

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

Audited results for the year ended December 31, 2011

STRONG CASH FLOW ENABLES DEBT REDUCTION

TRADING IN LINE WITH EXPECTATIONS

(March 27, 2012) San Antonio, Texas -- BSG, a leading provider of clearing, settlement, payment and financial risk management solutions to the telecommunications industry, merchants and on-line stores, today announces its audited results for the year ended December 31, 2011.

Financial Highlights
(All amounts in US\$)

	2011	2010
Revenue	\$96.8 million	\$133.7 million
EBITDA ⁽¹⁾	\$22.6 million	\$32.4 million
Net income	\$ 0.2 million	\$6.6 million
Net income per basic and diluted share	\$0.00 per share	\$0.02 per share
Year-end debt balance	\$36.0 million	\$60.8 million

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

- Generated \$22.6 million of cash from operations (2010: \$9.2 million)
- Reduced overhead expenses by \$4.9 million (\$16.5 million in 2011 vs. \$21.4 million in 2010), largely as the result of personnel reductions and restructuring actions initiated in 2010
- Repaid \$24.8 million of debt, for a year-end outstanding balance of \$36.0 million (December 31, 2010: \$60.8 million)
- Refinanced outstanding debt on more favorable terms, including a lower interest rate, lower required annual principal payments and one-year extension of maturity date
- Incurred \$3.5 million of pre-tax expense (including \$1.7 million in non-cash accelerated amortization) in connection with the refinancing

Operational Highlights

- Successfully completed an audit by Accenture, which measured compliance with specific performance requirements set out by the largest local exchange carrier in the United States
- Introduced OrderBridge™ - an e-commerce and customer relationship management gateway, consolidating multiple payment offerings into one seamless application
- Expanded our eZ-Wi™ relationship with AT&T Mobility
- Completed testing with Bill2Mobile, a service that provides third party billing to AT&T, Verizon, T-Mobile and Sprint wireless customers
- Renegotiated BSG's outsourced call center contract, resulting in decreased costs and allowing for expansion of other service initiatives

Current Trading

- Current trading remains in line with the Board's expectations and consistent with the recent trading conditions experienced by the Company. The Company expects that revenue and EBITDA in 2012 will continue to be affected by (i) the ongoing negative public perception about third party billing for enhanced services; (ii) the secular decline in the volume of long distance and operator service calls from landline phones; and (iii) continued legal and related expenses associated with the Company's efforts in managing numerous governmental and class action litigation issues. Accordingly, the Company expects revenue to be between \$74.0 million and \$77.0 million and EBITDA to be between \$16.5 million and \$17.5 million for the year ending December 31, 2012.

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

"Our management team has acted aggressively to meet the unprecedented challenges of the past two years through a series of actions focused on expense reduction and cash flow. The actions contributed to a \$24.8 million debt reduction in 2011, bringing the outstanding loan balance to \$36.0 million at December 31, 2011."

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About BSG:

BSG is headquartered in San Antonio, Texas, USA and traded on the London Stock Exchange (AIM: BILL). For over 20 years, BSG has been a leading provider of clearing, settlement, payment and financial risk management solutions for the telecommunications industry, merchants and on-line stores. For more information on BSG, visit www.bsgclearing.com.

CHIEF EXECUTIVE'S STATEMENT

2011 was a difficult year, yet even within this extremely challenging environment, we generated \$22.6 million of EBITDA and paid down \$24.8 million in debt.

2011 started on a positive note when we successfully completed the audit by Accenture, which had been required by the largest LEC in the US. The audit confirmed the adequacy and integrity of BSG's quality control standards and business practices. We were accordingly encouraged that there would be a limited resumption of billing for enhanced services. Unfortunately, that has not yet happened, due to continuing negative perceptions about third party billing for enhanced services and the absence of clarity regarding the direction and likely outcome of the various governmental actions regarding third party billing. As a result, we cannot predict the likelihood, timing or restrictions which might apply to a resumption of normal billing for enhanced services.

In light of the industry environment, we have taken a number of expense reduction actions designed to ensure the continuation of strong cash flow and debt reduction. In that context, we were fortunate to have successfully refinanced our debt during 2011, achieving a substantially lower interest rate, lower quarterly principal payments and an extension of the maturity date.

Current Trading and Prospects

As described in previous announcements, and as underscored by Verizon's recent announcement regarding its decision to cease billing for enhanced services, the ongoing issues surrounding the continuing viability of enhanced services billing, along with the secular decline in landline phone usage, will again restrain revenue and earnings during 2012. As indicated above, we are taking appropriate countermeasures to ensure continued profitability, ongoing debt reduction and enhancement of shareholder value.

I am grateful for our loyal and talented employees. Collaboratively, they have developed the most sophisticated systems and portfolio of payment services in the industry. Their collective commitments to excellence and success have never wavered.

Greg Carter
Chief Executive Officer

FINANCIAL REVIEW

Financial Review of the Year Ended December 31, 2011

The Company's audited results for the year ended December 31, 2011 are compared against the year ended December 31, 2010 in the accompanying financial statements. BSG's consolidated financial statements are prepared in conformity with United States generally accepted accounting principles ("GAAP").

