



2008 ANNUAL REPORT

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3 Directors, Officers and Advisors

Directors, Officers and Advisors

DIRECTORS

Patrick D. Heneghan, Chairman

Leighton W. Smith, Vice Chairman

Greg M. Carter, CEO/Executive Director
(Effective May 1, 2008)

J. Alan Lindauer, Non-Executive Director

OFFICERS

Greg M. Carter, Chief Executive Officer
(Effective May 1, 2008)

Norman M. Phipps, Chief Financial Officer

COMPANY SECRETARY

Jane Sheere
c/o Appleby Services (Bermuda) Ltd.
Canon's Court
22 Victoria Street
Hamilton, HM 12
Bermuda

ASSISTANT COMPANY SECRETARY

Appleby Services (Bermuda) Ltd.
Canon's Court
22 Victoria Street
Hamilton, HM 12
Bermuda

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton, HM 12
Bermuda

NOMINATED ADVISOR AND BROKER

Evolution Securities Limited
100 Wood Street
London EC2V 7AN
United Kingdom

UK LEGAL ADVISOR

Reed Smith LLP
The Broadgate Tower
20 Primrose Street
London EC2A 2RS
United Kingdom

BERMUDIAN LEGAL ADVISOR

Appleby
Canon's Court
22 Victoria Street
Hamilton, HM 12
Bermuda

AUDITORS

Ernst & Young LLP
1800 Frost Bank Tower
100 West Houston Street
San Antonio, Texas 78205

BRANCH REGISTRAR

Capita Registrars (Jersey) Limited
12 Castle Street
St. Helier
Jersey JE2 3RT

DEPOSITORY INTEREST REGISTRAR

Capita Registrars
The Registry
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Beckenham
Kent BR3 4TU
United Kingdom

FINANCIAL ADVISOR

Morgan Stanley
1585 Broadway
New York, NY 10036

5 Financial and Operational Highlights

Financial Highlights

***Note:** Unless otherwise indicated, EBITDA figures below exclude the results of the wireless business, which was sold in December 2007 and is accordingly treated as a discontinued operation.

	2008	2007
EBITDA⁽¹⁾ increased by 23%	\$37.2 million (\$41.2 million, excluding corporate overhead expenses)	\$30.2 million (\$37.5 million, excluding corporate overhead expenses)
Net income (loss)	Net income of \$7.9 million	Net income of \$27.4 million, including a \$6.7 million loss from continuing operations, \$5.5 million of income from discontinued operations and a \$28.6 million gain on disposal of the wireless business
Capital	Reduced long-term debt by \$18.9 million, or 17%, to \$93.6 million, inclusive of all unamortized original discount	Refinanced outstanding debt under new \$112.5 million term loan facility Effectuated a reduction in capital that resulted in a \$118.2 million cash distribution to share-holders (20 pence per share)

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

Operational Highlights

2008

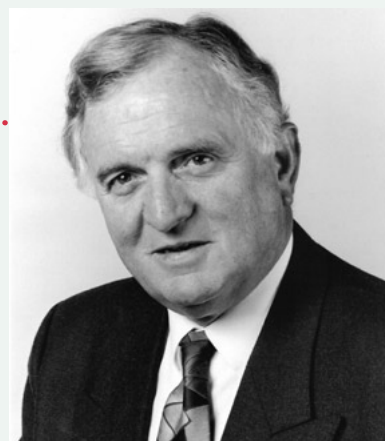
Gained \$10.7 million of incremental revenue from enhanced billing services, both through aggressive recruitment of new customers and volume increases from historic customers

Reduced corporate overhead expenses by \$3.3 million as a result of the planned transition and separation of several senior staff

7 Chairman's Statement

Chairman's Statement

Patrick D. Heneghan



I am pleased to report another year of solid performance by your company, in which we have robustly enhanced our leading industry position as a preeminent provider of clearing, settlement, payment and financial risk management solutions to the telecommunications industry. We have also effectively created a sound platform for our business in the current year.

Your company has benefited from our tightly-focused business approach and prudent cost management, as well from strong growth in our customers' enhanced service offerings. We have also been able to use our strong cash flow aggressively to pay down a significant portion of outstanding debt – a programme we have continued into the current year.

The key financial metrics for our performance in 2008 were:

- turnover grew by 12% to \$142.6m
- EBITDA increased by 23% to \$37.2m
- income from continuing operations was \$7.9m – from a \$6.7m loss in the previous year

In operational terms, we gained \$10.7 million of incremental revenue from enhanced billing services, through an aggressive recruitment of new customers and by increasing volumes from our existing customers.

We successfully completed our cost reduction programme, which included the planned transition and separation of several senior managers, and, I am pleased to report this has resulted in the anticipated reduction in corporate overhead expenses by some \$3.3m.

We have also continued to reduce our long-term debt. At the year end this stood at \$93.6m and, at the time of the publication of these accounts, we have further reduced this figure to \$84.6m.

In May 2008, Greg Carter, then President of BSG Clearing Solutions North America, was appointed Chief Executive Officer of the Group, to succeed Randall Brouckman, who stood down from involvement with the business to concentrate on his personal interests. The transition of leadership was smooth and effective and I would like to again thank both Randy for his notable input and leadership and Greg for his instinctive and intuitive adoption of the leadership mantle.

As with any service business, the dedication, creativity and enthusiasm of employees is essential, and, on behalf of the board, I would like to thank everyone in the company for their continued commitment. Their application to our business has again ensured that we have not only maintained our leading industry position, but also sustained the level of innovation and service culture which I continue to believe are second to none.

I would also like to thank you, our shareholders, for your continued support.

Most sincerely,

A handwritten signature in black ink, appearing to read 'P. D. Heneghan', written in a cursive style.

Patrick D. Heneghan
Chairman of the Board

Executive and Non Executive Directors and Dividend Policy

EXECUTIVE DIRECTOR

Greg M. Carter assumed the role of Chief Executive Officer on May 1, 2008 after serving as President, Chief Operating Officer and Senior Vice President of Sales beginning in August 2004. Mr. Carter began his telecommunications career in 1988 when he joined Teleconnect, an Iowa-based long distance, database marketing and operator services company. Mr. Carter was recruited to San Antonio in 1991 by BSG's predecessor company, US Long Distance and served in numerous sales and marketing management roles. Mr. Carter has also served as Vice President of Sales for Billing Concepts (dba Aptis Software), Qwest Communications, and nii communications.

NON-EXECUTIVE DIRECTORS

Patrick D. Heneghan is the founder (retired) of Heneghan PR. In recent years he has been involved in some of Ireland's most high-profile public relations issues, including the Beef Industry Tribunal, the Tribunal of Inquiry into Certain Planning Matters, the restructuring of Irish Steel and the crisis in the Catholic Church. He has advised Irish Distillers Group (including the takeover by Pernod Ricard), Irish Food Processors and Mutual of America. He was formerly Public Relations Manager and a Director of the tobacco firm P.J. Carroll & Co. Ltd., where he was responsible for Ireland's largest public relations and marketing programs, including the Irish Open Golf Championship and the Irish Open Tennis Championship. He is a Fellow of the Public Relations Institute of Ireland, a founding member of the US-Ireland Council for Commerce & Industry, a former Director of the state-owned National Concert Hall and a serving Director of the AXA Dublin International Piano Competition.

