For Immediate Release

**Billing Services Group Limited**
**("BSG" or the "Company")**

**Unaudited interim results for the six months ended June 30, 2019**

## IMPROVED EBITDA DRIVEN BY HIGHER GROSS MARGIN AND LOWER OPERATING EXPENSES

**(September 20, 2019)** San Antonio, Texas, USA – BSG, a leading provider of telecommunications clearing and financial settlement products, Wi-Fi data solutions and verification services, today announces its unaudited results for the six months ended June 30, 2019.

**Financial Highlights**
**(*All amounts in US$)***

| | Six Months Ended June 30 | |
|---|---|---|
| | **2019** | **2018** |
| Revenues | $ 7.0 million | $ 8.4 million |
| Gross margin | 64.4% | 58.3% |
| Cash operating expenses | $ 4.0 million | $ 4.5 million |
| EBITDA [(1)] | $ 0.5 million | $ 0.3 million |
| Net income (loss) | $ 0.0 million | $ (0.6) million |
| Net income (loss) per basic share | $ 0.00 per share | $ (0.00) per share |
| Cash balance at end of period | $ 7.1 million | $ 9.0 million |

(1) EBITDA is computed as earnings before interest, income taxes, depreciation, amortization and other non-cash and nonrecurring income or expense items. EBITDA is not a recognized measure under generally accepted accounting principles (GAAP).

- Experienced a $1.4 million decline in revenue ($7.0 million vs. $8.4 million in the first half of 2018)
- Improved gross margin by 6.1 percentage points (64.4% vs. 58.3% in the first half of 2018)
- Reduced operating expenses by $0.5 million ($4.0 million vs. $4.5 million in the first half of 2018)
- Generated $0.5 million of EBITDA (2018: $0.3 million)
- Paid $1.3 million in cash dividends

- Ended the period with $7.1 million of cash (December 31, 2018: $9.2 million)
- Ended the period with $5.4 million of working capital (December 31, 2018: $6.6 million)

**BSG Wireless Operational Highlights**

- Renewed the web application contract with British Telecom
- Signed a new authentication service contract with Comcast
- Signed two new mobile application development and service contracts with Comcast
- Renewed our WLDS two year contract with Telus

**Third Party Verification ("VoiceLog") Operational Highlights**

- Completed an Electronic Letter of Authorization product offering that has been deployed with our first client
- Implemented processes to begin handling telemarketing sales with Direct Energy
- Completed organizational and certain partner changes that streamlined operations and delivery updates and resulted in cost savings

**Current Trading and Strategy**

- As described in previous announcements, the Company performed a strategic review to assist the Board in determining the future composition of the group, including capital structure and business lines. There have been five material actions taken as a result of the review:
    - Completed a $5.0 million cash tender offer in December 2017
    - Engaged investment banks and initiated discussions to sell BSG Wireless in 2017
    - Paid a $1.2 million cash dividend in July 2018
    - Renewed discussions with possible buyers for all or parts of the business in 2019
    - Paid a $1.3 million cash dividend in April 2019
- Following a sale of any portion of BSG's businesses, the Board will consider further cash distributions and other actions with respect to any remaining assets or business lines.
- Trading for the six months ended June 30, 2019 was in line with the Board's expectations and consistent with the recent trading conditions experienced by the Company.
- The Company will not provide guidance on projected future financial performance at this time.

**Commenting on the results, Denham H.N. Eke and Jason R. Wolff, Non-Executive Co-Chairmen, said:**

> *"The first-half results demonstrate the Company's disciplined execution of its business plan. Improved gross margins and lower operating expenses enabled the Company to generate a higher level of EBITDA despite lower revenues."*

**INQUIRIES:**


**Billing Services Group Limited** **+1 210 949 7000**
Norman M. Phipps

**finnCap Limited** **+44 (0) 20 7220 0500**
Stuart Andrews/Scott Mathieson


**About BSG:**

**BSG's headquarters is located in San Antonio, Texas, USA. The Company's shares are traded on the London Stock Exchange (AIM: BILL). For more information on BSG, visit (www.bsgclearing.com).**

## CHIEF EXECUTIVE'S STATEMENT

Our first-half results for 2019 demonstrate an effective execution of the business plan. The Company generated $0.5 million of EBITDA, which was an improvement over the $0.3 million generated in the same period last year. The $0.2 million improvement in EBITDA is particularly noteworthy, because revenues declined $1.4 million (17%) compared to the first half of last year.

