

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

Audited results for the year ended December 31, 2010

STRONG CASH FLOWS ENABLE MEANINGFUL DEBT REDUCTION

(March 31, 2011) 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, 2010.

Financial Highlights

	<u>2010 (US\$)</u>	<u>2009 (US\$)</u>
Revenue	\$133.7 million	\$146.5 million
EBITDA ⁽¹⁾	\$32.4 million	\$38.9 million
Net income	\$6.6 million	\$16.9 million
Net income per basic and diluted share	\$0.02 per share	\$0.06 per share

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

- Reduced the outstanding debt balance by \$19.3 million, for a year-end outstanding amount of \$60.8 million (December 31, 2009: \$80.1 million)

Operational Highlights

- Succeeded in executing eleven new contracts for the Bill2Phone™ service which could generate up to \$2 million in annual revenue
- Implemented a cost reduction plan to reduce annual cash operating costs by \$2.2 million

Recent Events

- Successfully amended the Company's credit agreement to accommodate the current financial outlook for 2011 (amendment was effective in March 2011)
- Recently completed the Accenture audit, which measured compliance with specific performance requirements set out by the largest local exchange carrier in the United States

Current Trading

- As noted in announcements dated August 13, 2010, September 2, 2010 and February 15, 2011, the Company expects its revenue and EBITDA in 2011 will be negatively impacted because of (i) the ongoing negative perception of enhanced services by LECs and consumers; (ii) uncertainty surrounding LEC billing for enhanced services precipitated by an increased level of Congressional scrutiny; and (iii) a reduction in complaint fees from levels realized in 2010. In that context, year-to-date results in 2011 are in line with expectations.

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

"It was a difficult year, but we achieved a core objective of reducing indebtedness. The Company generated \$32.4 million of EBITDA and reduced outstanding debt by \$19.3 million.

The operational challenges in 2010, which have been previously disclosed, resulted in disappointing transaction volumes for enhanced billing services and Bill2Phone. Enhanced billing products were subject to critical perceptions from consumers, a large LEC and governmental bodies. At the same time, the Bill2Phone service has struggled to gain traction with merchants.

To its credit, management implemented a tactical plan to deal with both issues. Another cost-cutting round by the team resulted in \$2.2 million of reduced annual cash operating expenses, and contracts with three charities appear to indicate a willingness within this market vertical to perhaps see Bill2Phone as a potential donation mechanism."

INQUIRIES:

Billing Services Group Limited +1 210 949 7000
Greg Carter
Norm Phipps

Evolution Securities Limited +44 (0) 20 7071 4300
Stuart Andrews

BSG Media Relations +1 210 326 8992
Leslie Komet Ausburn

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

Characterizing 2010 as a challenging year would be an understatement. Yet, as we look back at the challenges and the actions taken to address them, BSG's accomplishments were noteworthy.

- Generated \$32.4 million in EBITDA
- Reduced long-term debt by \$19.3 million
- Implemented a \$2.2 million cost reduction program
- Signed eleven new Bill2Phone contracts
- Successfully completed the Accenture audit requested by the largest US LEC (in March 2011)
- Initiated new policies and augmented certain procedures to address and mitigate the concerns of consumers and our LEC partners about enhanced services

We have completed the requirements asked of us by our LEC partners and established the framework for the resumption of normal billing for enhanced services. Despite our confidence with the adequacy and integrity of our quality control standards, along with the confirmation of our sound business practices by Accenture, because of other extraneous factors described in our December 20, 2010 announcement, we cannot predict or assess with clarity the likelihood of enhanced services returning to historic revenue levels. Frustrating as this may be, it is the current reality.

Current Trading and Prospects

Our challenges in 2010 have adversely affected revenue and earnings. Our first half revenue in 2010 was \$75.5 million, while second half revenue was \$58.2 million. While we have begun to see a stabilization of revenue, the issues surrounding enhanced services, along with the secular decline in land line phone usage, will restrain revenue again during 2011.

Despite these challenges, which we view as opportunities to distinguish ourselves from competitors, it is hard to overstate the opportunistic mind-set at BSG. BSG invented the third-party billing industry. No other company in the industry enjoys BSG's reputation for technical sophistication, efficiency and integrity. For those reasons, I am confident we will move beyond the near-term issues and turn all our attention once again to successful product development, sales growth, operational efficiency, debt reduction and all means to enhance shareholder value.