J. Alan Lindauer is currently a Director of Towne Bank, and a member of the bank's Executive Committee and Compensation Committee. He is a Director of the Towne Bank Norfolk Board and is Chairman of the Loan Committee. Mr. Lindauer also serves as vice chairman of Towne Bank Financial Services and is a member of the Towne Bank Financial Services Executive Committee. Mr. Lindauer also serves on various boards including Old Dominion University Business School and the Virginia Maritime Heritage Foundation. He served as President of Waterside Capital Corporation and Waterside Management, Inc., a business consulting firm, from 1986 to 2007. Mr. Lindauer served as a director of Commerce Bank of Virginia from 1986 to 1999, and served as chairman of its Loan Committee, Norfolk Division, and a member of the Executive, Trust, Marketing, Compensation, and Mergers & Acquisition Committees. Mr. Lindauer served as chairman of BB&T Holdings Co. of Va., Inc. from 1986 to 1999, and as director of Citizens Trust Bank from 1982 to 1985, as well as a member of its Trust and Loan Committees. Mr. Lindauer founded Minute-Man Fuels in 1963 and managed Minute-Man Fuels until 1985.

Leighton W. Smith Admiral, United States Navy, retired from the U.S. Navy on 1 October 1996. Admiral Smith is President of Leighton Smith Associates, Inc., consulting for a variety of companies and corporations for over ten years. Admiral Smith is a Distinguished Fellow at the Center for Naval Analysis. He is a former chairman of the board of Trustees of both the Naval Aviation Museum Foundation and U.S. Naval Academy Alumni Association, and sits on the boards of several publicly traded corporations. Admiral Smith was previously the Commander in Chief, U.S. Naval Forces Europe and Commander in Chief Allied Forces Southern Europe and concurrently assumed command of the NATO-led Implementation Force in Bosnia. Admiral Smith has received numerous awards and decorations, including being made an Honorary Knight of the British Empire.

The Board considers the Non Executive Directors to be independent.

DIVIDEND POLICY

It is not the Directors' current intention that the company will pay a dividend for the financial year ended 31 December 2008. The declaration and payment by the company of any future dividends and the amount of any such dividends will depend upon the Group's results, financial condition, future prospects, profits being available for distribution, limitations under its credit agreement and any other factors deemed by the Directors to be relevant at the time, subject always to the requirement of the Companies Act 1981 of Bermuda.

Report on Directors' Remuneration

The remuneration of the Executive Director is determined by the Remuneration Committee which consists of the three Non-Executive Directors. The role of the Committee is to review the scale and structure of the Executive Director and other senior executives' remuneration and the terms of their service contracts.

REMUNERATION POLICY

The objectives of the remuneration policy are to ensure that the salaries and incentives are aligned with the performance of the company and the interests of shareholders and to enable the company to attract, retain and motivate the Executive Director, senior executives and employees of the highest caliber. In framing the remuneration policy, full consideration has been given to Principle B of Section 1 of the Combined Code.

DIRECTORS' REMUNERATION

The normal remuneration arrangements for the Executive Director and senior executives consist of basic salary, annual performance-related bonuses and non-qualified stock options. In addition, they receive private medical insurance and contributions to a 401(k) plan at the company's discretion.

No Director is involved in deciding his own remuneration. The remuneration of the Non-Executive Directors is determined by the Board. All Directors and certain senior executives have service contracts.

AUDITABLE INFORMATION

Executive Director remuneration for the year to 31 December 2008 was as follows⁽¹⁾:

	2008 Salary	2008 Bonus	2008 Medical Insurance	2008 401(k)	2008 Total	2007 Total
Greg M. Carter	\$355,617	\$275,000	\$14,953	\$11,500	\$657,070	\$437,560

SHARE OPTION PLAN

	Options at 01-Jan-08	Cancelled in 2008	Issued in 2008	Exercised in 2008	Options at 31-Dec-08	Exercise Price	Earliest Exercise Date ⁽²⁾	Option Termination Date
Greg M. Carter	250,000	250,000	4,000,000	-	4,000,000	10.34 p	18-Aug-08	18-Aug-18
Patrick D. Heneghan	913,022	913,022	913,022	-	913,022	10.34 p	18-Aug-08	18-Aug-18
J. Alan Lindauer	913,022	913,022	913,022	-	913,022	10.34 p	18-Aug-08	18-Aug-18
Leighton W. Smith	913,022	913,022	913,022	-	913,022	10.34 p	18-Aug-08	18-Aug-18

⁽¹⁾ Information for Randall W. Brouckman has not been included as his employment with the company ended on 30 April 2008

⁽²⁾ Subject to the provisions of the plan, including but not limited to provisions covering a change in control

Corporate Governance Statement

The policy of the Board is to manage the affairs of the company in accordance with the Principles of Good Governance and Code of Best Practice as set out in Section I of the Combined Code on Corporate Governance. The Directors support the principles underlying the requirements insofar as is appropriate for a company of the size of Billing Services Group Limited.

The Board met for regular business five times during the period under review. In addition, further meetings are held if circumstances require. The Board has agreed to a schedule of items that are specifically reserved for its consideration, which is reviewed on an annual basis. The schedule includes setting and monitoring strategy, reviewing trading performance, guiding business development, examining acquisition possibilities and approving reports to shareholders. In addition, the Board approves the annual forecast and any re-forecasts. Procedures are established to ensure that appropriate information is communicated to the Board in a timely manner to enable it to fulfill its duties.

Details of the Directors are set out on page 9. At 31 December 2008, the Board was comprised of one Executive and three Non-Executive Directors.

The Board has separate roles for Chairman and Chief Executive.

The Board has established an Audit Committee, which includes J. Alan Lindauer (chairman), and Leighton W. Smith. The Audit Committee meets at least two times a year. It is responsible for meeting the auditors, reviewing the annual report and accounts and the interim results before their submission to the Board, ensuring that the financial performance of the company is properly reported on and monitored, reviewing the recommendations of the auditors on accounting policies, internal control and other findings and making recommendations to the Board on the scope of the audit and the appointment of the auditors. The Audit Committee met twice during the period of review, with both meetings being fully attended.

The Board has established a Remuneration Committee, which includes Leighton W. Smith (chairman), Patrick D. Heneghan and J. Alan Lindauer. The Remuneration Committee meets as necessary to review the performance of the Executive Director, senior executives and the scale and structure of their remuneration having due regard to the interests of the shareholders. The Committee also approves any performance-based company incentive plans and the granting of share options. The Remuneration Committee met twice during the period of review, with both meetings being fully attended.

