

March 29, 2010

**Billing Services Group Limited**

**(“BSG” or the “Company”)**

**Audited results for the year ended December 31, 2009**

**CONTINUED STRONG PERFORMANCE AND FOCUSED DEVELOPMENT ACTIVITY  
PROVIDE A SOLID PLATFORM FOR THE YEAR AHEAD**

BSG, a leading provider of clearing, settlement, payment and financial risk management solutions to the telecommunications industry, today announces its audited results for the year ended December 31, 2009.

**Financial Highlights**

|                              | <u>2009 (US\$)</u> | <u>2008 (US\$)</u> | <u>% Change</u> |
|------------------------------|--------------------|--------------------|-----------------|
| Revenue                      | \$146.5 million    | \$142.6 million    | +2.7            |
| EBITDA <sup>(1)</sup>        | \$38.9 million     | \$37.2 million     | +4.6%           |
| Net income                   | \$16.9 million     | \$7.9 million      | +113.9%         |
| Net income per basic share   | \$0.06 per share   | \$0.03 per share   | +100.0%         |
| Net income per diluted share | \$0.06 per share   | \$0.03 per share   | +100.0%         |

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

- Improved balance sheet position through reducing term debt balance by \$13.5 million for a year-end outstanding amount of \$80.1 million (December 31, 2008: \$93.6 million)
- Wrote off or settled in excess of \$9 million in liabilities at a cash cost of \$0.3 million

**Operational Highlights**

- Expanded Bill2Phone™ Business Development Management team
- Continued the Texas consolidation plan with the decommissioning of an East Coast third party verification data center
- Established a new process to address consumer and telecommunications partner inquiries on enhanced service charges in order to mitigate complaints
- BSG was named #1 Top Work Places for 2009 for mid-sized companies by the *San Antonio Express-News* (April 2009)

## Current Trading

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

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

*“We executed superbly against economic headwinds. Improvements in EBITDA and net income demonstrate management’s laser-like focus on the fundamentals of customer care and expense control.*

*Historically, we have offered our services to the North American wireline telecommunications industry. To counteract trends favoring displacement of the wireline industry with wireless alternatives, BSG has successfully introduced new services and a broader array of payment solutions, including Bill2Phone. Management has also reduced operational costs and personnel expenses. The result has been consecutive year-over-year improvements in revenue and earnings, which have allowed meaningful debt repayments.*

*As noted elsewhere in this report, BSG’s business benefited in 2009 from some items which are unlikely to be repeated in 2010. While trading to date in 2010 has remained in line with expectations, we note that management contemplates modestly lower levels of revenue and income in 2010 and will keep the market abreast of developments.”*

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### NOTE TO EDITORS:

**BSG ([www.bsgclearing.com](http://www.bsgclearing.com)) was admitted to the AiM market of the London Stock Exchange in June 2005 and trades under the symbol BILL. The Company’s operating subsidiary, BSG Clearing Solutions, is the leading provider of third party clearinghouse services for the North American telecommunications industry.**

## **CHIEF EXECUTIVE'S STATEMENT**

We accomplished much in 2009, and as a result of our intense focus on the fundamentals of the business, I am delighted to report the following successes:

- increase in group revenue of 3%;
- \$1.7 million reduction in operating expenses;
- \$38.9 million of EBITDA generated (up 5% from last year);
- generated \$7.7 million of non-operating income and \$2.1 million of revenue from reductions of third party payables and accruals for a cash cost of \$0.3 million; and
- comfortably serviced our debt and reduced our outstanding loan balance by \$13.5 millions.

Our success in 2009 resulted from the introduction of complementary payment services and aggressive actions to reduce liabilities on favorable terms. Over the course of the year, we retained an executive search firm and successfully hired four additional enterprise-level Business Development Managers with exclusive focus on the Bill2Phone product offering. A separate search effort assisted us in locating an executive level marketing individual, who is responsible for developing and executing a marketing plan with Bill2Phone at its core. While still early in the process, we are nonetheless encouraged by the level of receptivity from large, well-known entities and their interest in adding the Bill2Phone payment option.

Our concentration on driving revenue growth and expense reduction remains unabated. Nonetheless, we expect that an increasingly negative perception from certain local exchange carriers with respect to enhanced traffic, coupled with a decline in customer service-related revenues, will ultimately have an effect on our 2010 revenue growth. Similarly, our opportunities to achieve income from liability reductions have been substantially lessened in 2010 as the result of our success in 2009. Those realities will foreseeably result in modestly lower revenue and earnings in 2010.

BSG is initiating new policies and procedures both internally and externally to address and mitigate the concerns of our LEC partners and consumers about enhanced billing services, and we have well-grounded optimism about our future. With more than 20 years of experience in the industry, we have established ourselves as the leading third-party clearing, settlement and payment service provider. We have successfully navigated through a secular decline in the wireline telecommunications industry, and we have offset anticipated revenue reductions from our traditional product offerings with increases in customer service-related, enhanced services and Bill2Phone revenue. Our strategies, focus and tactical ability to execute will sustain our success.

### **Current Trading and Prospects**

We have begun the year well, and as planned. Bill2Phone has had a strong start in 2010; however, as noted above, external industry forces lead us to expect modest reductions in revenues and earnings for the year as a whole.

We are positioned well in our marketplace, and otherwise expect another satisfactory performance from our core business activities in 2010, with continued focus on sales and operations, expense reduction, ongoing debt amortization and all other means to enhance shareholder value.

**Greg Carter**

**Chief Executive Officer**

## FINANCIAL REVIEW

### **Financial Review of the Year Ended December 31, 2009**

The Company's audited results for the year ended December 31, 2009 are compared against the year ended December 31, 2008 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 ASC 350, *Intangibles – Goodwill and Other*. These assets consist of contracts with LECs, contracts with customers and trademarks. 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 expense, income taxes, depreciation and amortization, a non-GAAP metric, is a measurement of profitability often used by investors and lenders. EBITDA excludes non-cash charges and non-recurring items.

