CONSOLIDATED FINANCIAL STATEMENTS

Billing Services Group Limited
Years Ended December 31, 2012 and 2011
With Independent Auditor's Report

Billing Services Group Limited

Consolidated Financial Statements

Years Ended December 31, 2012 and 2011

Contents

PS&Co. Padgett Stratemann

Independent Auditor's Report

To the Board of Directors
Billing Services Group Limited
San Antonio, Texas

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Billing Services Group Limited, which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Billing Services Group Limited as of December 31, 2012, and the results of its operations and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The consolidated financial statements of Billing Services Group Limited, as of and for the year ended December 31, 2011, were audited by other auditors whose report dated March 23, 2012 expressed an unmodified opinion on those statements.

Padgett, Stratemann & Co., L.L.P.

Certified Public Accountants
March 27, 2013

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Billing Services Group Limited

Consolidated Balance Sheets
(In thousands, except shares)

	December 31 2012		December 31 2011	
Assets				
Current assets:				
Cash and cash equivalents	**$**	**19,111**	$	10,922
Restricted cash		**14,294**		–
Accounts receivable		**8,442**		13,030
Purchased receivables		**3,378**		6,111
Income tax receivable		**6,393**		842
Prepaid expenses and other current assets		**300**		403
Deferred taxes – current		**1,368**		1,106
Total current assets		**53,286**		32,414
Property, equipment and software		**44,512**		42,759
Less accumulated depreciation and amortization		**34,046**		28,952
Net property, equipment and software		**10,466**		13,807
Deferred finance costs, net of accumulated amortization of $202 and $78 at December 31, 2012 and 2011, respectively		**145**		269
Intangible assets, net of accumulated amortization of $76,650 and $68,271 at December 31, 2012 and 2011, respectively		**15,553**		24,580
Goodwill		**34,100**		34,374
Other assets, net		**494**		534
Total assets	**$**	**114,044**	$	105,978

Continued on following page

Billing Services Group Limited

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

	December 31	
	2012	**2011**
Liabilities and shareholders' equity		
Current liabilities:		
Trade accounts payable	**$ 5,611**	$ 9,271
Third-party payables	**20,459**	18,154
Accrued liabilities	**26,208**	1,231
Current portion of long-term debt	**15,900**	10,400
Total current liabilities	**68,178**	39,056
Long-term debt, net of current portion	**15,987**	25,600
Deferred taxes – noncurrent	**5,593**	3,951
Distribution payable	**448**	–
Other liabilities	**1,360**	2,348
Total liabilities	**91,566**	70,955
Commitments and contingencies		
Shareholders' equity:		
Common stock, $0.59446 par value; 350,000,000 shares authorized; 282,415,748 and 280,165,748 shares issued and outstanding at December 31, 2012 and 2011, respectively	**167,771**	166,433
Additional paid-in capital (deficit)	**(175,770)**	(174,667)
Retained earnings	**30,283**	43,148
Accumulated other comprehensive income	**194**	109
Total shareholders' equity	**22,478**	35,023
Total liabilities and shareholders' equity	**$ 114,044**	$ 105,978

See accompanying notes.

Billing Services Group Limited

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

	Year Ended December 31	
	2012	**2011**
Operating revenues	**$ 70,260**	$ 96,775
Cost of services	**40,934**	57,722
Gross profit	**29,326**	39,053
Selling, general, and administrative expenses	**13,550**	16,489
Depreciation and amortization expense	**13,554**	13,361
Restructuring expense	**687**	–
Impairment charge	**3,660**	1,050
Stock-based compensation expense	**123**	458
Operating (loss) income	**(2,248)**	7,695
Other income (expense):		
Interest expense	**(1,378)**	(5,062)
Settlement of derivatives	**–**	(1,760)
Interest income	**202**	263
Nonrecurring expense	**(13,944)**	–
Gain on purchase of subsidiary	**3,034**	–
Other income (expense), net	**14**	(266)
Total other expense, net	**(12,072)**	(6,825)
(Loss) income before income taxes	**(14,320)**	870
Income tax benefit (expense)	**5,461**	(681)
Net (loss) income	**(8,859)**	189
Other comprehensive income	**85**	1,258
Comprehensive (loss) income	**$ (8,774)**	$ 1,447

Continued on following page

Billing Services Group Limited

Consolidated Statements of Operations (continued)