The Board established a Nomination Committee which includes Patrick D. Heneghan (chairman), Leighton W. Smith and J. Alan Lindauer. The Nomination Committee meets when necessary to consider and make recommendations to the Board concerning the composition of the Board, including proposed appointees to the Board and whether to fill any vacancies that may arise or to change the number of Board members. The Nomination Committee is chaired by Patrick D. Heneghan except when it is dealing with the appointment of a successor to the Chairmanship of the company. The Nomination Committee did not hold a meeting during the period of review.

From time to time, the Board establishes special committees to address particular business issues. Such committees are not intended to be permanent.

Corporate Governance Statement (continued)

COMMUNICATION WITH SHAREHOLDERS

The Board encourages regular dialogue with shareholders. All shareholders will be invited to the AGM at which Directors will be available for questioning. The notice of AGM will be sent to all shareholders at least 20 days before the meeting. Other information about the company is available on the company's website at www.bsgclearing.com.

INTERNAL CONTROL

The Directors are responsible for the company's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and it can only provide the Directors with reasonable and not absolute assurance against material misstatement or loss.

The Board recognizes the importance of both financial and non-financial controls and has reviewed the company's control environment, including the Company's SAS 70 Type II Report, and any related shortfalls during the period. Specific controls are subject to continuous review as the company implements new systems and practices. The company seeks to continuously assess the risks to which it is exposed and to take appropriate steps to mitigate or eliminate those risks wherever possible.

The independent auditors' responsibilities are to express an opinion on the financial statements. The independent auditors are not engaged to perform an audit of the company's internal control over financial reporting. Their audits include consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. They report their findings to the Board.

No weaknesses in internal controls have resulted in any material losses, contingencies or uncertainty which would require disclosure as recommended by the guidance for Directors on reporting on internal controls.

HEALTH AND SAFETY

It is the objective of the company to ensure the health and safety of its employees and of any other persons who could be affected by its operations. It is the company's policy to provide working environments which are safe and without risk to health and provide information, instruction, training and supervision to ensure the health and safety of its employees.

INVESTMENT APPRAISAL

The Board approves proposals for the acquisition of new businesses.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT

The Directors are responsible for preparing the Annual Report in accordance with applicable law and generally accepted accounting principles ("GAAP") in the United States. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgments and estimates that are responsible and prudent;
- state whether the financial statements comply with GAAP in the United States; and
- prepare the financial statements on a going concern basis.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

Report of Independent Auditors



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The Board of Directors
Billing Services Group Limited

We have audited the accompanying consolidated balance sheets of Billing Services Group Limited (the “Company”) as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in shareholders’ equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Billing Services Group Limited as of December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the consolidated financial statements, in 2007, the Company adopted Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109*.

Ernst & Young LLP

March 23, 2009

15 Consolidated Financial Statements

Billing Services Group Limited
Years Ended December 31, 2008 and 2007

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Consolidated Balance Sheets

(In thousands, except shares)

Assets	December 31	
	2008	2007
Current assets:		
Cash and cash equivalents	\$ 27,354	\$ 33,129
Restricted cash	–	7,858
Accounts receivable	22,188	20,664
Purchased receivables	18,259	19,932
Income tax receivable	–	3,414
Prepaid expenses and other current assets	535	649
Deferred taxes – current	3,752	2,534
Total current assets	72,088	88,180
Property, equipment and software	35,352	32,683
Less accumulated depreciation and amortization	14,710	10,387
Net property, equipment and software	20,642	22,296
Deferred finance costs, net of accumulated amortization of \$375 and \$10 at December 31, 2008 and 2007, respectively	971	1,336
Intangible assets, net of accumulated amortization of \$42,322 and \$32,981 at December 31, 2008 and 2007, respectively	51,453	60,794
Goodwill	34,739	40,063
Other assets	534	408
Total assets	<u>\$ 180,427</u>	<u>\$ 213,077</u>

Consolidated Balance Sheets (continued)

(In thousands, except shares)

Liabilities and shareholders' equity	December 31	
	2008	2007
Current liabilities:		
Trade accounts payable	\$ 13,409	\$ 11,665
Third-party payables	45,247	59,655
Accrued liabilities	4,923	15,701
Income tax payable	1,064	–
Current portion of long-term debt	8,562	11,250
Total current liabilities	73,205	98,271
Long-term debt, net of current portion and unamortized original issue discount of \$3,273 and \$4,467 at December 31, 2008 and 2007, respectively	81,769	96,783
Deferred taxes – noncurrent	5,428	7,385
Other liabilities	11,362	7,470
Total liabilities	171,764	209,909
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$0.59446 par value; 350,000,000 shares authorized and 279,863,248 shares issued and outstanding at December 31, 2008 and 2007	166,368	166,368
Additional paid-in capital (deficit)	(174,611)	(174,824)
Retained earnings	19,538	11,677
Accumulated other comprehensive loss	(2,632)	(53)
Total shareholders' equity	8,663	3,168
Total liabilities and shareholders' equity	\$ 180,427	\$ 213,077

See accompanying notes.

Consolidated Statements of Operations

(In thousands, except per share amounts)

	Years Ended December 31	
	2008	2007
Operating revenues	\$ 142,611	\$ 127,494
Cost of services	82,635	72,583
Gross profit	59,976	54,911
Selling, general, and administrative expenses	22,769	24,662
Depreciation and amortization expense	13,664	12,802
FTC settlement costs	–	5,564
Impairment loss	120	1,307
Restructuring expense	2,808	(402)
Stock-based compensation expense	213	1,388
Other nonrecurring expenses	182	(34)
Operating income	20,220	9,624
Other income (expense):		
Interest expense, net of \$99 and \$146 capitalized in 2008 and 2007, respectively	(10,354)	(12,971)
Settlement and mark-to-market of derivatives	(813)	(3,217)
Write-off of deferred finance costs	–	(2,954)
Interest income	1,626	2,182
Equity in loss from investment	–	(1,230)
Other income (expense), net	1,777	(235)
Total other expense, net	(7,764)	(18,425)
Income (loss) from continuing operations before income taxes	12,456	(8,801)
Income tax expense (benefit)	4,595	(2,092)
Income (loss) from continuing operations	7,861	(6,709)
Discontinued operations:		
Income from operations of BSG Luxembourg (net of tax expense of \$0 and \$470 in 2008 and 2007, respectively)	–	5,507
Gain on disposal (net of taxes of \$-0-)	–	28,568
Net income	\$ 7,861	\$ 27,366
Net income (loss) per basic and diluted share:		
Continuing operations	\$ 0.028	\$ (0.024)
Discontinued operations	–	0.122
Net income per share	\$ 0.028	\$ 0.098
Weighted-average shares outstanding	279,863	279,863

See accompanying notes.