### **Comparison of Results for the Year Ended December 31, 2009 to the Year Ended December 31, 2008**

**Total Revenues.** Total revenues of \$146.5 million in 2009 were \$3.9 million, or 3%, higher than the \$142.6 million of revenues recorded during 2008. The \$3.9 million increase largely reflected \$7.4 million of additional revenue from customer service-related activities, including increases in complaint and recourse fees. The Company also experienced year-over-year revenue increases resulting from gains in Bill2Phone service offerings (\$1.8 million) and a higher level of realizations from discounted

settlement of amounts owed to customers (\$1.1 million). These revenue increases were partially offset by revenue declines in the Company's core product offerings, including year-over-year revenue reductions in long distance (\$1.4 million), operator services (\$3.2 million) and third party verification (\$1.9 million). These negative trends have continued over the last several years, resulting from the ongoing secular decline in traditional United States land line usage. A portion of the additional revenue in 2009 from customer service-related activities and discounted settlements arose from one-off events. In addition, certain local exchange carriers have developed a negative perception of several enhanced products currently offered by some of the Company's clients, which may have an impact on these clients' continuing ability to bill charges through the Company. Accordingly, management expects that revenue and earnings will decline modestly in 2010.

**Cost of Services and Gross Profit.** The Company's cost of services in 2009 was \$86.5 million, compared to \$82.6 million in 2008. The \$3.9 million, or 5%, increase in cost of services reflected higher LEC fees for billing and collection services combined with elevated levels of customer service transactions. The Company generated \$60.0 million of gross profit in both 2009 and 2008, but the 2009 gross margin of 41.0% compared unfavorably to the 42.1% achieved in 2008. The absolute percentage point decline of 1.1% in gross margin primarily reflected the increase in LEC charges for billing and collection services, as well as customer service transactions, which the Company passed through to its customers, generally on a dollar-for-dollar basis for competitive reasons. As a result, gross profit remained constant on the underlying transactions, but gross margin was reduced due to the increase in revenue.

**Cash Operating Expenses.** Cash operating expenses were \$21.1 million in 2009, compared to \$22.8 million in 2008. The \$1.7 million, or 7%, decrease reflected reduced costs for professional fees, outsourced call center services, travel, insurance and repair and maintenance services.

**Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA").** The Company generated \$38.9 million of EBITDA during 2009, compared to \$37.2 million in 2008.

**Depreciation and Amortization Expense.** Depreciation and amortization expense in 2009 (excluding amortization of deferred finance costs and original issue discount on outstanding debt) was \$13.4 million, compared to \$13.7 million in 2008. The \$0.3 million decrease was largely attributable to lower amortization related to intangible assets in 2009. Goodwill was not impaired in either period; however, the Company reduced goodwill by \$0.2 million in 2009 to adjust for tax goodwill in excess of book goodwill related to a prior acquisition. The Company reduced goodwill by \$5.3 million in 2008 in connection with adjustments to liabilities recorded in a previous acquisition, net of related income taxes.

**Impairment Loss.** In 2008, the Company recognized a \$0.1 million impairment charge on internally developed software. Due to its non-recurring nature, this expense is not included as a deduction to earnings for purposes of computing EBITDA.

**Restructuring Expense.** During 2008, the Company recorded \$2.8 million of restructuring charges related to a cost reduction program. The restructuring charges primarily consisted of severance and related compensation costs paid or reserved for terminated employees and contractors. Given its non-recurring nature, the 2008 restructuring expense is not included as a deduction to earnings for purposes of calculating EBITDA.

**Stock-based Compensation Expense.** The Company recognized \$0.6 million of non-cash compensation expense during 2009, compared to \$0.2 million in 2008. The \$0.4 million increase reflected a full year's expense in 2009 for options issued in August 2008. 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 \$7.4 million in 2009, \$3.0 million, or 29%, lower than the \$10.4 million of expense in 2008. Interest expense includes cash payments of interest, amortization of original issue discount, amortization of deferred finance fees and fees incurred under the credit agreement. Cash expense in 2009 was \$5.8 million, compared to \$9.1 million in 2008. The \$3.3 million reduction in cash expense resulted from lower market interest rates and lower outstanding debt balances.

**Settlement and Mark-to-Market of Derivatives.** The Company borrows funds on a floating rate basis, typically related to the London Interbank Offered Rate ("LIBOR"). As required by its credit agreement, the Company is obligated to enter into interest rate swap contracts which have the effect of fixing the interest rate on a portion of outstanding debt. In 2009, the Company incurred a loss of \$0.6 million related to the cancellation of certain interest rate swap contracts. In 2008, the Company recorded a \$0.8 million loss related to a decline in the fair market value of interest rate swap contracts. Due to their non-operational nature, the charges in both periods are not included as deductions to earnings for purposes of computing EBITDA.

**Other Income.** During 2009, the Company realized \$7.7 million of other income primarily from the adjustment of reserves and accruals principally related to its third party payables balances. The reserve and accrual adjustments followed a comprehensive review of the related accounts during 2009, including updates to the estimation process. Other income recognized in 2008 was \$1.8 million. Due to its non-recurring nature, other income is not included as earnings for purposes of computing EBITDA.

**Change in Cash.** BSG's cash balance at December 31, 2009 was \$14.4 million, compared to \$27.4 million at December 31, 2008. The \$13.0 million reduction in cash during 2009 related primarily to \$16.9 million of cash payments made to reduce third party payables in the LEC clearinghouse business. Of this amount, \$5.2 million related to timing issues with payments made in December 2009 and \$3.3 million related to the Company's dial-around compensation ("DAC") clearing business, which is essentially a pass-through cash account.

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.

Third party payables were \$26.0 million lower at December 31, 2009 compared to December 31, 2008. The reduction resulted from \$16.9 million of net cash payments (of which \$5.2 million and \$3.3 million related to timing issues and DAC clearing, respectively, described above) and \$9.1 million of non-cash adjustments during 2009. The non-cash adjustments resulted from discounted settlement of customer balances and reserve and accrual adjustments.

***Change in Working Capital.*** The Company's working capital position (net of funded debt) at December 31, 2009 was \$17.1 million, compared to \$7.4 million at December 31, 2008. The \$9.7 million improvement largely resulted from the \$9.1 million reduction in third party payables accomplished with minimal cash payments (see 'Change in Cash' above). The Company can operate with a small or even negative working capital position, because a significant portion of its current liabilities, particularly third party payables, would require payment over time (typically over an 18-month period), only if customers were to reduce significantly the volume of business done with the Company or terminate their relationships.

***Capital Expenditures.*** During 2009, the Company invested \$3.2 million through capital expenditures, including disbursements for telecommunications and computer equipment.