(In thousands, except per share amounts)

	Year Ended December 31 2012	2011
Net (loss) income per basic and diluted share:		
Basic net (loss) income per share	**$ (0.03)**	$ 0.00
Diluted net (loss) income per share	**$ (0.03)**	$ 0.00
Basic weighted-average shares outstanding	**280,252**	280,166
Diluted weighted-average shares outstanding	**280,252**	280,166

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, 2010	280,166	$ 166,433	$ (175,125)	$ 42,959	$ (1,149)	$ 33,118
Stock-based compensation expense recognized in earnings	–	–	458	–	–	458
Net income	–	–	–	189	–	189
Translation adjustment	–	–	–	–	16	16
Reclassification of loss on settlement of derivative, net of taxes of $668	–	–	–	–	1,242	1,242
Shareholders' equity, December 31, 2011	280,166	166,433	(174,667)	43,148	109	35,023
Stock-based compensation expense including deferred taxes of $12	**–**	**–**	**135**	**–**	**–**	**135**
Dividend distribution	**–**	**–**	**–**	**(2,826)**	**–**	**(2,826)**
Common stock issuance	**2,250**	**1,338**	**(1,238)**	**–**	**–**	**100**
Purchase of subsidiary	**–**	**–**	**–**	**(1,180)**	**–**	**(1,180)**
Net loss	**–**	**–**	**–**	**(8,859)**	**–**	**(8,859)**
Translation adjustment	**–**	**–**	**–**	**–**	**85**	**85**
Shareholders' equity, December 31, 2012	**282,416**	**$ 167,771**	**$ (175,770)**	**$ 30,283**	**$ 194**	**$ 22,478**

See accompanying notes.

Billing Services Group Limited

Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31	
	2012	**2011**
Operating activities		
Net (loss) income	**$ (8,859)**	$ 189
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	**5,014**	4,703
Amortization of intangibles and other assets	**8,416**	8,658
Amortization of deferred finance costs	**124**	2,120
Stock-based compensation expense	**135**	458
Settlement of derivatives	**–**	1,760
Impairment charge	**3,660**	1,050
Nonrecurring expense	**13,944**	–
Gain on purchase of subsidiary	**(3,034)**	–
Changes in operating assets and liabilities:		
Decrease in accounts receivable	**4,855**	3,502
(Increase) decrease in income taxes receivable, net	**(5,551)**	443
Decrease in prepaid expenses and other current assets	**233**	326
Decrease in trade accounts payable	**(4,100)**	(1,300)
(Decrease) increase in third-party payables	**(11,350)**	4,099
Increase (decrease) in accrued liabilities	**24,633**	(741)
Increase (decrease) in provision for deferred taxes	**1,380**	(940)
Decrease in other liabilities	**(1,020)**	(1,760)
Net cash provided by operating activities	**28,480**	22,567
Investing activities		
Purchases of property, equipment and software	**(777)**	(1,983)
Net receipts on purchased receivables	**2,733**	2,942
Other	**(86)**	–
Net cash provided by investing activities	**1,870**	959

Continued on following page

Billing Services Group Limited

Consolidated Statements of Cash Flows (continued)

(In thousands)

	Year Ended December 31	
	2012	**2011**
Financing activities		
Payments on long-term debt, former loan facility	**$ –**	$ (60,829)
Payments on long-term debt, current loan facility	**(10,413)**	(12,000)
Borrowings on long-term debt	**6,300**	48,000
Restricted cash	**(14,294)**	–
Financing costs	**–**	(348)
Proceeds from issuance of common stock	**100**	–
Dividend distribution	**(2,826)**	–
Payment on loans of subsidiary	**(1,113)**	–
Net cash used in financing activities	**(22,246)**	(25,177)
Effect of exchange rate changes on cash	**85**	16
Net increase (decrease) in cash and cash equivalents	**8,189**	(1,635)
Cash and cash equivalents at beginning of year	**10,922**	12,557
Cash and cash equivalents at end of year	**$ 19,111**	$ 10,922
Supplemental cash flow information		
Cash paid during the year for:		
Interest	**$ 1,295**	$ 2,975
Taxes	**$ –**	$ 850
Noncash investing and financing activities		
Tax adjustment to goodwill	**$ 289**	$ 59
Derivative gain, net of tax expense of $0 and $668, respectively	**$ –**	$ 1,242

See accompanying notes.