Consolidated Statements of Changes in Shareholders' Equity

(In thousands)

	Number of Shares	Common Stock	Additional Paid-In Capital (Deficit)	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Shareholders' equity, December 31, 2006	279,863	\$ 279,863	\$ (171,471)	\$ (15,689)	\$ 11,203	\$ 103,906
Reduction in par value	-	(113,495)	113,495	-	-	-
Stock-based compensation expense recognized in earnings	-	-	1,388	-	-	1,388
Distribution in the form of a reduction of capital	-	-	(118,236)	-	-	(118,236)
Translation adjustment	-	-	-	-	10,086	10,086
Transfer of cumulative other comprehensive loss related to translation gains and FASB Statement 158 of BSG Luxembourg	-	-	-	-	(21,169)	(21,169)
Net income	-	-	-	27,366	-	27,366
Derivative loss, net of taxes of \$92	-	-	-	-	(173)	(173)
Total comprehensive income						16,110
Shareholders' equity, December 31, 2007	279,863	166,368	(174,824)	11,677	(53)	3,168
Stock-based compensation expense recognized in earnings	-	-	213	-	-	213
Translation adjustment	-	-	-	-	9	9
Net income	-	-	-	7,861	-	7,861
Derivative loss, net of taxes of \$1,395	-	-	-	-	(2,588)	(2,588)
Total comprehensive income						5,282
Shareholders' equity, December 31, 2008	279,863	\$ 166,368	\$ (174,611)	\$ 19,538	\$ (2,632)	\$ 8,663

See accompanying notes.

Consolidated Statements of Cash Flows

(In thousands)

	Years Ended December 31	
	2008	2007
Operating activities		
Net income	\$ 7,861	\$ 27,366
Less income from discontinued operations, net	–	(34,075)
Net income (loss) from continuing operations	7,861	(6,709)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	4,323	4,027
Amortization of intangibles	9,341	8,665
Amortization of deferred finance costs	1,386	721
Write-off of deferred finance costs	–	2,954
Impairment loss	120	1,307
Equity in loss from investment	–	1,230
Stock-based compensation expense	213	1,388
Gain on extinguishment of debt	(83)	–
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(1,524)	1,064
Decrease (increase) in income taxes receivable, net	4,725	(2,578)
(Increase) decrease in prepaid expenses and other assets	(12)	865
Increase (decrease) in trade accounts payable	1,845	(574)
Decrease in third-party payables	(14,408)	(983)
(Decrease) increase in accrued liabilities	(5,915)	618
Provision for deferred taxes	(873)	(1,090)
Decrease in other liabilities	(885)	(31)
Net cash provided by operating activities	6,114	10,874
Investing activities		
Proceeds from sale of BSG Luxembourg, net of cash retained by BSG Luxembourg	–	132,749
Purchase of VoiceLog	–	(1,276)
Purchase of VeriSign toll clearinghouse	–	(775)
Purchases of property, equipment, and software, including \$99 and \$146 of capitalized interest in 2008 and 2007, respectively	(2,789)	(4,327)
Net receipts on purchased receivables	1,673	162
Net cash (used in) provided by investing activities	(1,116)	126,533

Consolidated Statements of Cash Flows (continued)

(In thousands)

	Years Ended December 31	
	2008	2007
Financing activities		
Borrowings of long-term debt	\$ —	\$ 108,000
Payments on long-term debt	(18,640)	(141,063)
Distributions paid	—	(118,236)
Net receipts on BSG Luxembourg receivables	—	1,952
Restricted cash	7,858	(6,928)
Financing costs	—	(1,478)
Net cash used in financing activities	(10,782)	(157,753)
Cash flows provided by discontinued operations:		
Net cash provided by operating activities	—	20,145
Net cash used in investing activities	—	(5,446)
Net cash used in financing activities	—	(2,817)
Effect of exchange rate changes on cash	—	637
Net cash provided by discontinued operations	—	12,519
Effect of exchange rate changes on cash	9	5
Net decrease in cash and cash equivalents	(5,775)	(7,822)
Cash and cash equivalents at beginning of year	33,129	40,951
Cash and cash equivalents at end of year	\$ 27,354	\$ 33,129
Supplemental cash information		
Cash paid during the year for:		
Interest	\$ 9,073	\$ 11,896
Taxes	\$ 2,950	\$ 950
Noncash investing and financing activities		
Adjustment to goodwill, third-party payables, accrued liabilities, and other liabilities, net of tax effect	\$ 5,324	\$ 3,649
Derivative loss, net of tax benefit of \$1,395 and \$92	\$ (2,588)	\$ (173)
Purchase price payable for VoiceLog and VeriSign toll clearing house	\$ —	\$ (155)

See accompanying notes.

Notes to Consolidated Financial Statements

(December 31, 2008 and 2007)

1. Organization and Summary of Significant Accounting Policies

Organization

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

Principles of Consolidation

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

Cash and Cash Equivalents

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

Purchased Receivables

The Company offers participation in advance funding arrangements to certain of its customers. Under the terms of the arrangements, the Company purchases the customer's accounts receivable for an amount equal to the face amount of the call record value submitted to the local exchange carriers ("LECs") by the Company, less various items, including financing fees, LEC charges, rejects, and other similar items. The Company advances 15% to 80% of the purchased amount and charges financing fees at rates up to 8% per annum over prime (prime was 3.25% per annum at December 31, 2008) to the customer 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, 2008 and 2007. 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, 2008, ten customers represented approximately 27% of accounts receivable, and ten customers represented approximately 70% of outstanding purchased receivables. At December 31, 2007, ten customers represented approximately 33% of accounts receivable, and ten customers represented approximately 78% of outstanding purchased receivables. Credit risk with respect to trade accounts receivable generated through billing services from continuing operations is limited as the Company collects its fees through receipt of cash directly from the LECs. The credit risk with respect to the purchase of accounts receivable is reduced as the Company only advances 15% to 80% of the gross accounts receivable purchased. Management evaluates accounts receivable balances on an ongoing basis and provides allowances as necessary for amounts estimated to eventually become uncollectible. In the event of complete nonperformance of accounts receivable, the maximum exposure to the Company is the recorded

Notes to Consolidated Financial Statements (continued)

(December 31, 2008 and 2007)

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

amount shown on the balance sheet. During the year ended December 31, 2008, twenty customers represented approximately 46% of consolidated continuing revenues. During the year ended December 31, 2007, twenty customers represented approximately 52% of consolidated continuing 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.

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. These 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.

Completed capitalized software development costs, including capitalized interest, are transferred to computer software and are then depreciated using the straight-line method over their estimated useful lives, which generally range from four to seven years. For the years ended December 31, 2008 and 2007, the Company capitalized \$2.6 million and \$2.9 million, respectively, of software development costs. During 2008 and 2007, the Company transferred \$4.2 million and \$20.3 million, respectively, of completed software development costs to computer software. Additionally, in 2008 and 2007, the Company wrote-off \$0.1 million and \$1.3 million, respectively, related to the impairment of certain software. Depreciation expense on completed capitalized software related to continuing operations was \$3.2 million and \$3.0 million for the years ended December 31, 2008 and 2007, respectively. As of December 31, 2008 and 2007, the Company had undepreciated software costs of \$18.5 million and \$17.5 million, respectively, related to continuing operations.