#### **Cash Flow for the Year Ended December 31, 2009**

***Cash flow from operating activities.*** Net cash provided by operating activities was \$7.4 million during 2009. Net cash provided was principally attributable to \$16.9 million of net income, \$14.5 million of depreciation and amortization (including amortization of deferred finance costs and original issue discount on outstanding debt), a \$3.2 million decrease in accounts receivable and a \$1.9 million provision for deferred taxes, offset by a \$26.0 million decrease in third-party payables (including (a) \$9.1 million in non-cash expense; (b) \$5.2 million of payments relating to timing issues; and (c) \$3.3 million in DAC pass-through cash), a \$2.5 million decrease in accrued liabilities and a \$1.0 million decrease in trade accounts payable.

***Cash flow from investing activities.*** Cash used in investing activities was \$4.4 million, including \$3.2 million in capital expenditures and a \$1.1 million increase in purchased receivables.

***Cash flow from financing activities.*** Cash used in financing activities was \$16.0 million, reflecting \$13.2 million of principal payments on long-term debt, \$2.0 million in repurchase of exercised options and \$0.8 million in payments on settlement of derivative contracts.

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

**Billing Services Group Limited**  
c/o Evolution Securities Limited  
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## 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)*

|  | <b>December 31</b> |             |
|--|--------------------|-------------|
|  | <b>2009</b>        | <b>2008</b> |
| <b>Assets</b>  |                    |             |
| Current assets:  |                    |             |
| Cash and cash equivalents  | \$ 14,425          | \$ 27,354   |
| Accounts receivable  | 19,005             | 22,188      |
| Purchased receivables  | 19,390             | 18,259      |
| Income tax receivable  | 1,262              | –           |
| Prepaid expenses and other current assets  | 588                | 535         |
| Deferred taxes – current   | 1,433              | 3,752       |
| Total current assets   | <b>56,103</b>      | 72,088      |
| Property, equipment and software   | 38,576             | 35,352      |
| Less accumulated depreciation and amortization   | 19,470             | 14,710      |
| Net property, equipment and software   | <b>19,106</b>      | 20,642      |
| Deferred finance costs, net of accumulated amortization of \$659<br>and \$375 at December 31, 2009 and 2008, respectively  | 687                | 971         |
| Intangible assets, net of accumulated amortization of \$50,964 and<br>\$42,322 at December 31, 2009 and 2008, respectively | 42,811             | 51,453      |
| Goodwill   | 34,492             | 34,739      |
| Other assets   | 534                | 534         |
| Total assets   | <b>\$ 153,733</b>  | \$ 180,427  |

## Billing Services Group Limited

### Consolidated Balance Sheets (continued)

*(In thousands, except shares)*

|   | <b>December 31</b> |             |
|---|--------------------|-------------|
|   | <b>2009</b>        | <b>2008</b> |
| <b>Liabilities and shareholders' equity</b>   |                    |             |
| Current liabilities:  |                    |             |
| Trade accounts payable  | \$ 12,447          | \$ 13,409   |
| Third-party payables  | 24,197             | 45,247      |
| Accrued liabilities   | 2,392              | 4,923       |
| Income tax payable  | –                  | 1,064       |
| Current portion of long-term debt   | 11,250             | 8,562       |
| Total current liabilities   | 50,286             | 73,205      |
| Long-term debt, net of current portion and unamortized original issue discount of \$2,319 and \$3,273 at December 31, 2009 and 2008, respectively | 66,509             | 81,769      |
| Deferred taxes – noncurrent   | 5,560              | 5,428       |
| Other liabilities   | 6,114              | 11,362      |
| Total liabilities   | 128,469            | 171,764     |
| <b>Commitments and contingencies</b>  |                    |             |
| Shareholders' equity:   |                    |             |
| Common stock, \$0.59446 par value; 350,000,000 shares authorized and 279,863,248 shares issued and outstanding at December 31, 2009 and 2008      | 166,368            | 166,368     |
| Additional paid-in capital (deficit)  | (175,786)          | (174,611)   |
| Retained earnings   | 36,396             | 19,538      |
| Accumulated other comprehensive loss  | (1,714)            | (2,632)     |
| Total shareholders' equity  | 25,264             | 8,663       |
| Total liabilities and shareholders' equity  | \$ 153,733         | \$ 180,427  |

*See accompanying notes.*

## Billing Services Group Limited

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

|  | <b>Years Ended December 31</b> |             |
|--|--------------------------------|-------------|
|  | <b>2009</b>                    | <b>2008</b> |
| Operating revenues   | <b>\$ 146,458</b>              | \$ 142,611  |
| Cost of services   | <b>86,462</b>                  | 82,635      |
| Gross profit   | <b>59,996</b>                  | 59,976      |
| <br>   |                                |             |
| Selling, general, and administrative expenses  | <b>21,109</b>                  | 22,769      |
| Depreciation and amortization expense  | <b>13,402</b>                  | 13,664      |
| Impairment loss  | –                              | 120         |
| Restructuring expense  | –                              | 2,808       |
| Stock-based compensation expense   | <b>628</b>                     | 213         |
| Other nonrecurring expenses  | –                              | 182         |
| Operating income   | <b>24,857</b>                  | 20,220      |
| <br>   |                                |             |
| Other income (expense):  |                                |             |
| Interest expense, net of \$86 and \$99<br>capitalized in 2009 and 2008, respectively | <b>(7,365)</b>                 | (10,354)    |
| Settlement and mark-to-market of derivatives   | <b>(633)</b>                   | (813)       |
| Interest income  | <b>932</b>                     | 1,626       |
| Other income, net  | <b>7,745</b>                   | 1,777       |
| Total other income (expense), net  | <b>679</b>                     | (7,764)     |
| <br>   |                                |             |
| Income before income taxes   | <b>25,536</b>                  | 12,456      |
| <br>   |                                |             |
| Income tax expense   | <b>8,678</b>                   | 4,595       |
| Net income   | <b>\$ 16,858</b>               | \$ 7,861    |

## Billing Services Group Limited

### Consolidated Statements of Operations (continued)

*(In thousands, except per share amounts)*

|   | <b>Years Ended December 31</b> |             |
|---|--------------------------------|-------------|
|   | <b>2009</b>                    | <b>2008</b> |
| Net income per basic and diluted share:     |                                |             |
| Basic net income per share                  | \$ <b>0.06</b>                 | \$ 0.03     |
| Diluted net income per share                | <b>0.06</b>                    | 0.03        |
| Net income per share                        | <b>\$ 0.06</b>                 | \$ 0.03     |
| Basic weighted-average shares outstanding   | <b>279,863</b>                 | 279,863     |
| Diluted weighted-average shares outstanding | <b>280,872</b>                 | 279,863     |