1. Organization and Summary of Significant Accounting Policies

Organization

Billing Services Group Limited (the "Company" or "BSG Limited") commenced operations effective with the completion of its admission to AiM (a market operated by the London Stock Exchange plc) on June 15, 2005. The Company was formed to succeed to the business of Billing Services Group, LLC and its subsidiaries. Through its operating entities, the Company provides clearing and financial settlement products, innovative Wi-Fi roaming solutions to mobile carriers and network operators and third-party verification services to the telecommunications, cable and utilities industries. The Company was incorporated and registered in Bermuda on May 13, 2005.

Principles of Consolidation

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

On August 31, 2012, BSG Wireless purchased the stock of Connection Services Holdings Limited ("CSL"), a provider of Wi-Fi roaming solutions for mobile carriers and network operators. The results of operations for CSL have been included in the accompanying consolidated financial statements from that date forward. The acquisition was made for the purpose of expanding the Company's line of services.

The purchase included all intangible assets customary in such a transaction, plus tangible property and equipment and certain assumed liabilities. The identifiable intangible assets with future economic value were recorded at their fair values at the date of purchase.

The base purchase price was $0.8 million as well as the assumption of CSL's net liabilities of $1.2 million. In addition, as part of the purchase, contingent consideration is due to the sellers based on a revenue target. Based on current estimates, management does not anticipate that the Company will be required to pay any future contingent consideration.

As a result of the acquisition, the Company recorded software and intangible assets with an aggregate estimated fair value of $3.8 million and recognized a gain on the purchase of CSL of $3.0 million.

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

Cash and Cash Equivalents

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

Purchased Receivables

The Company offers advance funding arrangements to certain 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 20% to 75% of the purchased receivable to the customer and charges financing fees at rates up to 8% per annum over prime (prime was 3.25% per annum at December 31, 2012 and 2011) 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.

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, 2012 and 2011. 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.

Prior Period Reclassification

Certain prior period balances have been reclassified to conform to the current year presentation.

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

Concentration of Credit Risk and Significant Customers

At December 31, 2012, ten customers represented approximately 57% of accounts receivable, and ten customers represented approximately 99% of outstanding purchased receivables. At December 31, 2011, ten customers represented approximately 44% of accounts receivable, and ten customers represented approximately 89% 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 20% to 75% 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, 2012, twenty customers represented approximately 66% of consolidated revenues. For the year ended December 31, 2011, twenty customers represented approximately 57% of consolidated revenues.

Property, Equipment and Software

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

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

Capitalized Software Costs

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

The Company also develops software used in providing services. The related software development costs are capitalized once technological feasibility of the software has been established. Costs incurred prior to establishing technological feasibility are expensed as incurred. Technological feasibility is established when the Company has completed all planning and high-level design activities that are necessary to determine that the software can be developed to meet design specifications, including functions, features, and technical performance requirements. Capitalization of costs ceases when the software is available for use.

Capitalized software development costs for completed software development projects, including capitalized interest, are transferred to computer software and are then depreciated using the straight-line method over their estimated useful lives, which generally range from four to seven years. When events or changes in circumstances indicate that the carrying amount of capitalized software may not be recoverable, the Company assesses the recoverability of such assets based on estimates of future undiscounted cash flows compared to net book value. If the future undiscounted cash flow estimates are less than net book value, net book value would then be reduced to estimated fair value, which generally approximates discounted cash flows. The Company also evaluates the amortization periods of capitalized software assets to determine whether events or circumstances warrant revised estimates of useful lives.

For the years ended December 31, 2012 and 2011, the Company capitalized $0.6 million and $1.7 million of software development costs, respectively. During 2012 and 2011, the Company transferred $0.2 million and $1.8 million, respectively, of software development costs to computer software. Depreciation expense on computer software was $4.5 million and $4.2 million for the years ended December 31, 2012 and 2011, respectively. At December 31, 2012 and 2011, the Company had undepreciated software costs of $9.0 million and $12.4 million, respectively.

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

Intangible Assets and Goodwill

The Company classifies intangible assets as definite-lived, indefinite-lived or goodwill. The Company accounts for its intangible assets and goodwill in accordance with the provisions of Accounting Standards Codification ("ASC") 350, *Intangibles – Goodwill and Other*.