Purchase Accounting

The Company accounts for its business acquisitions under the purchase method of accounting. The total cost of acquisitions 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

Notes to Consolidated Financial Statements (continued)

(December 31, 2008 and 2007)

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

respect to future cash inflows and outflows, discount rates, asset lives, and market multiples, among other items. In addition, reserves have been established on the Company's balance sheets related to acquired liabilities based on assumptions made at the time of acquisition. The Company evaluates the reserves on a regular basis to determine the adequacies of the amounts.

Goodwill

The Company accounts for goodwill in accordance with Statement of Financial Accounting Standards No. ("Statement") 142, *Goodwill and Other Intangible Assets* ("Statement 142"). Statement 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets.

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. Goodwill is reviewed annually for potential impairment, or more frequently, if events or changes in circumstances indicate that the assets might be impaired. An impairment may exist when the carrying amount of net assets exceeds its implied fair value.

Long-Lived Assets

The Company accounts for the impairment and disposition of long-lived assets in accordance with Statement 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("Statement 144"). In accordance with Statement 144, long-lived assets are reviewed when events or changes in circumstances indicate that their carrying value may not be recoverable. These evaluations include comparing the future undiscounted cash flows of such assets to the carrying value. If the carrying value exceeds the future undiscounted cash flows, the assets are written down to their fair value.

During 2008, the Company evaluated the ongoing value of capitalized software associated with one of its product offerings. Based on this evaluation, the Company determined that software with a \$0.1 million carrying value was no longer recoverable, and accordingly recorded an impairment charge of \$0.1 million. During 2007, the Company evaluated the ongoing value of capitalized software associated with another one of its product offerings. Based on this evaluation, the Company determined that software with a \$1.3 million carrying value was no longer recoverable, and accordingly recorded an impairment charge of \$1.3 million. In both periods, fair value was based on expected future cash flows to be generated by the product, discounted at the risk-free rate of interest.

Third-Party Payables

The Company's North American operations provide clearing, settlement, payment, and financial risk management solutions to telecommunications and other service providers (customers) 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, net of fees, reserves, and other charges to its customers.

These reserves represent cash withheld from customers to satisfy future obligations on behalf of the customers. The obligations consist of bad debt, sales and excise taxes, 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 its customers are recorded as liabilities and reported in third-party payables in the consolidated balance sheets. The Company also retains a reserve from its customers' settlement proceeds to cover the LECs' bad debts, billing fees, and sales taxes.

Notes to Consolidated Financial Statements (continued)

(December 31, 2008 and 2007)

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

Revenue Recognition

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

Earnings Per Share

The Company computes earnings per share under the provisions of Statement 128, *Earnings per Share*, whereby basic earnings per share is 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 is determined in the same manner as basic earnings per share except that the number of shares is increased to assume exercise of potentially dilutive stock options using the treasury stock method, unless the effect of such increase would be anti-dilutive. For the years ended December 31, 2008 and 2007, the diluted earnings per share amounts equal basic earnings per share because the exercise price of the outstanding stock options is greater than the weighted-average market price over the measurement period, or the exercisability of the outstanding stock options is based upon market conditions that have not been met as of the end of the reporting year.

Advertising Costs

The cost of advertising is expensed as incurred. The Company incurred \$0.1 million and \$0.2 million in advertising costs from continuing operations for the years ended December 31, 2008 and 2007, respectively.

Income Taxes

The Company accounts for income taxes under Statement 109, *Accounting for Income Taxes* ("Statement 109"). Under Statement 109, deferred taxes are recognized using the liability method and tax rates are applied to cumulative temporary differences based on when and how they are expected to affect the tax return.

The Company is not subject to tax on profits, income or capital gains in Bermuda. For U.S. tax purposes, the Company has elected to be treated as a partnership. Subject to local tax regulations, shareholders may be required to report their allocable share of the Company's income, deductions, gain, or loss on their respective tax returns.

The Company's U.S. subsidiaries file a consolidated federal income tax return with their U.S. parent, BSG North America. The U.S. subsidiaries pay their proportionate share of the taxes to BSG North America, which is ultimately liable for the payment of the taxes to the Internal Revenue Service. The Company's other subsidiaries had filed separate income tax returns with the applicable tax authorities.

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes*, which clarifies the accounting treatment of uncertain tax positions in the financial statements in accordance with Statement 109. FIN 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, and required disclosures. The new provision was adopted by the Company on January 1, 2007, and did not result in recording any additional liability on its consolidated financial statements.

Notes to Consolidated Financial Statements (continued)

(December 31, 2008 and 2007)

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

Stock-Based Compensation

The Company has a stock-based employee compensation plan, which is described more fully in Note 14. The Company accounts for share-based compensation in accordance with Statement No. 123(R), *Share-Based Payment* ("Statement 123(R)"), using the modified-prospective-transition method. Under that transition method, compensation cost recognized includes: (a) compensation cost for all share-based payments granted prior to but not yet vested as of January 1, 2006, based on the fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R).

Derivative Instruments and Hedging Activities

Statement 133, *Accounting for Derivative Instruments and Hedging Activities*, requires 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. See Notes 8 and 16 for a discussion of the Company's specific derivative instruments and hedging activities.

Foreign Currency

Results of operations for foreign subsidiaries are translated into U.S. dollars using the average exchange rates during the year. The assets and liabilities of those subsidiaries 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Standards and Disclosures

In September 2006, the FASB issued Statement 157, *Fair Value Measurements* ("Statement 157"). Statement 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements for fair value measurements. Statement 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. Statement 157 does not expand the use of fair value in any new circumstances. Effective January 1, 2008, companies will need to apply the recognition and disclosure provisions of Statement 157 for financial assets and financial liabilities and for nonfinancial assets and nonfinancial liabilities that are remeasured at least annually. The effective date in Statement 157 is delayed for one year for certain nonfinancial assets and nonfinancial liabilities, except those that

Notes to Consolidated Financial Statements (continued)

(December 31, 2008 and 2007)

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

are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company's adoption of Statement 157 has had no impact on its financial position or results of operations.

Statement 141(R), *Business Combinations* ("Statement 141(R)"), was issued in December 2007. Statement 141(R) requires that upon initially obtaining control, an acquirer will recognize 100% of the fair values of acquired assets, including goodwill, and assumed liabilities, with only limited exceptions, even if the acquirer has not acquired 100% of its target. Additionally, contingent consideration arrangements will be fair valued at the acquisition date and included on that basis in the purchase price consideration and transaction costs will be expensed as incurred. Statement 141(R) also modifies the recognition for pre-acquisition contingencies, such as environmental or legal issues, restructuring plans, and acquired research and development value in purchase accounting. Statement 141(R) amends Statement 109, to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. Statement 141(R) is effective for fiscal years beginning after December 15, 2008. Adoption is prospective and early adoption is not permitted. The Company expects to adopt Statement 141(R) on January 1, 2009. Statement 141(R)'s impact on accounting for business combinations is dependent upon acquisitions following adoption.