As always, I am grateful for our loyal, dedicated employee base in San Antonio. Their commitment to excellence and fierce desire to succeed will continue to shape BSG in future years.

Greg Carter
Chief Executive Officer

FINANCIAL REVIEW

Financial Review of the Year Ended December 31, 2010

The Company's audited results for the year ended December 31, 2010 are compared against the year ended December 31, 2009 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 wire line 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, income related to stock-based compensation 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, 2010 to Year Ended December 31, 2009

Total Revenues. Total revenues of \$133.7 million in 2010 were \$12.8 million, or 9%, lower than the \$146.5 million of revenues recorded during 2009. The \$12.8 million decrease reflected a \$10.3 million reduction in enhanced service billing revenue, a \$7.4 million decline in core product offerings, including long distance, operator services, and third party verification services, and a \$1.5 million decrease in net settlement revenue. These reductions to revenue were offset by a \$5.3 million net increase in revenue from customer service-related activities (including complaint and recourse fees) and a \$1.1 million increase in Bill2Phone revenue.

The reduction in revenue from enhanced service offerings reflects a disruption in transactions in 2010 when the largest LEC in the United States placed new restrictions which effectively eliminated billing for certain newly marketed enhanced services that were not exclusively provided by the LEC or by BSG on the LEC's behalf. The unfavorable comparisons for revenue from core product offerings result from the ongoing secular decline in traditional United States land line usage.

Cost of Services and Gross Profit. The Company's cost of services in 2010 was \$79.9 million, compared to \$86.5 million in 2009. The \$6.6 million, or 8%, 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 \$53.8 million of gross profit in 2010, compared to \$60.0 million in 2009. Gross margin of 40.3% compared to 41.0% in 2009. The 0.7% absolute percentage point decline in margin largely reflected a greater proportion of revenue generated by complaint fees that carry a lower margin than the Company's overall business.

Cash Operating Expenses. Cash operating expenses were \$21.4 million in 2010, compared to \$21.1 million in 2009. The \$0.3 million, or 1%, increase largely reflected a \$1.0 million increase in bad debt expense, a \$0.3 million increase for professional fees and a \$0.2 million reduction in tax discounts (tax discounts serve to reduce cash operating expenses), offset by a \$0.6 million reduction in outsourced call center expenses and a \$0.6 million reduction in compensation expense.

Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"). The Company generated \$32.4 million of EBITDA during 2010, compared to \$38.9 million in 2009.

Depreciation and Amortization Expense. Depreciation and amortization expense in each of 2010 and 2009 (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 and \$0.2 million in 2010 and 2009, respectively, in connection with adjustments to liabilities recorded in an acquisition during a prior period, net of related income taxes.

Restructuring Expense. During 2010, the Company recorded a \$0.8 million restructuring charge 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 \$0.7 million and \$0.6 million of non-cash compensation expense during 2010 and 2009, respectively. 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 \$6.4 million in 2010, which was \$1.0 million, or 14%, lower than the \$7.4 million of expense in 2009. Interest expense includes cash payments of interest, amortization of original issue discount, amortization of deferred finance fees and fees incurred under the credit agreement. The \$1.0 million reduction in 2010 largely reflected lower outstanding debt balances, fewer interest rate swap contracts outstanding during the year and a reduction in non-cash amortization expense for original issue discount and deferred finance fees.

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 2010, the Company incurred a loss of \$0.2 million related to the cancellation of certain interest rate swap contracts, compared to a loss of \$0.6 million in 2009. 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 2010 was \$0.2 million, compared to other income of \$7.7 million in 2009. The \$7.7 million of other income in 2009 arose from the reassessment of reserves and accruals required for future retrospective assessments by LECs. The reserve and accrual adjustments followed a comprehensive review of the related accounts during 2009. Due to its non-recurring nature, other income and expense in both periods is not included as earnings for purposes of computing EBITDA.