Definite-lived intangible assets consist of customer and local exchange carrier contracts, both of which are amortized over the respective lives of the agreements. The Company periodically reviews the appropriateness of the amortization periods related to its definite-lived assets. These assets are recorded at amortized cost.

The Company tests for possible impairment of definite-lived intangible assets whenever events or changes in circumstances, such as a reduction in operating cash flow or a material change in the manner for which the asset is intended to be used, indicate that the carrying amount of the asset may not be recoverable. If such indicators exist, the Company compares the undiscounted cash flows related to the asset to the carrying value of the asset. If the carrying value is greater than the undiscounted cash flow amount, an impairment charge is recorded in amortization expense in the consolidated statements of operations for amounts necessary to reduce the carrying value of the asset to fair value. The Company's indefinite-lived intangible assets consist of trademarks, which were originally recorded at their acquisition date fair value. The Company's indefinite-lived intangible assets are not subject to amortization but are tested for impairment at least annually.

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. Goodwill is not subject to amortization but is tested for impairment at least annually. Impairment may exist when the carrying amount of the reporting unit exceeds its estimated fair value. Assessing the recoverability of goodwill requires the Company to make estimates and assumptions about sales, operating margins, growth rates and discount rates based on its budgets, business plans, economic projections, anticipated future cash flows and marketplace data. There are inherent uncertainties related to these factors and management's judgment in applying these factors.

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

Third-Party Payables

The Company provides clearing and financial settlement solutions to telecommunications and other service providers through billing agreements with LECs, which maintain the critical database of end-user names and addresses of the billed parties. The Company receives individual call records from telecommunications and other service providers and processes and sorts the records for transmittal to various LECs. Invoices to end-users are generated by the LECs, and the collected funds are remitted to the Company, which in turn remits these funds to its customers, net of fees, reserves, taxes and other charges.

Reserves represent cash withheld from customers to satisfy future obligations on behalf of the customers. These obligations consist of bad debt, customer service, and other miscellaneous charges. The Company records trade accounts receivable and service revenue for fees charged to process the call records. When the Company collects funds from the LECs, the Company's trade receivables are reduced by the amount corresponding to the processing fees, which are retained by the Company. In certain instances, the Company also retains a reserve from its customers' settlement proceeds to cover the LECs' billing fees and other charges. The remaining funds due to customers are recorded as liabilities and reported in third-party payables in the consolidated balance sheets.

Revenue Recognition

The Company 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 Wi-Fi roaming solutions and third-party verification businesses, the Company recognizes revenue when services are rendered.

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

Earnings Per Share

The Company computes earnings per share under the provisions of ASC 260, *Earnings per Share*, whereby basic earnings per share are computed by dividing net income or loss attributable to common shareholders by the weighted-average number of shares of common stock outstanding during the applicable period. Diluted earnings per share are determined in the same manner as basic earnings per share except that the number of shares is increased to assume exercise of potentially dilutive stock options using the treasury stock method, unless the effect of such increase would be anti-dilutive.

Income Taxes

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

Stock-Based Compensation

Under the fair value recognition provisions of ASC 718-10, *Compensation-Stock Compensation*, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense on a straight-line basis over the vesting period. Determining the fair value of stock-based awards at the grant date requires assumptions and judgments about expected volatility and forfeiture rates, among other factors. If actual results differ significantly from these estimates, the Company's results of operations could be materially impacted.

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

Derivative Instruments and Hedging Activities

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

Foreign Currency

Results of operations of the Company, as appropriate, are translated into U.S. dollars using the average exchange rates during the year. The assets and liabilities of those entities are translated into U.S. dollars using the exchange rates at the balance sheet date. The related translation adjustments are recorded in a separate component of shareholders' equity, "Accumulated other comprehensive income." Foreign currency transaction gains and losses are included in operations.

Advertising Costs

The Company records advertising expense as it is incurred. The Company incurred $0.2 million and $0.1 million in advertising costs for the years ended December 31, 2012 and 2011, respectively.

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

Comprehensive Income

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. This ASU improves the comparability, consistency and transparency of financial reporting and increases the prominence of items reported in other comprehensive income by eliminating the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The ASU requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The changes apply for interim and annual financial statements and must be applied retrospectively, effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company adopted this guidance for the year ended December 31, 2012.