The Company paid a $1.3 million cash dividend in April 2019. At June 30, 2019, the Company held $7.1 million in cash.

### Financial Performance

***Revenues***. The decline in revenues was expected. For the past several years, we have regularly commented on the secular decline in transaction volumes associated with our legacy business line – billing and clearing services related to wireline telecommunication providers. The trend will continue as wireless communications displace wireline phone usage. It is also important to reiterate that a decision by the remaining local exchange carriers (LECs) to exit third-party billing will have a material adverse effect on this business segment and the overall business.

BSG operates two other business lines designed to complement the legacy business segment and diversify revenue streams. The first, BSG Wireless, provides Wi-Fi data clearing services to wireless network operators in North America and Europe. Unlike our legacy business, BSG Wireless is a beneficiary of growth in wireless communications. Our other business line, VoiceLog, provides independent transaction confirmations for US customers, including utility services, cable/telecommunication companies and healthcare providers. VoiceLog is unaffected by trends in wireline and wireless communications. Combined revenues from these two business lines compare favorably to last year, but in an amount insufficient to offset the revenue decline in our legacy business line.

***EBITDA***. The improvement in this year's first-half EBITDA resulted from an expansion of gross margin and expense reductions. Gross margin improved by 6.1 percentage points due to (i) more favorable pricing on services related to our legacy business line and (ii) revenue growth in BSG Wireless, which operates at a higher gross margin level than the legacy business. Additionally, EBITDA benefitted from $0.5 million of expense reductions, which largely resulted from moving a portion of BSG Wireless' UK-based sales, data management, accounting and financial functions into the Company's San Antonio facility. The realignment reduced compensation and other expenses. The expense reduction actions were taken in steps during the first half of 2018. A full six-month effect of the on-going savings was realized during the first half of 2019.

***Balance Sheet***. The Company's balance sheet at June 30, 2019 is strong, with $7.1 million of cash and $5.4 million of working capital. The reduction in cash balance and working capital during the first half of 2019 is largely attributable to the $1.3 million cash dividend paid in April and the adoption of the new lease accounting standard (see Note 4).

## Strategic Review

As described in previous announcements, the Company initiated a strategic review to assist the Board in determining the future composition of the group, including capital structure and business lines. There have been five material actions taken as a result of the review:

- Completed a $5.0 million cash tender offer in December 2017
- Engaged investment banks and initiated discussions to sell BSG Wireless in 2017
- Paid a $1.2 million cash dividend in July 2018
- Renewed discussions with possible buyers for all or parts of the business in 2019
- Paid a $1.3 million cash dividend in April 2019

The actions listed above have cumulatively returned $7.5 million in cash to shareholders over the past 18 months.

## Going Forward

Management continues to focus on actions that will improve earnings and cash flow. The Board remains focused on the future composition of the group, including creating liquidity events for our shareholders, and the optimization of capital allocation.

In light of the potentially significant changes in the business, we will not provide guidance on projected future financial performance.

Sincerely,

Norman M. Phipps
Chief Executive Officer

## FINANCIAL REVIEW

**Financial Review of the Six Months Ended June 30, 2019**

The Company's unaudited results for the six months ended June 30, 2019 are compared against the six months ended June 30, 2018 in the accompanying consolidated financial statements. BSG's consolidated financial statements are prepared in conformity with United States GAAP for interim financial information.

**Certain Terms**

***Revenues.*** Revenues are derived primarily from fees charged to wireline and wireless service providers for data clearing, financial settlement, information management, payment and financial risk management, third-party verification and customer service functions. During 2016, the Company introduced a direct billing service under which end-user consumers are invoiced directly by the Company, rather than through LECs as third-party billers. Revenue recognized under third-party billing includes the Company's service fees plus amounts necessary to compensate the LECs for their third-party billing services. Revenue for direct billing does not include any components other than the Company's service fees.