Statement 159, *The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115* ("Statement 159"), was issued in February 2007. Statement 159 permits entities to choose to measure at fair value many financial instruments and certain other items that are not currently required to be measured at fair value. Statement 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. Statement 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. Statement 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in Statements 157, *Fair Value Measurements*, and 107, *Disclosures about Fair Value of Financial Instruments*. Statement 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company's adoption of Statement 159 has had no material impact on its financial position or results of operations.

In March 2008, the FASB issued Statement 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of Statement 133* ("Statement 161"), which requires enhanced disclosures for derivative and hedging activities. Statement 161 will become effective with the Company's first quarter of 2009.

2. Discontinued Operations

On December 19, 2007, the Company sold its wireless data and financial clearing operations, Billing Services Group Luxembourg S.a.r.l. ("BSG Luxembourg") and BSG Clearing Solutions Asia Limited and their wholly owned subsidiaries, for cash of \$152.7 million, net of the repayment of the disposed entities' borrowings under loan agreements, settlement of certain intercompany accounts, and closing costs. The results of these businesses are accounted for as discontinued operations in the consolidated statement of operations for 2007.

The gain on sale recorded in discontinued operations was \$28.6 million in 2007. The amount of interest expense allocated to discontinued operations was \$6.9 million in the year ended December 31, 2007.

Summarized operating results for the year ended December 31, 2007 for BSG Luxembourg included revenues of \$51.0 million and income, net of taxes, of \$5.5 million.

Notes to Consolidated Financial Statements (continued)

(December 31, 2008 and 2007)

3. Property, Equipment and Software

Property, equipment and software consisted of the following at December 31, 2008 and 2007:

	December 31	
	2008	2007
	(In thousands)	
Furniture and fixtures	\$236	\$236
Telecommunication equipment	1,839	1,839
Computer equipment	4,000	3,784
Computer software	26,628	22,424
Software development, including \$48 and \$368 of capitalized interest at December 31, 2008 and 2007, respectively	477	2,228
Leasehold improvements	2,172	2,172
	35,352	32,683
Less accumulated depreciation	14,710	10,387
Net property, equipment and software	\$20,642	\$22,296

Depreciation expense from continuing operations was \$4.3 million and \$4.0 million for the years ended December 31, 2008 and 2007, respectively.

4. Goodwill

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

In accordance with Statement 142, the Company completed step one of the two-step goodwill impairment process as of the fourth quarters of 2008 and 2007. No impairment charges resulted from completion of this test. The Company may incur impairment charges in the future under Statement 142 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.

Notes to Consolidated Financial Statements (continued)

(December 31, 2008 and 2007)

5. Intangible Assets (continued)

Total amortization expense from definite-lived intangibles from continuing operations was \$9.3 million and \$8.7 million for the years ended December 31, 2008 and 2007, respectively. The estimate of amortization expense for each of the five succeeding fiscal years for definite-lived intangibles is \$8.7 million for the years 2009 through 2012 and \$7.7 million for the year 2013.

6. Investments

In July 2005, the Company entered into a joint venture with Webpay International AG for the purpose of further developing a secure payment solution for broadband service providers and consumers under the brand name of "ClickandBuy." The Company invested \$1.5 million for a 49% share of the joint venture. The investment was accounted for using the equity method. During 2007, the Company wrote-off the investment, resulting in a \$1.2 million charge to operations.

7. Debt

Long-term debt is as follows:

	December 31	
	2008	2007
	(In thousands)	
Term Loan Facility, net of unamortized original issue discount of \$3,273 at December 31, 2008 and \$4,467 at December 31, 2007	\$90,331	\$108,033
Less current portion	8,562	11,250
	<u>\$81,769</u>	<u>\$96,783</u>

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, 2008 and 2007, borrowings under the Term Loan Facility were \$93.6 million and \$112.5 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 Inter-bank Offered Rate ("LIBOR") plus 4.25% per annum. At December 31, 2008, the nominal interest rate on outstanding loans was 5.75% per annum, but the effective interest rate, including the impact of interest rate swap contracts (see Note 8) was 8.34% 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) the excess of \$7.9 million over costs related to settlement with the U.S. Federal Trade Commission ("FTC") (see Note 12); (ii) 75% of the Company's excess cash flow, as defined, beginning in 2008; and (iii) 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 any prepayment premium or penalty.

Notes to Consolidated Financial Statements (continued)

(December 31, 2008 and 2007)

7. Debt (continued)

In connection with the settlement with the FTC, the Company paid \$3.6 million and \$2.0 million in 2008 and 2007, respectively, and made a debt repayment of \$2.3 million during 2008. At December 31, 2007, \$7.9 million was classified as restricted cash related to this obligation, which restriction was removed in 2008 as the result of these payments.

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

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.

Former Borrowing Facilities

In connection with the repayment of certain former borrowings in 2007, the Company wrote-off its related unamortized deferred finance costs of \$3.0 million and paid prepayment premiums of \$0.4 million which are included in write-off of deferred finance costs and interest expense, respectively, in 2007.

8. Financial Instruments

Interest Rate Swap

In connection with the Term Loan Facility outstanding at December 31, 2008, the Company entered into a series of interest rate swap contracts during December 2007 for an aggregate notional amount of \$75 million. Under the contracts, the Company will pay fixed rates of 3.91% per annum to 4.18% per annum, thereby fixing the LIBOR portion of the interest rate on the notional amounts during the periods indicated below.

Contract Notional Amount	Contract Period	Contract Fixed Rate
\$ 5,000,000	12/31/07 to 12/31/08	4.12%
15,000,000	12/31/07 to 12/31/09	3.91%
20,000,000	12/31/07 to 12/31/10	4.00%
15,000,000	12/31/07 to 12/31/11	4.11%
20,000,000	12/31/07 to 12/31/12	4.18%
<hr/>		
\$ 75,000,000		

Notes to Consolidated Financial Statements (continued)

(December 31, 2008 and 2007)

8. Financial Instruments (continued)

Under the contracts, the counterparty will pay the Company a floating rate, namely LIBOR, on the same notional principal amounts during the same periods. The applicable margin above LIBOR, as defined in the credit agreement, is not included in, and will be paid in addition to, the fixed interest rate. As indicated in the table set forth above, the initial contract, covering a notional amount of \$5 million, expired on December 31, 2008. As of December 31, 2008 and 2007, the contracts, in the aggregate, had a negative value of \$4.2 million and \$0.3 million, respectively, which was recorded in other liabilities in the accompanying consolidated balance sheets. The contracts qualify for hedge accounting, and accordingly, the decline in the contracts' value of \$3.9 million and \$0.3 million during the years ended December 31, 2008 and 2007, respectively, is recorded in accumulated other comprehensive loss, net of tax.

In connection with certain former debt, the Company entered into an interest rate swap contract in 2006 (the "2006 Swap") for a notional amount of \$65 million. The 2006 Swap was canceled on December 14, 2007, and the Company paid \$1.3 million in settlement of this contract. This payment is reflected in settlement and mark-to-market of derivatives in the accompanying statements of operations.