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

New Accounting Standards and Disclosures (continued)

Goodwill

In July 2012, the FASB issued ASU No. 2012-02, *Intangibles – Goodwill and Other*, which amends the accounting guidance on testing indefinite-lived intangible assets for impairment. The amendments in this ASU are intended to reduce complexity and costs by allowing an entity the option to make a qualitative evaluation about the likelihood that an indefinite-lived intangible asset is impaired to determine whether it should perform a quantitative impairment test. The amendments also enhance the consistency of impairment testing guidance among long-lived asset categories by permitting an entity to assess qualitative factors to determine whether it is necessary to calculate the asset's fair value when testing an indefinite-lived intangible asset for impairment, which is equivalent to the impairment testing requirements for other long-lived assets. The amendments in this ASU are effective for interim and annual impairment tests performed for fiscal years beginning after September 15, 2012. The Company tests its indefinite-lived intangible assets for impairment annually on October 1, or more frequently when events or changes in circumstances indicate that impairment may have occurred.

Subsequent Events

Subsequent events were evaluated through March 27, 2013, the date at which the consolidated financial statements were available to be issued.

2. Property, Equipment and Software

Property, equipment and software consisted of the following:

	December 31 2012	December 31 2011
	(In thousands)	
Furniture and fixtures	**$ 277**	$ 236
Telecommunication equipment	**1,839**	1,839
Computer equipment	**5,779**	5,549
Computer software	**33,406**	32,274
Software development, $196 of capitalized interest at December 31, 2012 and 2011	**1,039**	689
Leasehold improvements	**2,172**	2,172
	44,512	42,759
Less accumulated depreciation	**34,046**	28,952
Net property, equipment and software	**$ 10,466**	$ 13,807

Depreciation expense was $5.0 million and $4.7 million for the years ended December 31, 2012 and 2011, respectively.

3. Intangible Assets and Goodwill

Definite-lived intangible assets consist of customer and local exchange carrier contracts, which are amortized over their respective estimated lives. The weighted-average amortization period is approximately 10 years.

Indefinite-lived intangible assets consist of trademarks. Trademarks are not subject to amortization but are tested for impairment at least annually. In 2012, the Company recorded an impairment charge of $0.7 million related to the ESBI trademark. The impairment resulted from the discontinuation of billing for enhanced service transactions. In 2011, the Company recorded impairment charges of $1.1 million related to the BCI trademark. The impairment resulted from lower projected revenues related to this business. ESBI and BCI are subsidiaries of BSG North America.

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

	2012		2011		
	Gross Carrying Amount	**Accumulated Amortization and Impairment**	**Gross Carrying Amount**	**Accumulated Amortization And Impairment**	**Amortization Period**
	(In thousands)				
Customer contracts	**$ 78,890**	**$ 70,958**	$ 77,192	$ 62,208	10 years
Local exchange carrier contracts	**11,310**	**8,672**	11,310	6,063	15 years
Trademarks	**5,663**	**680**	4,349	–	N/A
	$ 95,863	**$ 80,310**	$ 92,851	$ 68,271	

Total amortization expense from definite-lived intangibles was $8.4 million and $8.7 million for the years ended December 31, 2012 and 2011, respectively. The Company recognized an impairment loss of $3.0 million in 2012 associated with the discontinuation of billing for enhanced service transactions. The estimate of amortization expense for the five succeeding fiscal years for definite-lived intangibles is $6.8 million for the year 2013, $0.7 million for 2014, $0.6 million for each of 2015, 2016 and 2017.

3. Intangible Assets and Goodwill (continued)

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

The Company performs its annual goodwill impairment test on October 1 of each year. In 2012 and 2011, the first step of the goodwill impairment test resulted in the fair value of the Company being in excess of the carrying amount of the Company. Therefore, the second step of the goodwill impairment test was not required. The Company may incur impairment charges in the future to the extent the Company does not achieve its expected financial performance and to the extent that market values and long-term interest rates, in general, decrease and increase, respectively.