*See accompanying notes.*

## Billing Services Group Limited

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

|  | Number of<br>Shares | Common<br>Stock   | Additional<br>Paid-In<br>Capital<br>(Deficit) | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total            |
|--|---------------------|-------------------|---|----------------------|--|------------------|
| Shareholders' equity, December 31, 2007                    | 279,863             | \$ 166,368        | \$ (174,824)                                  | \$ 11,677            | \$ (53)  | \$ 3,168         |
| Stock-based compensation expense<br>recognized in earnings | -                   | -                 | 213   | -                    | -  | 213              |
| Translation adjustment                                     | -                   | -                 | -   | -                    | 9  | 9                |
| Net income   | -                   | -                 | -   | 7,861                | -  | 7,861            |
| Derivative loss, net of taxes of \$1,395                   | -                   | -                 | -   | -                    | (2,588)  | (2,588)          |
| Total comprehensive income                                 |                     |                   |   |                      |  | <u>5,282</u>     |
| Shareholders' equity, December 31, 2008                    | 279,863             | 166,368           | (174,611)                                     | 19,538               | (2,632)  | 8,663            |
| Stock-based compensation expense<br>recognized in earnings | -                   | -                 | <b>628</b>                                    | -                    | -  | <b>628</b>       |
| Repurchase and cancellation of exercised<br>options        | -                   | -                 | <b>(1,803)</b>                                | -                    | -  | <b>(1,803)</b>   |
| Translation adjustment                                     | -                   | -                 | -   | -                    | <b>10</b>  | <b>10</b>        |
| Net income   | -                   | -                 | -   | <b>16,858</b>        | -  | <b>16,858</b>    |
| Derivative gain, net of taxes of \$796                     | -                   | -                 | -   | -                    | <b>908</b>   | <b>908</b>       |
| Total comprehensive income                                 | -                   | -                 | -   | -                    | -  | <u>17,776</u>    |
| Shareholders' equity, December 31, 2009                    | <b>279,863</b>      | <b>\$ 166,368</b> | <b>\$ (175,786)</b>                           | <b>\$ 36,396</b>     | <b>\$ (1,714)</b>                                      | <b>\$ 25,264</b> |

See accompanying notes.

## Billing Services Group Limited

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

|   | <b>Years Ended December 31</b> |             |
|---|--------------------------------|-------------|
|   | <b>2009</b>                    | <b>2008</b> |
| <b>Operating activities</b>   |                                |             |
| Net income  | \$ 16,858                      | \$ 7,861    |
| Adjustments to reconcile net income to net cash provided by operating activities:   |                                |             |
| Depreciation  | 4,760                          | 4,323       |
| Amortization of intangibles   | 8,642                          | 9,341       |
| Amortization of deferred finance costs  | 1,050                          | 1,386       |
| Impairment loss   | –                              | 120         |
| Stock-based compensation expense  | 628                            | 213         |
| Gain on extinguishment of debt  | (185)                          | (83)        |
| Changes in operating assets and liabilities:  |                                |             |
| Decrease (increase) in accounts receivable  | 3,183                          | (1,524)     |
| (Increase) decrease in income taxes receivable, net   | (421)                          | 4,725       |
| Increase in prepaid expenses and other assets   | (53)                           | (12)        |
| (Decrease) increase in trade accounts payable   | (962)                          | 1,845       |
| Decrease in third-party payables  | (26,014)                       | (14,408)    |
| Decrease in accrued liabilities   | (2,531)                        | (5,915)     |
| Provision for deferred taxes  | 1,853                          | (873)       |
| Increase (decrease) in other liabilities  | 633                            | (885)       |
| Net cash provided by operating activities   | 7,441                          | 6,114       |
| <b>Investing activities</b>   |                                |             |
| Purchases of property, equipment and software, including \$86 and \$99 of capitalized interest in 2009 and 2008, respectively | (3,224)                        | (2,789)     |
| Net (advances) receipts on purchased receivables  | (1,131)                        | 1,673       |
| Net cash used in investing activities   | (4,355)                        | (1,116)     |

## Billing Services Group Limited

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

|  | <b>Years Ended December 31</b> |             |
|--|--------------------------------|-------------|
|  | <b>2009</b>                    | <b>2008</b> |
| <b>Financing activities</b>  |                                |             |
| Payments on long-term debt   | \$ (13,154)                    | \$ (18,640) |
| Payments on settlement of derivative contracts   | (835)                          | –           |
| Repurchase of exercised options  | (2,036)                        | –           |
| Restricted cash  | –                              | 7,858       |
| Net cash used in financing activities  | (16,025)                       | (10,782)    |
| Effect of exchange rate changes on cash  | 10                             | 9           |
| Net decrease in cash and cash equivalents  | (12,929)                       | (5,775)     |
| Cash and cash equivalents at beginning of year   | 27,354                         | 33,129      |
| Cash and cash equivalents at end of year   | \$ 14,425                      | \$ 27,354   |
| <b>Supplemental cash information</b>   |                                |             |
| Cash paid during the year for:   |                                |             |
| Interest   | \$ 5,811                       | \$ 9,073    |
| Taxes  | \$ 6,900                       | \$ 2,950    |
| <b>Noncash investing and financing activities</b>  |                                |             |
| Adjustment to goodwill, third-party payables, accrued liabilities and other liabilities, net of tax effect | \$ 185                         | \$ 5,324    |
| Derivative gain (loss), net of tax (expense) benefit of \$(796) and \$1,395                                | \$ 908                         | \$ (2,588)  |

*See accompanying notes.*

# Billing Services Group Limited

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

### **1. Organization and Summary of Significant Accounting Policies**

#### **Organization**

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

#### **Principles of Consolidation**

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

#### **Cash and Cash Equivalents**

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

#### **Purchased Receivables**

The Company offers advance funding arrangements to certain of its customers. Under the terms of the arrangements, the Company purchases the customer’s accounts receivable for an amount equal to the face amount of the call record value submitted to the local exchange carriers (“LECs”) by the Company, less various items, including financing fees, LEC charges, rejects, and other similar items. The Company advances 15% to 80% of the purchased amount 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, 2009) until the funds are received from the LECs. The face amount of the call record value is recorded as purchased receivables in the consolidated balance sheets.

