	10.8 pence
Granted	272,500	
Exercised	–	
Forfeited	(959,375)	
Options outstanding at December 31, 2011	9,330,522	10.5 pence
Options exercisable at December 31, 2011	8,544,897	10.4 pence
Options available for grant at December 31, 2011	7,912,770	

All of the options granted during 2011 were granted under the BSG North America Plan.

As of December 31, 2011, there was $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 2012 through 2014.

12. Restructuring Expense

In 2010, the Company implemented cost reduction actions largely designed to reduce personnel-related expenses. In connection with this plan, the Company recorded a $0.8 million restructuring charge, principally to cover severance and related compensation costs for terminated employees. Of this amount, $0.1 million was paid in 2011.

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

About Ernst & Young
Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 152,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit www.ey.com.