During 2012 and 2011, the Company made an adjustment to reduce goodwill by $0.3 million and $0.1 million, respectively, 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 years ended December 31, 2012 and 2011:

	Total
	(In thousands)
Balance as of December 31, 2010	$ 34,433
Adjustment – 2011	(59)
Balance as of December 31, 2011	34,374
Acquisition of subsidiary	15
Adjustment – 2012	(289)
Balance as of December 31, 2012	$ 34,100

4. Debt

Long-term debt is as follows:

	December 31	
	2012	**2011**
	(In thousands)	
Term Loan Facility	**$ 31,887**	$ 36,000
Less current portion	**15,900**	10,400
	$ 15,987	$ 25,600

On June 30, 2011, the Company refinanced its debt and entered into a new credit agreement. The new credit agreement consists of a $48 million term loan (the “Term Loan Facility”). The Term Loan Facility refinanced in entirety the Company’s previous credit facility (the “Former Loan Facility”). The Term Loan Facility is secured by all of BSG North America’s assets and guarantees from most of the Company’s subsidiaries.

In August 2012, the Company borrowed $3.5 million to facilitate its purchase of CSL (the “CSL Loan”), and in December 2012, the Company borrowed $2.8 million in connection with a dividend payment (the “Dividend Loan”). Both the CSL Loan and the Dividend Loan were repaid in February 2013.

At December 31, 2012 and 2011, borrowings were $31.9 million and $36.0 million, respectively. The borrowings at December 31, 2012 included both the CSL Loan and the Dividend Loan.

Loans under the Term Loan Facility had no original issue discount. Loans under the Former Loan Facility were issued net of an original issue discount of $4.5 million. Interest under the Term Loan Facility, the CSL Loan and the Dividend Loan is charged, at the Company’s option, at the U.S. prime rate plus a specified margin, or the London Interbank Offered Rate (“LIBOR”) plus a specified margin, and if the LIBOR option is selected, a LIBOR floor of 0.75% per annum. The margin is determined based on the Company’s leverage ratio, as defined in the credit agreement. At December 31, 2012, the interest rate on the Term Loan Facility was 4.0% per annum, and the interest rate on the CSL Loan and the Dividend Loan was 4.75% per annum.

4. Debt (continued)

The Term Loan Facility requires quarterly principal payments of $2.4 million through March 2015 and a payment of any remaining outstanding balance at its maturity in June 2015. It also requires mandatory prepayments relating to (i) 75% of BSG North America'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.

The CSL Loan and the Dividend Loan each had a maturity date of March 31, 2013. As noted above, these loans were repaid in February 2013.

During 2012, the Company made no voluntary prepayments. During 2011, the Company made voluntary prepayments of $8.8 million.

During 2012, the Company did not generate any consolidated excess cash flow, as defined in the Term Loan Facility. Accordingly, no additional principal payment was required.

During 2011, the Company generated $1.1 million of consolidated excess cash flow, as defined in the Company's Term Loan Facility. As a result, the Company made an additional principal payment of $0.8 million in March 2012.

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

Future maturities of long-term debt as of December 31, 2012 are as follows:

	(In thousands)
2013	$ 15,900
2014	9,600
2015	6,387
Total	$ 31,887

5. Financial Instruments

Interest Rate Swaps

In connection with the refinancing under the Term Loan Facility in 2011, the Company cancelled interest rate swap contracts and paid $1.8 million in connection with this cancellation.

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

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

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

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

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

6. Income Taxes

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

	December 31	
	2012	**2011**
	(In thousands)	
Current (benefit) expense:		
Federal	**$ (7,050)**	$ 1,352
State	**197**	269
	(6,853)	1,621
Deferred expense (benefit):		
Federal	**1,381**	(950)
State	**11**	10
	1,392	(940)
Total income tax (benefit) expense	**$ (5,461)**	$ 681

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	
	2012	**2011**
	(In thousands)	
Estimated federal tax (benefit) expense at 35% (34% in 2011)	**$ (5,012)**	$ 295
Increases (reductions) from:		
State tax	**137**	187
Permanent differences	**266**	–
Foreign tax rate differential	**11**	186
Unrecognized tax benefits	**(984)**	72
Provision to return adjustment	**34**	(63)
Other	**87**	4
Income tax (benefit) expense	**$ (5,461)**	$ 681

6. Income Taxes (continued)

Deferred income taxes result from temporary differences between the bases of assets and liabilities for financial statement purposes and income tax purposes. The net deferred tax assets and liabilities reflected in the consolidated balance sheets include the following amounts:

	December 31	
	2012	**2011**
	(In thousands)	
Current deferred tax assets (liabilities):		
Reserve for bad debts	**$ 67**	$ 272
Accrued liabilities	**474**	241
State taxes	**357**	366
Stock-based compensation expense	**355**	336
Prepaid expense	**(77)**	(109)
NOL carryforward	**192**	–
Capital loss carryover	**122**	122
Valuation allowance on capital loss carryover	**(122)**	(122)
Total deferred tax assets	**1,368**	1,106
Noncurrent deferred tax assets (liabilities):		
Property, equipment and software	**(1,014)**	(2,187)
Intangible assets	**762**	1,490
Capitalized interest	**(1,379)**	(1,379)
Investment in subsidiary	**(2,410)**	–
Cancellation of debt deferral	**(1,552)**	(1,875)
Total deferred tax liabilities	**(5,593)**	(3,951)
Net deferred tax liabilities	**$ (4,225)**	$ (2,845)

At December 31, 2012, the Company had state net operating loss credit carryforwards of approximately $0.5 million, which will expire in 2026, and $0.1 million of capital loss credit carryforwards, which will expire in 2013. At December 31, 2012, BSG Wireless also has a net operating loss of $.02 million that has no expiration.

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

6. Income Taxes (continued)

The total reserve for uncertain tax positions as of December 31, 2012 is $0.5 million and is included with other liabilities in the accompanying consolidated balance sheets. There was a reduction in the reserve from 2011 to 2012 of $0.9 million due to the expiration of the statute for the tax year ended December 31, 2008. The Company does not expect the liability to change significantly over the next twelve months. It is the Company's policy to recognize interest and penalties related to uncertain tax positions in the provision for income taxes in the consolidated statements of operations. During each of the years ended December 31, 2012 and 2011, the Company recorded $30 thousand and $0.1 million in interest and penalties, respectively.

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

	Total *(In thousands)*
Balance at December 31, 2010	$ 1,430
Changes based on tax positions related to prior years	–
Balance at December 31, 2011	1,430
Reductions based on tax positions related to the current year	(885)
Balance at December 31, 2012	**$** 545

As indicated in the table above, at December 31, 2012, there were $0.5 million of tax benefits that if recognized in 2012, would reduce the Company's annual effective tax rate.

With few exceptions, the Company is no longer subject to examination by the federal and most state tax authorities for years before 2009.

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 (loss) income per share:

	December 31 2012	December 31 2011
	(In thousands, except per share amounts)	
Numerator:		
Net (loss) income	**$ (8,859)**	$ 189
Denominator:		
Weighted-average shares – basic	**280,252**	280,166
Effect of diluted securities:		
Options	**–**	–
Weighted-average shares – diluted	**280,252**	280,166
Net (loss) income per common share:		
Basic and diluted	**$ (0.03)**	$ 0.00

8. Commitments

The Company leases certain office space and equipment under various operating leases. Annual future minimum lease commitments as of December 31, 2012, are as follows (in thousands):

Year ending December 31:	
2013	$ 598
2014	610
2015	355

Rental expense under these operating leases approximated $0.6 million and $1.0 million for the years ended December 31, 2012 and 2011, respectively.

9. Contingencies

The Company is involved in various claims, legal actions, and regulatory proceedings arising in the ordinary course of business. The Company believes it is unlikely that the final outcome of any of the claims, litigation, or proceedings to which the Company is a party will have a material adverse effect on the Company's consolidated financial position or results of operations; however, due to the inherent uncertainty of litigation, there can be no assurance that the resolution of any particular claim or proceeding would not have a material adverse effect on the Company's consolidated financial position and results of operations for the fiscal period in which such resolution occurs.

In June 2012, the Company executed an agreement regarding reserves ("Reserve Agreement") as well as a deposit account security and control agreement ("Deposit Agreement") with one of the largest U.S. LECs. These agreements were prompted by this LEC's intention to settle a nationwide class action and the resulting indemnification obligations that would be owed by the Company to the LEC as a result of the settlement. The Reserve Agreement permits this LEC to deduct funds from amounts otherwise payable to the Company to cover obligations under the Billing and Collection Agreement between the Company and the LEC. The Deposit Agreement permits this LEC to deposit amounts in an account held in the name of both the LEC and Company; however, funds can only be released at the sole direction of the LEC. The amount of restricted cash as indicated on the consolidated balance sheets represents the deposits made by the LEC in connection with the Deposit Agreement. Included in accrued liabilities at December 31, 2012 is approximately $21.3 million in reserves which is comprised of these deposits and reclassification of other payables to customers.