# Billing Services Group Limited

## Notes to Consolidated Financial Statements (continued)

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

#### **Financial Instruments**

Due to their short maturity, the carrying amounts of accounts and purchased receivables, accounts payable and accrued liabilities approximated their fair values at December 31, 2009 and 2008. 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, 2009, ten customers represented approximately 31% of accounts receivable, and ten customers represented approximately 80% of outstanding purchased receivables. At December 31, 2008, ten customers represented approximately 27% of accounts receivable, and ten customers represented approximately 70% 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 15% to 80% of the gross accounts receivable purchased. Management evaluates accounts receivable balances on an ongoing basis and provides allowances as necessary for amounts estimated to eventually become uncollectible. In the event of complete nonperformance of accounts receivable, the maximum exposure to the Company is the recorded amount shown on the balance sheet. For the year ended December 31, 2009, twenty customers represented approximately 41% of consolidated revenues. For the year ended December 31, 2008, twenty customers represented approximately 46% 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)**

The Company accounts for the impairment of long-lived assets in accordance with the provisions of ASC 360, *Property, Plant and Equipment*. The Company tests for possible impairment of long-lived assets whenever events or changes in circumstances, such as a reduction in operating cash flow or a dramatic 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 indicators exist, the Company compares the estimated undiscounted future cash flows related to the asset to the carrying value of the asset. If the carrying value is greater than the estimated undiscounted future cash flow amount, an impairment charge is recorded in depreciation and amortization expense in the statement of operations for amounts necessary to reduce the carrying value of the asset to fair value. The impairment loss calculations require management to apply judgment in estimating future cash flows and the discount rates that reflect the risk inherent in future cash flows.

#### **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 a product can be produced to meet its design specifications, including functions, features, and technical performance requirements. Capitalization of costs ceases when a product is available for general use.

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. For the years ended December 31, 2009 and 2008, the Company capitalized \$2.7 million and \$2.6 million, respectively, of software development costs. During 2009 and 2008, the Company transferred \$2.7 million and \$4.2 million, respectively, of software development costs

# Billing Services Group Limited

## Notes to Consolidated Financial Statements (continued)

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

to computer software. Additionally, in 2008, the Company wrote-off \$0.1 million related to the impairment of certain software. Depreciation expense on computer software was \$3.7 million and \$3.2 million for the years ended December 31, 2009 and 2008, respectively. At December 31, 2009 and 2008, the Company had undepreciated software costs of \$17.5 million and \$18.5 million, respectively.

#### Purchase Accounting

The Company accounts for its business combinations under the acquisition method of accounting and in accordance with the provisions of ASC 805, *Business Combinations*. The total cost of an acquisition is allocated to the underlying identifiable net assets, based on their respective estimated fair values generally resulting from a third-party valuation performed at the Company's request. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, asset lives, and market multiples, among other items. In addition, reserves have been established on the Company's balance sheets related to acquired liabilities based on assumptions made at the time of acquisition. The Company evaluates the reserves on a regular basis to determine the adequacies of the amounts.

#### 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 ASC 350, *Intangibles – Goodwill and Other*.

Definite-lived intangible assets consist of local exchange carrier and customer 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 cost.

# Billing Services Group Limited

## Notes to Consolidated Financial Statements (continued)

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

The Company tests for possible impairment of definite-lived intangible assets whenever events or changes in circumstances, such as a reduction in operating cash flow or a dramatic 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 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 statement 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 are recorded at cost. 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 net assets exceeds its implied 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.

### **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 various telecommunications and other service providers and processes and sorts the records for transmittal to various LECs. Invoices to end-users are generated by the LECs, and the collected funds are remitted to the Company, which in turn remits these funds 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. The obligations consist of bad debt, customer service, and other miscellaneous charges. The Company records trade accounts receivable and service revenue for fees charged to

# Billing Services Group Limited

## Notes to Consolidated Financial Statements (continued)

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

process the call records. When the Company collects funds from the LECs, the Company's trade receivables are reduced by the amount corresponding to the processing fees, which are retained by the Company.

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

#### **Revenue Recognition**

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

#### **Earnings Per Share**

The Company computes earnings per share under the provisions of 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. For each of the years ended December 31, 2009 and 2008, the diluted earnings per share amounts equal basic earnings per share because the exercise price of the outstanding stock options is greater than the weighted-average market price over the measurement period, or the exercisability of the outstanding stock options is based upon market conditions that have not been met as of the end of the reporting year.

#### **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.

# Billing Services Group Limited

## Notes to Consolidated Financial Statements (continued)

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

#### Stock-Based Compensation

Under the fair value recognition provisions of ASC 718-10, 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 share 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.

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

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

# Billing Services Group Limited

## Notes to Consolidated Financial Statements (continued)

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

#### 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, 2009 and 2008.

#### 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

Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, codified in ASC 105-10, was issued in June 2009. ASC 105-10 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the United States. ASC 105-10 establishes the ASC as the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Following this statement, the FASB will issue new standards in the form of ASUs. ASC 105-10 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company adopted the provisions of ASC 105-10 during 2009.

FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, codified in ASC 820-10, was issued in February 2008. ASC 820-10 delays the effective date of FASB Statement No. 157, *Fair Value Measurements*, for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008. The Company adopted the provisions of ASC 820-10 on January 1, 2009 with no material impact to its financial position or results of operations.

## Billing Services Group Limited

### Notes to Consolidated Financial Statements (continued)

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

FASB Staff Position No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, codified in ASC 820-10-35, was issued in April 2009. ASC 820-10-35 provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. ASC 820-10-35 also includes guidance on identifying circumstances that indicate a transaction is not orderly. This guidance is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. Earlier adoption for periods ending before March 15, 2009 is not permitted. The Company adopted the provisions of ASC 820-10-35 on December 31, 2009 with no material impact to its financial position or results of operations.

In August 2009, the FASB issued ASU No. 2009-05, *Measuring Liabilities at Fair Value*. The update is to ASC Subtopic 820-10, *Fair Value Measurements and Disclosures-Overall*, for the fair value measurement of liabilities. The purpose of this update is to reduce ambiguity in financial reporting when measuring the fair value of liabilities. The guidance provided in this update is effective for the first reporting period beginning after the date of issuance. The Company adopted the amendment on December 31, 2009 with no material impact to its financial position or results of operations.

Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, codified in ASC 815 was issued on March 19, 2008 and requires additional disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company adopted the disclosure requirements beginning January 1, 2009.

## Billing Services Group Limited

### Notes to Consolidated Financial Statements (continued)

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

Statement of Financial Accounting Standards No. 165, *Subsequent Events*, codified in ASC 855-10, was issued in May 2009. The provisions of ASC 855-10 are effective for interim and annual periods ending after June 15, 2009 and are intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855-10 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date—that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. In accordance with the provisions of ASC 855-10, the Company currently evaluates subsequent events through March 26, 2010.

#### 2. Property, Equipment and Software

Property, equipment and software consisted of the following at December 31, 2009 and 2008:

|  | <b>December 31</b>    |                  |
|--|-----------------------|------------------|
|  | <b>2009</b>           | <b>2008</b>      |
|  | <i>(In thousands)</i> |                  |
| Furniture and fixtures   | \$ 236                | \$ 236           |
| Telecommunication equipment  | 1,839                 | 1,839            |
| Computer equipment   | 4,654                 | 4,000            |
| Computer software  | 29,175                | 26,628           |
| Software development, including \$134 and \$48 of<br>capitalized interest at December 31, 2009 and 2008,<br>respectively | 500                   | 477              |
| Leasehold improvements   | 2,172                 | 2,172            |
|  | <b>38,576</b>         | 35,352           |
| Less accumulated depreciation  | 19,470                | 14,710           |
| Net property, equipment and software   | <b>\$ 19,106</b>      | <b>\$ 20,642</b> |

Depreciation expense was \$4.8 million and \$4.3 million for the years ended December 31, 2009 and 2008, respectively.

## Billing Services Group Limited

### Notes to Consolidated Financial Statements (continued)

#### 2. Property, Equipment and Software (continued)

During 2008, the Company recorded a non-cash impairment charge of \$0.1 million on capitalized software associated with one of its product offerings as the Company determined that its carrying value was no longer recoverable.

#### 3. Intangible Assets and Goodwill

Definite-lived intangible assets consist of local exchange carrier contracts and customer contracts, which are amortized over their respective estimated lives. The weighted-average amortization period is approximately 11 years.

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

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

|                                  | 2009                        |                             | 2008                        |                             | Amortization<br>Period |
|----------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|------------------------|
|                                  | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization |                        |
|                                  | <i>(In thousands)</i>       |                             |                             |                             |                        |
| Local exchange carrier contracts | \$ 11,310                   | \$ 4,555                    | \$ 11,310                   | \$ 3,801                    | 15 years               |
| Customer contracts               | 77,065                      | 46,409                      | 77,065                      | 38,521                      | 10 years               |
| Trademarks                       | 5,400                       | –                           | 5,400                       | –                           | N/A                    |
|                                  | <b>\$ 93,775</b>            | <b>\$ 50,964</b>            | <b>\$ 93,775</b>            | <b>\$ 42,322</b>            |                        |

Total amortization expense from definite-lived intangibles was \$8.6 million and \$9.3 million for the years ended December 31, 2009 and 2008, respectively. The estimate of amortization expense for each of the five succeeding fiscal years for definite-lived intangibles is \$8.6 million for the years 2010 through 2012, \$7.7 million for the year 2013 and \$0.1 million for the year 2014.

## Billing Services Group Limited

### Notes to Consolidated Financial Statements (continued)

#### 3. Intangible Assets and Goodwill (continued)

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

The Company performs its annual goodwill impairment test on October 1 of each year. In 2008 and 2009, 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 2009, the Company made an adjustment to reduce goodwill by \$0.2 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, 2009:

|                                 | <b>Total</b>          |
|---------------------------------|-----------------------|
|                                 | <i>(In thousands)</i> |
| Balance as of December 31, 2008 | \$ 34,739             |
| Adjustment                      | (247)                 |
| Balance as of December 31, 2009 | <u>\$ 34,492</u>      |

## Billing Services Group Limited

### Notes to Consolidated Financial Statements (continued)

#### 4. Debt

Long-term debt is as follows:

|   | <b>December 31</b>    |                  |
|---|-----------------------|------------------|
|   | <b>2009</b>           | <b>2008</b>      |
|   | <i>(In thousands)</i> |                  |
| Term Loan Facility, net of unamortized original issue discount of \$2,319 at December 31, 2009 and \$3,273 at December 31, 2008 | \$ 77,759             | \$ 90,331        |
| Less current portion  | <b>11,250</b>         | 8,562            |
|   | <b>\$ 66,509</b>      | <b>\$ 81,769</b> |

On December 19, 2007, the Company refinanced its debt and entered into a new credit agreement totaling \$112.5 million. The new credit agreement consists of a \$112.5 million term loan (the "Term Loan Facility"). The Term Loan Facility is secured by all of BSG North America's assets and guarantees from most of the Company's subsidiaries. At December 31, 2009 and 2008, borrowings under the Term Loan Facility, including unamortized original issue discount, were \$80.1 million and \$93.6 million, respectively.

Loans under the Term Loan Facility were issued net of an original issue discount of \$4.5 million. Interest is charged, at the Company's option, at the U.S. prime rate plus 3.25% per annum, or the London Interbank Offered Rate ("LIBOR") plus 4.25% per annum. At December 31, 2009, the nominal interest rate on outstanding loans was 4.5625% per annum, but the effective interest rate, including the impact of interest rate swap contracts (see Note 5), was 6.82% per annum.

The Term Loan Facility requires quarterly principal payments of \$2.8 million through September 2014 and a payment of \$36.6 million at its maturity in December 2014. It also requires mandatory prepayments relating to (i) 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 2009, the Company extinguished \$5.0 million of principal amount of debt through the repurchase of a portion of the Term Loan Facility which resulted in a gain of \$185,000, net of accumulated amortization of original issue discount of \$144,000.

## Billing Services Group Limited

### Notes to Consolidated Financial Statements (continued)

#### 4. Debt (continued)

During 2008, the Company extinguished \$5.0 million of principal amount of debt through the repurchase of a portion of the Term Loan Facility which resulted in a gain of \$84,000, net of accumulated amortization of original issue discount of \$171,000.