Certain Terms

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

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

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

Depreciation and Amortization. Depreciation expense applies to software, furniture and fixtures, telecommunications and computer equipment. Amortization expense relates to definite-lived intangible assets that are amortized in accordance with Accounting Standards Codification ("ASC") 350, *Intangibles – Goodwill and Other*. These assets consist of contracts with customers and LECs. The assets are depreciated or amortized, as applicable, over their respective useful lives. In addition, deferred finance fees are amortized over the term of the related loans.

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

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. In its clearinghouse business, the Company aggregates call records submitted by its customers and submits them to LECs for billing to end-user customers. The Company collects funds from LECs each day and, approximately ten days later, distributes to customers the collected cash, net of withholdings, under weekly settlement protocols. The Company withholds a portion of the funds received from the LECs to pay billing and collection fees of LECs, to pay the Company's processing fees and to serve as a reserve against retrospective charges from LECs. Reserves are generally released to customers over an 18-month period, based upon loss experience. Depending upon the timing of receipts, weekly settlements and reserve releases, both cash and third party payables can fluctuate materially from day-to-day.

Comparison of Results for the Year Ended December 31, 2011 to Year Ended December 31, 2010

Total Revenues. Total revenues of \$96.8 million in 2011 were \$36.9 million, or 28%, lower than the \$133.7 million of revenues recorded during 2010. The largest component of the \$36.9 million decrease was a \$17.4 million reduction in revenue from customer service-related activity (including complaint and recourse fees). In 2010, revenue from customer service activities was unusually elevated, largely attributable to issues with enhanced service billings.

In addition to the \$17.4 million decline in customer service-related revenues, there was a \$9.8 million decline in enhanced service billings, a \$4.6 million decline in revenue from core product offerings, including long distance, operator services and third party verification services, a \$2.4 million decline in Bill2Phone™ revenue, and a \$2.7 million aggregate decrease in revenue from other sources including ancillary services and settlements.

Cost of Services and Gross Profit. Cost of services in 2011 was \$57.7 million, compared to \$79.9 million in 2010. The \$22.2 million, or 28%, decrease in cost of services largely reflected lower LEC fees for billing and collection services related to the lower level of transaction volume. The Company generated \$39.1 million of gross profit in 2011, compared to \$53.8 million in 2010. Gross margin was consistent period over period.

Cash Operating Expenses. Cash operating expenses were \$16.5 million in 2011, compared to \$21.4 million in 2010. The \$4.9 million, or 23%, decrease largely reflected reductions in compensation and related expense due to headcount reductions initiated in 2010.

Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"). The Company generated \$22.6 million of EBITDA during 2011, compared to \$32.4 million in 2010.

Depreciation, Amortization and Trademark Impairment Expense. Depreciation and amortization expense in each of 2011 and 2010 (excluding amortization of deferred finance costs and original issue discount on outstanding debt) was \$13.4 million. Goodwill was not impaired in either period; however, the Company reduced goodwill by \$0.1 million in each of 2011 and 2010 related to the amortization of tax goodwill in excess of book goodwill in connection with a prior acquisition. In addition, in 2011, the Company recorded a trademark impairment charge of \$1.1 million related to its Billing Concepts, Inc. trademark. The impairment resulted from lower projected revenues related to this business.

Restructuring Expense. During 2010, the Company recorded \$0.8 million in restructuring charges related to a cost reduction program. The restructuring charge primarily consisted of severance and related compensation costs paid or reserved for terminated employees and contractors. Given its non-recurring nature, the restructuring expense is not included as a deduction to earnings for purposes of calculating EBITDA.

Stock-based Compensation Expense. The Company recognized \$0.5 million and \$0.7 million of non-cash compensation expense during 2011 and 2010, respectively. The reduction in expense in 2011 was attributable to a decrease in the number of employees and related forfeitures of unexercised stock options. Stock-based compensation expense, all of which is non-cash, is not included as a deduction to earnings for purposes of calculating EBITDA.

Interest Expense. Interest expense was \$5.1 million in 2011, which was \$1.3 million, or 20%, lower than the \$6.4 million of expense in 2010. Interest expense includes cash payments of interest, amortization of original issue discount, amortization of deferred finance fees and fees incurred under credit agreements in place during 2011. The \$1.3 million expense reduction in 2011 largely reflected lower outstanding debt balances, a lower interest rate during the second half of the year attributable to a refinancing of the debt on more favorable terms and a reduction of deferred finance fees, offset by a \$1.7 million acceleration in amortization of original issue discount and deferred finance fees associated with early termination of the former credit agreement.