As an initial contribution toward its indemnification obligations, the Company agreed to write-off $10.3 million due from this LEC under the Reserve Agreement. In addition, the Company wrote-off $1.7 million of amounts owed to the Company by another LEC. Both these amounts, as well as $1.9 million in payments for legal and settlement costs for an unrelated claim, are included in nonrecurring expense on the consolidated statements of operations. The Company believes all funds collected pursuant to the Reserve and Deposit Agreements, as well as the $1.7 million write-off, will be used to satisfy obligations under the billing and collection agreements with these LECs.

10. Employee Benefit Plan

A Company subsidiary sponsors a 401(k) Retirement Plan (the "Retirement Plan"), which is offered to eligible employees. Generally, all U.S.-based employees are eligible for participation in the Retirement Plan. The Retirement Plan is a defined contribution plan, which provides that participants may make voluntary salary deferral contributions, on a pretax basis, in the form of voluntary payroll deductions, subject to annual Internal Revenue Service limitations. The Company matches a defined percentage of a participant's contributions, subject to certain limits, and may make additional discretionary contributions. During each of the years ended December 31, 2012 and 2011, the Company's matching contributions totaled $0.2 million. No discretionary contributions were made in either period.

11. Stock Option Plans

The Company adopted a stock option plan in 2005. On August 15, 2008, the Board of Directors adopted resolutions to amend and restate both the Billing Services Group Limited Stock Option Plan and the BSG Clearing Solutions North America, Inc. Stock Option Plan (the "BSG Limited Plan" and the "BSG North America Plan," respectively). In December 2012, the Company's shareholders approved a resolution to amend the BSG Limited Plan and the BSG North America Plan. This resolution enables the Company's directors, under the BSG Limited Plan and the BSG North America Plan, to grant options up to an aggregate amount of 15% of the number of common shares in issue at the time of the proposed grant. Prior to this resolution, the aggregate number of options granted was limited to 10% of the number of common shares in issue at the time of the proposed grant.

Options may be granted at the discretion of the remuneration committee to any director or employee and are generally granted with an exercise price equal to the market price of the Company's stock at the grant date. Directors may be granted options in the BSG Limited Plan and employees may be granted options in the BSG North America Plan. Options granted under the BSG North America Plan are exercisable into shares of the Company.

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.

11. Stock Option Plans (continued)

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 May 2012 amounted to 2.5 pence per share. The following assumptions were used in arriving at the fair value of options granted during May 2012: risk-free interest rate of 1.93%; dividend yield of 0%; expected volatility of 105.4%; and expected lives of five years and nine months.

The weighted-average grant-date fair value of options granted during August 2012 amounted to 2.2 pence per share. The following assumptions were used in arriving at the fair value of options granted during August 2012: risk-free interest rate of 1.57%; dividend yield of 0%; expected volatility of 102.5%; and expected lives of five years and nine months.

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

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

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

11. Stock Option Plans (continued)

The following is a summary of option activity:

	Options Outstanding	Weighted-Average Exercise Price
Options outstanding at December 31, 2010	10,017,397	10.8 pence
Granted	272,500	
Exercised	–	
Forfeited	(959,375)	
Options outstanding at December 31, 2011	9,330,522	10.5 pence
Granted	9,037,500	
Exercised	(2,250,000)	
Forfeited	(4,866,250)	
Options outstanding at December 31, 2012	11,251,772	9.3 pence
Options exercisable at December 31, 2012	5,631,147	10.5 pence
Options available for grant at December 31, 2012	18,087,308	

All of the options granted during 2012 were granted under the BSG North America Plan.

As of December 31, 2012, there was $0.2 million of total unrecognized noncash compensation cost related to nonvested share-based compensation arrangements granted under the BSG North America Plan. That cost is expected to be recognized during 2013 through 2015.

12. Restructuring Expense

In 2012, the Company implemented cost reduction actions largely designed to reduce personnel-related expenses. In connection with this plan, the Company recorded a $0.7 million restructuring charge, principally to cover severance and related compensation costs for terminated employees. Of this amount, $0.1 million will be paid in 2013.