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

#### 5. Financial Instruments

##### Interest Rate Swaps

In connection with the Term Loan Facility, the Company entered into a series of interest rate swap contracts during December 2007. Under the contracts outstanding at December 31, 2009, the Company will pay fixed rates of 4.00% per annum to 4.18% per annum, thereby fixing the LIBOR portion of the interest rate on the notional amounts. The table below sets forth the interest rate swap contracts outstanding at December 31, 2009:

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

During the first quarter of 2009, the Company terminated \$22 million of notional principal amount in interest rate swaps for a cost of \$0.8 million.

The Company's interest rate swap contracts are designated as a cash flow hedge, and the effective portion of the gain or loss on the swap is reported as a component of other comprehensive income. Ineffective portions of a cash flow hedging derivative's change in fair value are recognized currently in earnings. No ineffectiveness was recorded in earnings related to these interest rate swaps.

## 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 assesses at inception, and on an ongoing basis, whether its interest rate swap agreements are highly effective in offsetting changes in the interest expense of its floating rate debt. A derivative that is not a highly effective hedge does not qualify for hedge accounting.

The Company continually monitors its positions with, and credit quality of, the financial institutions which are counterparties to its interest rate swaps. The Company may be exposed to credit loss in the event of nonperformance by the counterparties to the interest rate swaps. However, the Company considers this risk to be low. If a derivative instrument no longer qualifies as a cash flow hedge, hedge accounting is discontinued and the gain or loss that was recorded in other comprehensive income is recognized currently in income.

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

The Company adopted ASC 820, *Fair Value Measurements and Disclosures* on January 1, 2008 and began to apply its recognition and disclosure provisions to its financial assets and financial liabilities that are remeasured at fair value at least annually. ASC 820-10-35 establishes a three-tier fair value hierarchy, which 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.

Due to the fact that the inputs to the model used to estimate fair value of the Company's interest rate swaps are either directly or indirectly observable, the Company classified the fair value measurements of these agreements as Level 2.

## Billing Services Group Limited

### Notes to Consolidated Financial Statements (continued)

#### 5. Financial Instruments (continued)

The table below shows the balance sheet classification and fair value of the Company's interest rate swaps designated as hedging instruments (*in thousands*):

| Classification at<br>December 31, 2009 | Fair Value | Classification at<br>December 31, 2008 | Fair Value |
|--|------------|--|------------|
| Other liabilities                      | \$2,545    | Other liabilities                      | \$4,253    |

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

| <u>Accumulated other comprehensive loss</u> | <i>(In thousands)</i> |
|---|-----------------------|
| Balance at January 1, 2009                  | \$ (2,588)            |
| Other comprehensive gain, net of taxes      | 908                   |
| Balance at December 31, 2009                | <u>\$ (1,680)</u>     |

#### 6. Income Taxes

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

|                             | <b>December 31</b>    |             |
|-----------------------------|-----------------------|-------------|
|                             | <b>2009</b>           | <b>2008</b> |
|                             | <i>(In thousands)</i> |             |
| Current expense:            |                       |             |
| Federal                     | \$ 6,480              | \$ 5,153    |
| State                       | 345                   | 315         |
|                             | <b>6,825</b>          | 5,468       |
| Deferred expense (benefit): |                       |             |
| Federal                     | 1,838                 | (905)       |
| State                       | 15                    | 32          |
|                             | <b>1,853</b>          | (873)       |
| Total income tax expense    | <b>\$ 8,678</b>       | \$ 4,595    |

## 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:

|  | <b>December 31</b>    |                 |
|--|-----------------------|-----------------|
|  | <b>2009</b>           | <b>2008</b>     |
|  | <i>(In thousands)</i> |                 |
| Estimated federal tax expense (benefit) at 35%                                 | \$ 8,938              | \$ 4,362        |
| Increases (reductions) from:   |                       |                 |
| State tax  | 405                   | 226             |
| Settlement of state audit  | (165)                 | –               |
| Permanent deduction for adjustment of liabilities<br>assumed in an acquisition | (2,474)               | –               |
| Deferred true-up related to cancelation of non-qualified<br>stock options      | 469                   | –               |
| Valuation allowance on capital loss carryover                                  | 122                   | –               |
| Foreign tax rate differential  | 11                    | 75              |
| Unrecognized tax benefits  | 1,425                 | –               |
| Other  | (53)                  | (68)            |
| Income tax expense   | <b>\$ 8,678</b>       | <b>\$ 4,595</b> |

## 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 balance sheets include the following amounts:

|   | <b>December 31</b>    |             |
|---|-----------------------|-------------|
|   | <b>2009</b>           | <b>2008</b> |
|   | <i>(In thousands)</i> |             |
| Deferred tax assets:                          |                       |             |
| Reserve for bad debts                         | \$ 102                | \$ 98       |
| Accrued liabilities                           | 321                   | 573         |
| State taxes                                   | 385                   | 400         |
| Stock-based compensation expense              | 1                     | 756         |
| Prepaid expense                               | (206)                 | –           |
| Capital loss carryover                        | 122                   | 122         |
| Derivatives                                   | 830                   | 1,487       |
| Valuation allowance on capital loss carryover | (122)                 | –           |
| Intangible assets                             | –                     | 316         |
| Total deferred tax assets                     | 1,433                 | 3,752       |
| Deferred tax liabilities:                     |                       |             |
| Property, equipment and software              | (3,640)               | (3,904)     |
| Intangible assets                             | 587                   | –           |
| Capitalized interest                          | (1,335)               | (1,335)     |
| Cancellation of debt deferral                 | (1,172)               | –           |
| Other   | –                     | (189)       |
| Total deferred tax liabilities                | (5,560)               | (5,428)     |
| Net deferred tax liabilities                  | \$ (4,127)            | \$ (1,676)  |

At December 31, 2009, 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

## Billing Services Group Limited

### Notes to Consolidated Financial Statements (continued)

#### 6. Income Taxes (continued)

capital loss carryforward, as they do 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.

During the year ended December 31, 2008, the Company established a reserve on unrecognized tax benefits of \$0.9 million related to an adjustment of liabilities assumed in a prior acquisition and during the year ended December 31, 2009, the Company established a reserve of \$0.9 million related to an additional adjustment of liabilities assumed in a prior acquisition. In 2009, the Company also established a reserve of \$0.4 million related to tax positions taken on a prior year return. During 2009, the reserve was decreased by \$0.3 million related to the settlement of the Texas state audit. The total reserve as of December 31, 2009 is \$2.2 million. The Company does not expect the recorded liability to change significantly over the next twelve months. It is the Company's policy to recognize interest and penalties related to uncertain tax positions in the provision for income taxes in the consolidated statement of operations. At December 31, 2009 and 2008, the Company recorded \$0.1 million and \$0, respectively, in interest and penalties.