Change in Cash. BSG’s cash balance at December 31, 2010 was \$12.6 million, compared to \$14.4 million at December 31, 2009. The \$1.8 million decrease in cash during 2010 is largely attributable to \$19.3 million in principal payments on long-term debt and \$2.2 million in capital expenditures, offset by \$9.2 million of cash flow from operations and a \$10.3 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, 2010, inclusive of long-term liabilities, were \$14.8 million, compared to \$25.5 million at December 31, 2009. The \$10.7 million reduction in third party payables during 2010 resulted from \$5.3 million paid from net collections of purchased receivables (see below), \$3.8 million of net payments in the ordinary course of clearinghouse settlements and \$1.6

million 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 2010, the Company reduced purchased receivables by \$10.3 million, which resulted in a \$5.3 million reduction in third party payables.

Capital Expenditures. During 2010, the Company invested \$2.2 million through capital expenditures, primarily for capitalized software development expense, telecommunications and computer equipment.

Cash Flow for the Year Ended December 31, 2010

Cash flow from operating activities. Net cash provided by operating activities was \$9.2 million during 2010. Net cash provided was principally attributable to \$14.4 million of depreciation and amortization (including amortization of deferred finance costs and original issue discount on outstanding debt), \$6.6 million in net income and a \$2.5 million decrease in accounts receivable, offset by a \$9.1 million decrease in accounts payable related to the LEC clearinghouse business, a \$1.6 million reduction in accounts payable related to DAC customers, a \$1.8 million decrease in trade accounts payable, a \$1.2 million decrease in the provision for deferred taxes and a \$0.9 million decrease in accrued and other liabilities.

Cash flow from investing activities. Cash provided by investing activities was \$8.1 million, reflecting a \$10.3 million decrease in purchased receivables offset by \$2.2 million in capital expenditures.

Cash flow from financing activities. Cash used in financing activities was \$19.2 million, reflecting \$19.3 million of principal payments on long-term debt, offset by \$0.1 million of proceeds from the issuance of common stock.

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 Evolution Securities Limited
100 Wood Street
London EC2V 7AN
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	
	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,557	\$ 14,425
Accounts receivable	16,532	19,005
Purchased receivables	9,053	19,390
Income tax receivable	1,213	1,262
Prepaid expenses and other current assets	729	588
Deferred taxes – current	1,817	1,433
Total current assets	41,901	56,103
Property, equipment and software	40,776	38,576
Less accumulated depreciation and amortization	24,249	19,470
Net property, equipment and software	16,527	19,106
Deferred finance costs, net of accumulated amortization of \$879 and \$659 at December 31, 2010 and 2009, respectively	467	687
Intangible assets, net of accumulated amortization of \$59,613 and \$50,964 at December 31, 2010 and 2009, respectively	34,288	42,811
Goodwill	34,433	34,492
Other assets	534	534
Total assets	\$ 128,150	\$ 153,733

Billing Services Group Limited

Consolidated Balance Sheets (continued)

(In thousands, except shares)

	December 31	
	2010	2009
Liabilities and shareholders' equity		
Current liabilities:		
Trade accounts payable	\$ 10,630	\$ 12,447
Third-party payables	14,321	24,197
Accrued liabilities	1,972	2,392
Current portion of long-term debt	3,844	11,250
Total current liabilities	30,767	50,286
Long-term debt, net of current portion and unamortized original issue discount of \$1,575 and \$2,319 at December 31, 2010 and 2009, respectively	55,410	66,509
Deferred taxes – noncurrent	4,935	5,560
Other liabilities	3,920	6,114
Total liabilities	95,032	128,469
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$0.59446 par value; 350,000,000 shares authorized and 280,165,748 and 279,863,248 shares issued and outstanding at December 31, 2010 and 2009, respectively	166,433	166,368
Additional paid-in capital (deficit)	(175,125)	(175,786)
Retained earnings	42,959	36,396
Accumulated other comprehensive loss	(1,149)	(1,714)
Total shareholders' equity	33,118	25,264
Total liabilities and shareholders' equity	\$ 128,150	\$ 153,733

See accompanying notes.