Also, in connection with certain former debt, the Company entered into an interest rate swap contract in 2005 (the "2005 Swap") for a notional amount of \$70 million. The 2005 Swap contract remained in place after the December 19, 2007 refinancing, and it supplemented the contract described above to satisfy the requirements of the Term Loan Facility. The Company canceled the entire 2005 Swap during 2008, and paid \$1.9 million in connection with the cancellation. This payment is reflected in settlement and mark-to-market of derivatives in the accompanying consolidated statements of operations. As the 2006 Swap and 2005 Swap did not qualify for hedge accounting, changes in their fair market values are recorded as expense in the accompanying consolidated statements of operations. In 2007, the Company recorded a loss of \$3.2 million related to the cancellation of the 2006 Swap and the change in the estimated fair value of the 2005 Swap. In 2008, the Company recorded a loss of \$0.8 million related to the additional decline in value of the 2005 Swap.

As discussed in Note 1, the Company adopted Statement No. 157 effective January 1, 2008. Statement No. 157 establishes a three-tier fair value hierarchy, which prioritized 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 exists, therefore requiring an entity to develop its own assumptions. As of December 31, 2008, the Company held one type of financial instrument subject to valuation under Statement No. 157, interest rate swaps. The interest rate swaps are included in other liabilities in the accompanying consolidated balance sheets. Fair value of interest rate swaps is based on forward-looking interest rate curves as provided by the counterparties, adjusted for the Company's credit risk and are considered Level 2 inputs.

Notes to Consolidated Financial Statements (continued)

(December 31, 2008 and 2007)

9. Income Taxes

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

	December 31	
	2008	2007
	(In thousands)	
Current expense (benefit):		
Federal	\$5,153	\$(1,709)
State	315	707
	5,468	(1,002)
Deferred expense (benefit):		
Federal	(905)	(680)
State	32	(410)
	(873)	(1,090)
Total income tax expense (benefit)	<u>\$4,595</u>	<u>\$(2,092)</u>

The income tax provision differs from amounts computed by applying the U.S. federal statutory tax rate to income from continuing operations before income taxes as follows:

	December 31	
	2008	2007
	(In thousands)	
Estimated federal tax expense (benefit) at 35%	\$4,362	\$(3,080)
Increases (reductions) from:		
Change in tax rates	–	206
State tax	226	77
Nondeductible items	–	145
Foreign tax rate differential	75	487
Other	(68)	73
Income tax expense (benefit)	<u>\$4,595</u>	<u>\$(2,092)</u>

There are significant differences among the tax laws of the countries in which the Company was operating, including varying tax rates and deductibility of certain expenses. The Company is not subject to tax on profits, income, or capital gains in Bermuda. For U.S. tax purposes, the Company has elected to be treated as a partnership. Subject to local tax regulations, shareholders may be required to report their allocable share of the Company's income, deductions, gain, or loss on their respective tax returns.

Notes to Consolidated Financial Statements (continued)

(December 31, 2008 and 2007)

9. Income Taxes (continued)

Deferred income taxes result from temporary differences between the bases 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	
	2008	2007
	(In thousands)	
Deferred tax assets:		
Reserve for bad debts	\$ 98	\$ 109
Accrued liabilities	573	701
State taxes	400	432
Stock-based compensation expense	756	718
AMT credit carryover	–	96
Capital loss carryover	122	–
Derivatives	1,487	478
Intangible assets	316	–
Total deferred tax assets	3,752	2,534
Deferred tax liabilities:		
Property, equipment and software	(3,904)	(4,614)
Intangible assets	–	(1,255)
Capitalized interest	(1,335)	(1,302)
Other	(189)	(214)
Total deferred tax liabilities	(5,428)	(7,385)
Net deferred tax liabilities	\$(1,676)	\$(4,851)

Management is of the opinion that it is more likely than not that the deferred tax assets will be fully realized.

During 2008 and 2007, the Company's United States-based subsidiaries are included in the consolidated federal income tax returns of BSG North America. The tax obligation of the Company's United States-based subsidiaries is paid to BSG North America, which is ultimately liable for payment of the taxes to the Internal Revenue Service.

The Company has Texas state net operating loss credit carryforwards of approximately \$0.6 million which will expire in 2026.

Notes to Consolidated Financial Statements (continued)

(December 31, 2008 and 2007)

9. Income Taxes (continued)

The Company adopted FIN 48 in the first quarter of fiscal 2007, and the adoption of the provision did not have a significant impact on the Company's consolidated financial statements. During the year ended December 31, 2007, the Company established a reserve of \$0.3 million related to state taxes and during the year ended December 31, 2008, the Company established a reserve of \$0.9 million related to an adjustment of liabilities assumed in a prior acquisition. The total reserve as of December 31, 2008 is \$1.2 million. The Company does not expect the recorded liability to change significantly over the next twelve months. It is the Company's policy to recognize interest and penalties related to uncertain tax positions in the provision for income taxes in the consolidated statement of operations. There were no interest or penalties recorded during the years ended December 31, 2008 or 2007.

The Company's tax returns for 2004 through 2008 tax years generally remain subject to examination by the federal and most state tax authorities. The Internal Revenue Service is currently examining the Company's consolidated tax returns for the years ended December 31, 2004 to 2006.

10. Earnings Per Share

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

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

	December 31	
	2008	2007
	(In thousands, except per share amounts)	
Numerator:		
Income (loss) from continuing operations	\$ 7,861	\$ (6,709)
Income from discontinued operations	–	34,075
Net income	<u>\$ 7,861</u>	<u>\$ 27,366</u>
Denominator:		
Weighted-average shares – basic	279,863	279,863
Effect of diluted securities: Options	–	–
Weighted-average shares – diluted	<u>279,863</u>	<u>279,863</u>
Net income (loss) per common share:		
Income (loss) from continuing operations – basic and diluted	\$ 0.028	\$ (0.024)
Income from discontinued operations – basic and diluted	–	0.122
Net income per share	<u>\$ 0.028</u>	<u>\$ 0.098</u>

Notes to Consolidated Financial Statements (continued)

(December 31, 2008 and 2007)

10. Earnings Per Share (continued)

Options covering 22,926,566 shares at December 31, 2008 have not been included in the calculation of earnings per share because these options were not in the money as calculated over the measurement period during 2008. Options covering 9,641,156 shares at December 31, 2007 have not been included in the calculation of earnings per share because their exercisability is contingent upon the fair market value of the Company's common stock increasing to a specific value, which was not achieved as of December 31, 2007. See Note 14.

11. Commitments

The Company leases certain office space and equipment under various operating leases. Annual future minimum lease commitments as of December 31, 2008, are as follows:

Year ending December 31	(In thousands)
2009	\$ 920
2010	926
2011	950
2012	524

Rental expense from continuing operations under these operating leases approximated \$0.9 million for each of the years ended December 31, 2008 and 2007.