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

|  |    |                     |
|--|----|---------------------|
| Balance at December 31, 2007                                 | \$ | 255                 |
| Additions based on tax positions related to the current year |    | 885                 |
| Balance at December 31, 2008                                 |    | <u>1,140</u>        |
| Additions based on tax positions related to the current year |    | 876                 |
| Additions based on tax positions related to prior years      |    | 422                 |
| Settlements  |    | <u>(255)</u>        |
| Balance at December 31, 2009                                 | \$ | <u><u>2,183</u></u> |

Of the amounts reflected in the table above at December 31, 2009, there were \$2.2 million of tax benefits, that if recognized in 2009, would reduce the Company's annual effective tax rate.

The Company's tax returns for 2004 through 2009 tax years generally remain subject to examination by the federal and most state tax authorities. The Internal Revenue Service is currently examining the consolidated tax returns of BSG North America for the years ended December 31, 2004 to 2006.

## 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:

|                                   | <b>December 31</b>                              |             |
|-----------------------------------|---|-------------|
|                                   | <b>2009</b>                                     | <b>2008</b> |
|                                   | <i>(In thousands, except per share amounts)</i> |             |
| Numerator:                        |   |             |
| Net income                        | <b>\$ 16,858</b>                                | \$ 7,861    |
| Denominator:                      |   |             |
| Weighted-average shares – basic   | <b>279,863</b>                                  | 279,863     |
| Effect of diluted securities:     |   |             |
| Options                           | <b>1,009</b>                                    | –           |
| Weighted-average shares – diluted | <b>280,872</b>                                  | 279,863     |
| Net income per common share:      |   |             |
| Basic and diluted                 | <b>\$ 0.06</b>                                  | \$ 0.03     |

Options at December 31, 2008 have not been included in the calculation of earnings per share because these options were not in the money as calculated over the measurement period during 2008.

## Billing Services Group Limited

### Notes to Consolidated Financial Statements (continued)

#### 8. Commitments

The Company leases certain office space and equipment under various operating leases. Annual future minimum lease commitments as of December 31, 2009, are as follows (in thousands):

|                          |        |
|--------------------------|--------|
| Year ending December 31: |        |
| 2010                     | \$ 926 |
| 2011                     | 950    |
| 2012                     | 524    |

Rental expense under these operating leases approximated \$0.9 million for each of the years ended December 31, 2009 and 2008.

#### 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 financial position or results of operations; however, due to the inherent uncertainty of litigation, there can be no assurance that the resolution of any particular claim or proceeding would not have a material adverse effect on the Company's financial position and results of operations for the fiscal period in which such resolution occurs.

#### 10. Employee Benefit Plan

The Company's subsidiaries sponsor 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, 2009 and 2008, the Company's matching contributions totaled approximately \$0.3 million in each period. No discretionary contributions were made.

# Billing Services Group Limited

## Notes to Consolidated Financial Statements (continued)

### 11. Stock Option Plans

#### 2008 Amended and Restated Stock Option Plans

On August 15, 2008, the Board of Directors adopted resolutions to amend and restate both the Billing Services Group Limited Stock Option Plan and the BSG Clearing Solutions North America, Inc. Stock Option Plan (the “Amended and Restated BSG Plan” and the “Amended and Restated BSG North America Plan,” respectively).

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

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

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 2009 amounted to 6.0 pence per share. The following assumptions were used in arriving at the fair value of options granted during 2009: risk-free interest rate of 3.2%; dividend yield of 0%; expected volatility of 55.81%; and expected lives of five years and nine months. Risk free interest rates reflect the yield on the ten-year U.S. Treasury note. Expected dividend yield presumes no set dividend paid. Expected volatility is based on implied volatility from historical market data for the Company. The expected option lives are based on a mathematical average with respect to vesting and contractual terms.

## Billing Services Group Limited

### Notes to Consolidated Financial Statements (continued)

#### 11. Stock Option Plans (continued)

The following is a summary of option activity:

|  | <b>Options<br/>Outstanding</b> | <b>Weighted-<br/>Average<br/>Exercise<br/>Price</b> |
|--|--------------------------------|---|
| Options outstanding at December 31, 2008         | 22,926,566                     | 10.34 pence   |
| Granted  | 410,000                        |   |
| Exercised  | (10,470,783)                   |   |
| Forfeited  | (2,160,000)                    |   |
| Options outstanding at December 31, 2009         | 10,705,783                     |   |
| Options exercisable at December 31, 2009         | 24,375                         |   |
| Options available for grant at December 31, 2009 | 6,809,759                      |   |

All of the options granted during 2009 were granted under the Amended and Restated BSG North America Plan.

As of December 31, 2009, there was \$1.0 million of total unrecognized noncash compensation cost related to nonvested share-based compensation arrangements granted under the BSG Plan and the BSG North America Plan. That cost is expected to be recognized during 2010 and 2011.

During 2009, options covering 10,470,783 shares were exercised by employees and non-executive directors of the Company. Of this amount, options covering 9,101,250 shares were exercised by employees and options covering 1,369,533 shares were exercised by non-executive directors of the Company. All options were exercised on a 'cashless' basis; accordingly, no cash was received by the Company. The underlying shares were purchased by the Company and immediately retired. No options were exercised during 2008, and accordingly, there were neither cash receipts received nor tax benefits realized for the tax deductions from option exercise.

## Billing Services Group Limited

### Notes to Consolidated Financial Statements (continued)

#### **12. Restructuring Expense and Other Income**

##### **Restructuring Expense**

In 2008, following the disposition of the Company's businesses outside of the United States, the Company implemented cost reduction actions largely designed to reduce corporate overhead expenses. In connection with this plan, the Company recorded a \$2.8 million restructuring charge, principally to cover severance and related compensation costs for terminated employees. Of this amount, \$1.7 million was paid during 2008 and \$0.8 million was paid in 2009. The Company anticipates paying the remaining \$0.3 million in 2010.

##### **Other Income**

Other income for the year ended December 31, 2009 consists primarily of the reduction of certain liabilities based on changes in the estimation process.