Billing Services Group Limited

Consolidated Statements of Operations

(In thousands, except per share amounts)

	Years Ended December 31	
	2010	2009
Operating revenues	\$ 133,695	\$ 146,458
Cost of services	79,858	86,462
Gross profit	53,837	59,996
Selling, general, and administrative expenses	21,393	21,109
Depreciation and amortization expense	13,428	13,402
Restructuring expense	761	–
Stock-based compensation expense	667	628
Operating income	17,588	24,857
Other income (expense):		
Interest expense, net of \$62 and \$86 capitalized in 2010 and 2009, respectively	(6,361)	(7,365)
Settlement of derivatives	(202)	(633)
Interest income	593	932
Other (expense) income, net	(216)	7,745
Total other (expense) income, net	(6,186)	679
Income before income taxes	11,402	25,536
Income tax expense	4,839	8,678
Net income	\$ 6,563	\$ 16,858

Billing Services Group Limited

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

	Years Ended December 31	
	2010	2009
Net income per basic and diluted share:		
Basic net income per share	\$ 0.02	\$ 0.06
Diluted net income per share	\$ 0.02	\$ 0.06
Basic weighted-average shares outstanding	279,914	279,863
Diluted weighted-average shares outstanding	280,920	280,872

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, 2008	279,863	\$ 166,368	\$ (174,611)	\$ 19,538	\$ (2,632)	\$ 8,663
Stock-based compensation expense recognized in earnings	-	-	628	-	-	628
Repurchase and cancellation of exercised options	-	-	(1,803)	-	-	(1,803)
Net income	-	-	-	16,858	-	16,858
Translation adjustment	-	-	-	-	10	10
Derivative gain, net of taxes of \$598	-	-	-	-	908	908
Total comprehensive income						<u>17,776</u>
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						<u>7,128</u>
Shareholders' equity, December 31, 2010	<u>280,166</u>	<u>\$ 166,433</u>	<u>\$ (175,125)</u>	<u>\$ 42,959</u>	<u>\$ (1,149)</u>	<u>\$ 33,118</u>

See accompanying notes.

Billing Services Group Limited

Consolidated Statements of Cash Flows

(In thousands)

	Years Ended December 31	
	2010	2009
Operating activities		
Net income	\$ 6,563	\$ 16,858
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,779	4,760
Amortization of intangibles	8,649	8,642
Amortization of deferred finance costs	965	1,050
Stock-based compensation expense	667	628
Gain on extinguishment of debt	–	(185)
Changes in operating assets and liabilities:		
Decrease in accounts receivable	2,473	3,183
Increase in income taxes receivable, net	(4)	(421)
Increase in prepaid expenses and other assets	(267)	(53)
Decrease in trade accounts payable	(1,817)	(962)
Decrease in third-party payables	(10,670)	(26,014)
Decrease in accrued liabilities	(420)	(2,531)
Provision for deferred taxes	(1,230)	1,853
(Decrease) increase in other liabilities	(462)	633
Net cash provided by operating activities	9,226	7,441
Investing activities		
Purchases of property, equipment and software, including \$62 and \$86 of capitalized interest in 2010 and 2009, respectively	(2,200)	(3,224)
Net receipts (advances) on purchased receivables	10,337	(1,131)
Net cash provided by (used in) investing activities	8,137	(4,355)

Billing Services Group Limited

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

	Years Ended December 31	
	2010	2009
Financing activities		
Payments on long-term debt	\$ (19,250)	\$ (13,154)
Payments on settlement of derivative contracts	–	(835)
Purchase of exercised options	–	(2,036)
Proceeds from issuance of common stock	65	–
Net cash used in financing activities	(19,185)	(16,025)
Effect of exchange rate changes on cash	(46)	10
Net decrease in cash and cash equivalents	(1,868)	(12,929)
Cash and cash equivalents at beginning of year	14,425	27,354
Cash and cash equivalents at end of year	\$ 12,557	\$ 14,425
Supplemental cash information		
Cash paid during the year for:		
Interest	\$ 5,354	\$ 5,811
Taxes	\$ 6,465	\$ 6,900
Noncash investing and financing activities		
Adjustment to goodwill, net of tax effect	\$ 59	\$ 185
Derivative gain, net of tax expense of \$220 and \$598	\$ 611	\$ 908

See accompanying notes.