Settlement and Mark-to-Market of Derivatives. The Company borrowed funds on a floating rate basis, typically related to the London Interbank Offered Rate ("LIBOR"). As required by its former credit agreement, the Company was obligated to enter into interest rate swap contracts which had the effect of fixing the interest rate on a portion of outstanding debt. In 2011, the Company incurred a \$1.8 million expense in connection with its election to terminate interest rate swap contracts covering a notional principal amount of \$35 million. This expense was essentially a discounted payment of future interest expense associated with the swaps. This expense compares to a \$0.2 million loss in 2010 from similar cancellations. Due to its non-operational nature, the charge in both periods is not included as a deduction to earnings for purposes of computing EBITDA.

Other Income and Expense. Other expense in 2011 was \$0.3 million, compared to other expense of \$0.2 million in 2010. Due to its non-recurring nature, other expense is not included for purposes of computing EBITDA.

Change in Cash. BSG's cash balance at December 31, 2011 was \$10.9 million, compared to \$12.6 million at December 31, 2010. The \$1.7 million decrease in cash during 2011 is largely attributable to \$24.8 million in net principal payments on long-term debt and \$2.0 million in capital expenditures, offset by \$22.6 million of cash flow from operations and a \$2.9 million reduction in receivables purchased from customers.

Change in Third Party Payables (see description of "Third Party Payables" within "Certain Terms" above). Third party payables at December 31, 2011, inclusive of long-term liabilities, were \$18.9 million, compared to \$14.8 million at December 31, 2010. The \$4.1 million increase in third party payables during 2011 resulted from \$6.7 million of net receipts in the ordinary course of clearinghouse settlements, offset by \$1.4 million paid from net collections of purchased receivables (see below) and a \$1.2 million decrease in payables related to the Company's dial-around compensation ("DAC") clearing business.

When the Company purchases receivables from a customer, the Company typically advances approximately 50% of the gross receivable amount to the customer. The remaining approximate 50% is classified as a third party payable until the Company completes settlement activities related to the purchased receivable. During 2011, the Company reduced purchased receivables by \$2.9 million, which resulted in a \$1.4 million reduction in third party payables.

Capital Expenditures. During 2011, the Company invested \$2.0 million in capital expenditures, primarily for capitalized software development expense, telecommunications and computer equipment.

Cash Flows for the Year Ended December 31, 2011

Cash flow from operating activities. Net cash provided by operating activities was \$22.6 million during 2011. Net cash provided was principally attributable to \$15.5 million of depreciation and amortization (including amortization of deferred finance costs and original issue discount on outstanding debt), a \$5.3 million increase in third party accounts payable (excluding DAC customers), a \$3.5 million decrease in accounts receivable, a \$1.1 million non-cash trademark impairment charge, a \$0.5 million net decrease in income taxes receivable, \$0.5 million of stock-based compensation expense and \$0.2 million of net income, offset by a \$1.4 million reduction in trade accounts payable, a \$1.2 million reduction in accounts payable related to DAC customers, a \$0.9 million reduction in the provision for deferred taxes and a \$0.7 million reduction in accrued liabilities.

Cash flow from investing activities. Net cash provided by investing activities was \$0.9 million, reflecting a \$2.9 million decrease in purchased receivables offset by \$2.0 million in capital expenditures.

Cash flow from financing activities. Cash used in financing activities was \$25.2 million, reflecting \$24.8 million of net principal payments on long-term debt and \$0.3 million of costs related to the new credit agreement in 2011.

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

Billing Services Group Limited

Consolidated Balance Sheets (In thousands, except shares)

	December 31	
	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

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Billing Services Group Limited

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

	December 31	
	2011	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

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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

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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.

Billing Services Group Limited

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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

Financial Instruments

Due to their short maturity, the carrying amounts of accounts and purchased receivables, accounts payable and accrued liabilities approximated their fair values at December 31, 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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

2. Property, Equipment and Software

Property, equipment and software consisted of the following:

	December 31	
	2011	2010
	<i>(In thousands)</i>	
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
	<u>42,759</u>	<u>40,776</u>
Less accumulated depreciation	28,952	24,249
Net property, equipment and software	<u>\$ 13,807</u>	<u>\$ 16,527</u>

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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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		Amortization Period
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	
<i>(In thousands)</i>					
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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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
	<i>(In thousands)</i>
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
	<i>(In thousands)</i>	
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

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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:

	<i>(In thousands)</i>
2012	\$ 10,400
2013	9,600
2014	9,600
2015	6,400
Total	<u>\$ 36,000</u>

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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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
<i>(In thousands)</i>			
None	\$0	Other liabilities	\$1,910

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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
	<i>(In thousands)</i>
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	2010
	<i>(In thousands)</i>	
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

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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
	<i>(In thousands)</i>	
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

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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
	<i>(In thousands)</i>	
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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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 the beginning and ending amounts of unrecognized tax benefits follows:

	Total
	<i>(In thousands)</i>
Balance at December 31, 2009	\$ 2,183
Decreases based on tax positions related to prior years	(331)
Settlements	(422)
Balance at December 31, 2010	<u>1,430</u>
Additions based on tax positions related to the current year	—
Balance at December 31, 2011	<u><u>\$ 1,430</u></u>

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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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	2010
	<i>(In thousands, except per share amounts)</i>	
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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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").

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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.