12. Contingencies

The Company was a co-defendant in a FTC proceeding originally filed in March 2006 against a former customer for allegedly billing unauthorized charges to consumers. The Company terminated this customer in 2005. In October 2006, the FTC amended its filing to include the Company. During December 2007, the Company entered into an agreement with the FTC to settle this litigation in exchange for a payment of \$1.9 million. On March 17, 2008, the presiding court entered an order approving the settlement agreement, in which the Company did not admit any violation of law. The Company agreed to implement various compliance policies designed to attempt to ensure it does not process unauthorized billing of telecommunication charges by its customers. The 2007 consolidated statement of operations includes a charge of \$5.6 million related to the FTC litigation. As of December 31, 2007, the Company had remaining accrued liabilities of \$1.9 million and \$1.4 million for the FTC settlement costs and legal and other costs, respectively, which were paid during 2008. These amounts are included in the 2007 charge of \$5.6 million.

The Company is involved in various other 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.

Notes to Consolidated Financial Statements (continued)

(December 31, 2008 and 2007)

13. Employee Benefit Plans

The Company's subsidiaries participate in 401(k) Retirement Plans (the "Retirement Plans"), which are 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 Plans. The Retirement Plans are defined contribution plans, which provide 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, 2008 and 2007, the Company's matching contributions from continuing operations totaled approximately \$0.3 million in each period. No discretionary contributions were made.

14. Stock Option Plans

2005 Stock Option Plans

On June 8, 2005, the Board of Directors adopted the Billing Services Group Limited Stock Option Plan (the "BSG Plan") and the BSG Clearing Solutions North America, Inc. Stock Option Plan (the "BSG North America Plan"). Options may have been granted at the discretion of the remuneration committee to any director or employee and were generally granted with an exercise price equal to the market price of the Company's stock at the grant date. Directors may have been granted options in the BSG Plan and employees may have been granted options in the BSG North America Plan. Options granted in the BSG North America Plan were exercisable into shares of the Company. The options that may have been granted were limited, in the aggregate, to 10% of the issued common shares of capital stock at the time of grant.

On June 9, 2005, the Board of Directors granted 18,260,447 options at an exercise price of 74.5 pence, representing the fair market value of the Company's common stock on the date of grant to selected executives and other key employees whose vesting was contingent upon meeting an increase in the share price. These options would have vested when the fair market value of the common stock reached 149.0 pence, as adjusted for relative changes in capitalization, but would not have been exercisable unless the holder remained in the employment of the Company or one of its affiliates for three years from June 2005, or in the event of a change in control of the Company. Under such circumstances, the options would have been immediately exercisable subject to the holder being in the employment of the Company or one of its affiliates. The options had a contractual life of ten years.

The fair value of the options was generally computed using a Monte Carlo single option model. This model estimated the probability the options would have vested and the length of time required to attain the target stock price. The model projected the path of the Company's stock over ten years following the grant date, relying upon historical market data for its peers.

The BSG Plan and the BSG North America Plan described above were amended and restated as set forth below.

Notes to Consolidated Financial Statements (continued)

(December 31, 2008 and 2007)

14. Stock Option Plans (continued)

2008 Amended and Restated Stock Option Plans

On August 15, 2008, the Board of Directors adopted resolutions to amend and restate both the BSG Plan and the BSG North America Plan (now, the "Amended and Restated BSG Plan" and the "Amended and Restated BSG North America Plan," respectively).

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

On August 18, 2008, the Board of Directors granted 22,926,566 options at an exercise price of 10.34 pence, representing the fair market value of the Company's common stock on the date of grant, to all employees and directors of the Company. One-quarter of the total number of options vested on the grant date, and the remaining 75% of options will 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 2008 amounted to 6.0 pence per share. The following assumptions were used in arriving at the fair value of options granted during 2008: risk-free interest rate of 3.8%; dividend yield of 0%; expected volatility of 59.7%; 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.

The following is a summary of option activity:

	Options Outstanding	Weighted- Average Exercise Price
Options outstanding at December 31, 2006	9,641,156	75.4 pence
Granted	-	
Exercised	-	
Cancelled	-	
Options outstanding at December 31, 2007	9,641,156	75.4 pence
Granted	22,926,566	
Exercised	-	
Cancelled	9,641,156	
Options outstanding at December 31, 2008	22,926,566	10.34 pence
Options exercisable at December 31, 2008	5,731,642	
Options available for grant at December 31, 2008	5,059,759	

Notes to Consolidated Financial Statements (continued)

(December 31, 2008 and 2007)

14. Stock Option Plans (continued)

All options outstanding at December 31, 2007, were canceled in August 2008 as a result of the adoption of the Amended and Restated BSG Plan and the Amended and Restated BSG North America Plan.

Of the 22,926,566 options granted during 2008, a total of 20,187,500 were granted under the Amended and Restated BSG North America Plan and 2,739,066 were granted pursuant to Amended and Restated BSG Plan.

The weighted-average grant-date fair value of options granted in 2008 was 6.0 pence. As of December 31, 2008, there was \$2.0 million of total unrecognized noncash compensation cost related to nonvested share-based compensation arrangements granted under the BSG Plan and the BSG North America Plan. That cost is expected to be recognized during 2009 and 2010.

No options were exercised during 2008 or 2007, and accordingly, there were neither cash receipts received nor tax benefits realized for the tax deductions from option exercise.

15. Restructuring Expense and Other Income

Restructuring Expense

In 2006, in response to changing business conditions, the Company implemented a series of restructuring initiatives to reduce costs and refocus its business strategy, and accrued \$4.5 million through a charge to the consolidated statement of operations. During 2007, the Company paid for substantially all restructuring charges accrued at December 31, 2006, and as a result reversed \$0.4 million of such costs included in accrued liabilities at December 31, 2006. The resulting income is shown in the accompanying consolidated statements of operations.

In 2008, following disposition of the Company's businesses outside of the United States, the Company implemented cost reduction actions largely designed to reduce corporate overhead expenses. In connection with this plan, the Company recorded a \$2.8 million restructuring charge, principally to cover severance and related compensation costs for terminated employees. Of this amount, \$1.7 million was paid during 2008 and \$1.1 million is expected to be paid in 2009.

Other Income

Other income for the year ended December 31, 2008 consists primarily of the reduction of certain accrued liabilities based on changes in the estimation process.

Notes to Consolidated Financial Statements (continued)

(December 31, 2008 and 2007)

16. Subsequent Events

In January 2009, the Company repurchased \$2.6 million of its debt under the Term Loan Facility for \$2.4 million. In February 2009, the Company made a voluntary prepayment of \$2.0 million of its debt under the Term Loan Facility. At March 15, 2009, total outstanding term debt was \$89.0 million, inclusive of all original issue discount.

During the first quarter of 2009, the Company canceled \$22 million of notional principal amount in interest rate swaps for a cost of \$0.8 million. Accordingly, the table below sets forth the remaining interest rate swaps in place at March 15, 2009.

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



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