Billing Services Group Limited

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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 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 10% 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, 2010) 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, 2010 and 2009. 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, 2010, ten customers represented approximately 36% of accounts receivable, and ten customers represented approximately 87% of outstanding purchased receivables. At December 31, 2009, ten customers represented approximately 31% of accounts receivable, and ten customers represented approximately 80% 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, 2010, twenty customers represented approximately 42% of consolidated revenues. For the year ended December 31, 2009, twenty customers represented approximately 41% 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 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. When events or changes in circumstances indicate that the carrying amount of capitalized software may not be recoverable, the Company assesses the recoverability of such assets based on estimates of future undiscounted cash flows compared to net book value. If the future undiscounted cash flow estimates are less than net book value, net book value would then be reduced to estimated fair value, which generally approximates discounted cash flows. The Company also evaluates the amortization periods of capitalized software assets to determine whether events or circumstances warrant revised estimates of useful lives.

For the years ended December 31, 2010 and 2009, the Company capitalized \$1.7 million and \$2.7 million, respectively, of software development costs. During 2010 and 2009, the Company transferred \$1.3 million and \$2.7 million, respectively, of software development costs to computer software. Depreciation expense on computer software was \$4.0 million and \$3.7 million for the years ended December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, the Company had undepreciated software costs of \$14.7 million and \$17.5 million, respectively.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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

Purchase Accounting

The Company accounts for its business combinations under the acquisition method of accounting and in accordance with the provisions of Accounting Standards Codification (“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.

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 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 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 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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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

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.

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. 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.

The remaining funds due to customers are recorded as liabilities and reported in third-party payables in the consolidated balance sheets. In certain instances, 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.

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 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.

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, 2010 and 2009.

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

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.

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 has evaluated subsequent events through March 30, 2011.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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

In January 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2010-06, *Improving Disclosures about Fair Value Measurements*. This update amends ASC Topic 820, *Fair Value Measurements and Disclosures*, to require new disclosures for significant transfers in and out of Level 1 and Level 2 fair value measurements, disaggregation regarding classes of assets and liabilities, valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for Level 2 or Level 3. These disclosures are effective for the interim and annual reporting periods beginning after December 15, 2009. Additional new disclosures regarding the purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements are effective for fiscal years beginning after December 15, 2010 beginning with the first interim period. The Company adopted the relevant disclosure provisions of ASU 2010-06 on January 1, 2010 and will adopt the latter provisions on January 1, 2011 as appropriate.

2. Property, Equipment and Software

Property, equipment and software consisted of the following at December 31, 2010 and 2009:

	December 31	
	2010	2009
	<i>(In thousands)</i>	
Furniture and fixtures	\$ 236	\$ 236
Telecommunication equipment	1,839	1,839
Computer equipment	5,188	4,654
Computer software	30,464	29,175
Software development, including \$196 and \$134 of capitalized interest at December 31, 2010 and 2009, respectively	877	500
Leasehold improvements	2,172	2,172
	40,776	38,576
Less accumulated depreciation	24,249	19,470
Net property, equipment and software	\$ 16,527	\$ 19,106

Depreciation expense was \$4.8 million for each of the years ended December 31, 2010 and 2009.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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 category of intangible assets:

	2010		2009		Amortization Period
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	
	<i>(In thousands)</i>				
Local exchange carrier contracts	\$ 11,310	\$ 5,308	\$ 11,310	\$ 4,555	15 years
Customer contracts	77,192	54,305	77,065	46,409	10 years
Trademarks	5,400	–	5,400	–	N/A
	\$ 93,902	\$ 59,613	\$ 93,775	\$ 50,964	

Total amortization expense from definite-lived intangibles was \$8.6 million for the years ended December 31, 2010 and 2009. The estimate of amortization expense for the five succeeding fiscal years for definite-lived intangibles is \$8.6 million for each of 2011 and 2012, \$7.7 million for the year 2013 and \$1.0 million for each of 2014 and 2015.

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, 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 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

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

3. Intangible Assets and Goodwill (continued)

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 2009 and 2010, 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 2010, 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, 2010:

	Total
	<i>(In thousands)</i>
Balance as of December 31, 2009	\$ 34,492
Adjustment	(59)
Balance as of December 31, 2010	\$ 34,433

4. Debt

Long-term debt is as follows:

	December 31	
	2010	2009
	<i>(In thousands)</i>	
Term Loan Facility, net of unamortized original issue discount of \$1,575 at December 31, 2010 and \$2,319 at December 31, 2009	\$ 59,254	\$ 77,759
Less current portion	3,844	11,250
	\$ 55,410	\$ 66,509

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

4. Debt (continued)

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, 2010 and 2009, borrowings under the Term Loan Facility, including unamortized original issue discount, were \$60.8 million and \$80.1 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, 2010, 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 7.14% 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 consolidated 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 2010 and 2009, the Company made voluntary prepayments of \$8.0 million and \$5.0 million, respectively. During 2009, the Company additionally 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 \$0.2 million, net of accumulated amortization of original issue discount of \$0.1 million.

During 2010, the Company generated \$0.8 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 \$0.6 million by April 15, 2011.

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 (See Note 13).

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

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, 2010, the Company will pay fixed rates of 4.11% 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, 2010:

Contract Notional Amount	Contract Period	Contract Fixed Rate
<i>(In thousands)</i>		
\$ 15,000	12/31/07 to 12/31/11	4.11%
20,000	12/31/07 to 12/31/12	4.18%
<u>\$ 35,000</u>		

During 2010, interest rate swap contracts covering a notional principal amount of \$13.0 million expired. During the first quarter of 2009, the Company terminated \$22 million of notional principal amount in interest rate swap contracts 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 hedge's change in fair value are recognized as income or expense in the period of ineffectiveness. No ineffectiveness was recorded related to interest rate swap contracts during 2009 or 2010. Interest expense associated with these interest rate swaps includes \$1.8 million and \$1.6 million of realized losses reclassified into earnings in 2010 and 2009, respectively.

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.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

5. Financial Instruments (continued)

The Company continually monitors its positions with, and credit quality of, the financial institutions which are counterparties to its interest rate swap contracts. The Company may be exposed to credit loss in the event of nonperformance by the counterparties to the interest rate swap contracts. However, the Company considers this risk to be low.

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, 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.

The swap agreements are valued using a discounted cash flow model that takes 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.

Due to the fact that the inputs to the model used to estimate fair value of the Company's interest rate swap contracts are 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, 2010	Fair Value	Classification at December 31, 2009	Fair Value
	<i>(In thousands)</i>		
Other liabilities	\$1,910	Other liabilities	\$2,545

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, 2010	\$ (1,853)
Other comprehensive gain, net of taxes	611
Balance at December 31, 2010	\$ (1,242)

6. Income Taxes

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

	December 31	
	2010	2009
	<i>(In thousands)</i>	
Current expense:		
Federal	\$ 5,791	\$ 6,480
State	278	345
	6,069	6,825
Deferred expense (benefit):		
Federal	(1,239)	1,838
State	9	15
	(1,230)	1,853
Total income tax expense	\$ 4,839	\$ 8,678

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	
	2010	2009
	<i>(In thousands)</i>	
Estimated federal tax expense at 35%	\$ 3,991	\$ 8,938
Increases (reductions) from:		
State tax	190	405
Settlement of state audit	–	(165)
Permanent deduction for adjustment of liabilities assumed in an acquisition	–	(2,474)
Deferred true-up related to cancelation of non-qualified stock options	–	469
Valuation allowance on capital loss carryover	–	122
Foreign tax rate differential	250	11
Unrecognized tax benefits	(259)	1,425
Settlement of Federal audit	155	–
Provision to return adjustment	440	–
Other	72	(53)
Income tax expense	\$ 4,839	\$ 8,678

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:

	December 31	
	2010	2009
	<i>(In thousands)</i>	
Deferred tax assets:		
Reserve for bad debts	\$ 485	\$ 102
Accrued liabilities	310	321
State taxes	376	385
Stock-based compensation expense	199	1
Prepaid expense	(221)	(206)
Capital loss carryover	122	122
Derivatives	668	830
Valuation allowance on capital loss carryover	(122)	(122)
Total deferred tax assets	1,817	1,433

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

6. Income Taxes (continued)

	December 31	
	2010	2009
	<i>(In thousands)</i>	
Deferred tax liabilities:		
Property, equipment and software	\$ (2,838)	\$ (3,640)
Intangible assets	860	587
Capitalized interest	(1,335)	(1,335)
Cancellation of debt deferral	(1,622)	(1,172)
Total deferred tax liabilities	(4,935)	(5,560)
Net deferred tax liabilities	\$ (3,118)	\$ (4,127)

At December 31, 2010, the Company had state net operating loss credit carryforwards of \$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.

During the year ended December 31, 2009, the Company established a reserve of \$0.9 million related to an 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. During 2010, the reserve was decreased by \$0.4 million related to the settlement of the Federal IRS audit. The reserve was also decreased by \$0.3 million due to a change in estimate on a 2009 position. The total reserve as of December 31, 2010 is \$1.4 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. During each of the years ended December 31, 2010 and 2009, the Company recorded \$0.1 million in interest and penalties.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

6. Income Taxes (continued)

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

	Total
	<i>(In thousands)</i>
Balance at December 31, 2008	\$ 1,140
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	2,183
Decreases based on tax positions related to prior years	(331)
Settlements	<u>(422)</u>
Balance at December 31, 2010	<u><u>\$ 1,430</u></u>

As indicated in the table above, at December 31, 2010, there were \$1.4 million of tax benefits, that if recognized in 2010, would reduce the Company's annual effective tax rate.

The Company's tax returns for 2007 through 2010 tax years remain subject to examination by the federal and most state tax authorities.

7. Earnings Per Share

Earnings per share are calculated based on the weighted average number of shares of the Company's common stock outstanding during the period.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

7. Earnings Per Share (continued)

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

	December 31	
	2010	2009
	<i>(In thousands, except per share amounts)</i>	
Numerator:		
Net income	\$ 6,563	\$ 16,858
Denominator:		
Weighted-average shares – basic	279,914	279,863
Effect of diluted securities:		
Options	1,006	1,009
Weighted-average shares – diluted	280,920	280,872
Net income per common share:		
Basic and diluted	\$ 0.02	\$ 0.06

8. Commitments

The Company leases certain office space and equipment under various operating leases. Annual future minimum lease commitments as of December 31, 2010, are as follows (in thousands):

Year ending December 31:	
2011	\$ 981
2012	540

Rental expense under these operating leases approximated \$0.9 million for each of the years ended December 31, 2010 and 2009.

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 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

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, 2010 and 2009, the Company's matching contributions totaled \$0.3 million in each period. No discretionary contributions were made.

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).

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

11. Stock Option Plans (continued)

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.

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

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 2010 and 2009 amounted to 6.0 pence per share. The following assumptions were used in arriving at the fair value of options granted during 2010: risk-free interest rate of 3.35%; dividend yield of 0%; expected volatility of 45.73%; 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:

	Options Outstanding	Weighted- Average Exercise Price
Options outstanding at December 31, 2009	10,705,783	10.8 pence
Granted	1,835,000	
Exercised	(302,500)	
Forfeited	(2,220,886)	
Options outstanding at December 31, 2010	10,017,397	
Options exercisable at December 31, 2010	4,498,386	
Options available for grant at December 31, 2010	7,225,895	

All of the options granted during 2010 were granted under the Amended and Restated BSG North America Plan.

As of December 31, 2010, there was \$0.6 million of total unrecognized noncash compensation cost related to nonvested share-based compensation arrangements granted under the Amended and Restated BSG Plan and the Amended and Restated BSG North America Plan. That cost is expected to be recognized during 2011 through 2013.

During 2010, options covering 302,500 shares were exercised by employees. 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. BSG Limited issued 302,500 shares in connection with the options exercised in 2010. With respect to the options exercised in 2009, the underlying shares were purchased by the Company and immediately retired.

Billing Services Group Limited

Notes to Consolidated Financial Statements (continued)

12. Restructuring Expense and Other Income

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, \$0.8 million was paid in 2010.

Other Income

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

13. Subsequent Event

In March 2011, the Company entered into an agreement with its lenders to amend certain of the terms of the Term Loan Facility (see Note 4). Among other things, the amendment modifies the interest coverage ratio, the leverage ratio and the amount of maximum consolidated capital expenditures. The amendment requires an incremental principal prepayment of \$5.0 million on March 31, 2011, quarterly principal payments of \$2.8 million and a semi-annual consolidated excess cash flow payment as defined. The amendment also increased the interest rate to LIBOR plus 5.0% through March 31, 2012 with additional interest of 3.0% either in cash or pay-in-kind, at the Company's option, commencing April 1, 2012.