***Cost of Services and Gross Profit.*** Cost of services arises primarily in the Company's wireline billing and clearing business. Cost of services in the clearinghouse business includes billing and collection fees charged by LECs and other service providers for payment processing. Such fees are assessed for each record submitted and for each bill rendered to end-user consumers. BSG charges its customers a negotiated fee for billing and collection services. Accordingly, gross profit is generally dependent upon transaction volume, processing fees charged per transaction and any differential between the fees charged to customers by BSG and the related fees charged to BSG by LECs and other service providers.

***Operating Expenses.*** Operating expenses include all selling, marketing, data management, customer service, facilities and administrative costs (including payroll and related expenses) incurred in support of operations, substantially all of which are settled through the payment of cash.

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

***Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA).*** Earnings before interest, income taxes, depreciation and amortization, a non-GAAP metric, is a measurement of profitability often used by investors and lenders. The computation of EBITDA also excludes other non-cash and nonrecurring items as additions or deductions to earnings.

***Third-Party Payables.*** Third-party payables include amounts owed to customers in the ordinary course of clearinghouse activities and additional amounts maintained as reserves for retrospective charges from LECs and other parties. In its clearinghouse business, the Company aggregates call records received from its customers. It then submits the call records either to (i) LECs for billing to end-user consumers; or (ii) end-user consumers. The Company collects funds from LECs and directly billed end-user consumers each day.

Under normal circumstances, funds collected from LECs are distributed to the Company's customers approximately ten days after receipt, under weekly settlement protocols. The Company withholds a portion of the funds received from LECs to pay (i) the Company's processing fees, (ii) billing and collection fees of LECs, (iii) sales and other taxes paid by the Company and (iv) an amount deemed necessary to serve as a reserve against retrospective charges from LECs.

Funds collected from directly billed end-user consumers are credited to the Company's customers when received. The Company withholds a portion of the funds received from end-user consumers to pay (i) the Company's processing fees, (ii) sales and other taxes paid by the Company and (iii) an amount deemed necessary to serve as a reserve against retrospective charges from payment processors or other parties.

When LECs, payment processors and other parties make payments to the Company, they withhold funds to cover a variety of expenses and potential retrospective charges. As noted above, the Company similarly withholds funds from its customers to cover expenses and retrospective charges. The third-party payables balance is computed as the excess of (i) funds owed to the Company's customers, inclusive of reserves for retrospective charges, over the sum of (ii) amounts owed from the Company's customers and (iii) reserves withheld for retrospective charges by LECs, payment processors and other parties.

**Comparison of Results for the Six Months Ended June 30, 2019 to the Six Months Ended June 30, 2018**

***Total Revenues.*** Total revenues of $7.0 million in 2019 were $1.4 million, or 17%, lower than the $8.4 million of revenues recorded during the first half of 2018. The $1.4 million decrease reflects lower transaction volumes across all clearing, settlement and customer service activities provided for wireline service providers, partially offset by improved pricing for clearing, settlement and customer service activities and higher managed service fees arising within the wireless business.

***Cost of Services and Gross Profit.*** Cost of services in the first half of 2019 was $2.5 million, compared to $3.5 million in the first half of 2018. The $1.0 million, or 29%, decrease in cost of services largely reflects lower fees from LECs for billing and collection services attributable to the lower level of transaction volumes. The Company generated $4.5 million of gross profit in the first half of 2019, compared to $4.9 million in the first half of 2018. The gross margin of 64.4% in the first half of 2019 is 6.1 percentage points higher than the 58.3% margin achieved in the first half of 2018. The improved gross margin in 2019 resulted from improved pricing for billing and clearing services and a larger percentage of revenue originating from the wireless business, which operates at a higher gross margin level than the wireline business.

***Operating Expenses.*** Operating expenses were $4.0 million in the first half of 2019, compared to $4.5 million in the first half of 2018. The $0.5 million, or 11%, decrease largely reflects reductions in compensation and other expenses in BSG Wireless, primarily attributable to moving a portion of BSG

Wireless' UK-based sales, data management, accounting and financial functions into the Company's San Antonio facility during 2018.

***Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA).*** The Company generated $0.5 million of EBITDA during the first half of 2019, compared to $0.3 million during the first half of 2018. A reconciliation of net income (loss) and EBITDA in each period follows:

| | Six Months Ended June 30 | |
|---|---|---|
| **$ millions** | **2019** | **2018** |
| Net income (loss) | $ - | $ (0.6) |
| Depreciation expense | 0.5 | 0.6 |
| Amortization of intangibles | 0.1 | 0.3 |
| Nonrecurring restructuring expense | - | 0.4 |
| Income tax expense | - | 0.2 |
| Other income, net | (0.1) | (0.6) |
| **EBITDA** | **$ 0.5** | **$ 0.3** |

***Depreciation and Amortization Expense.*** Depreciation and amortization expenses totaled $0.6 million in the first half of 2019, compared to $0.9 million in the first half of 2018. The $0.3 million decline reflects cessation of amortization charges on components of intangible assets for which accumulated amortization charges reached the assets' respective gross carrying values.

***Nonrecurring Restructuring Expense***. In the first half of 2018, the Company recognized $0.4 million of nonrecurring restructuring expense associated with severance and similar payment obligations related to headcount reduction and other changes in the BSG Wireless business. Nonrecurring restructuring expense was not included as an expense for purposes of computing EBITDA.

***Other Income, Net.*** The Company realized $0.1 million of other income, net during the first half of 2019, compared to $0.6 million in the first half of 2018. Other income, net in both periods arose primarily from adjustments to reserves related to class action litigation and recoveries from customers.

Other income and expense arises from miscellaneous items typically of a nonrecurring nature. Accordingly, other income and expense items were not included as earnings or expense for purposes of calculating EBITDA.

***Change in Cash***. BSG's cash balance at June 30, 2019 was $7.1 million, compared to $9.2 million at December 31, 2018. The $2.1 million decrease in cash during the first half of 2019 is largely attributable to a $1.3 million dividend, a $0.6 million use of cash in operating activities, $0.1 million of capital expenditures and $0.1 million of payments on long-term debt.

***Change in Restricted Cash***. In the ordinary course of business, LECs withhold funds from their payments to the Company in order to create a reserve securing potential future obligations of the Company to the LEC. Through December 31, 2017, pursuant to a 2012 agreement with one LEC, the LEC released a net of $0.8 million of cash reserves. The cash was transferred into a restricted Company bank account used for funding the Company's indemnification obligations under class action litigation against the LEC. During 2018, $0.5 million was released from the restricted cash account ($0.4 million during the first half of 2018), reducing restricted cash to $0.3 million at December 31, 2018 and June 30, 2019.

***Change in Third-Party Payables.*** Third-party payables at June 30, 2019, inclusive of long-term liabilities, were $3.9 million, compared to $4.4 million at December 31, 2018. The $0.5 million decrease in third-party payables during the first half of 2019 resulted largely from ordinary course settlement activities, which in turn were affected by the reduction of transaction volume in third-party billing.

***Change in Accrued Liabilities***. Accrued liabilities at June 30, 2019 were $0.3 million, compared to $0.2 million at December 31, 2018. The $0.1 million increase in accrued liabilities was attributable to the timing of ordinary course payments and adjustments.

***Capital Expenditures.*** During the first half of 2019, the Company invested $0.1 million in capital expenditures, primarily for computer equipment. In the first half of 2018, capital expenditures totaled $0.3 million.

**Cash Flows for the Six Months Ended June 30, 2019**

***Cash flow used in operating activities***. Net cash used in operating activities was $0.6 million during the first half of 2019. Net cash used was principally attributable to a $0.6 million reduction in trade accounts payable, a $0.5 million reduction in third-party payables and a $0.2 million increase in trade receivables, offset by $0.6 million of depreciation and amortization.

***Cash flow used in investing activities***. Net cash used in investing activities was $0.1 million, reflecting $0.1 million of capital expenditures.

***Cash flow used in financing activities***. Cash used in financing activities was $1.4 million, attributable to $1.3 million of dividends and $0.1 million of payments on long-term debt.

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

**Billing Services Group Limited**

c/o finnCap Limited
60 New Broad Street
London EC2M 1JJ
United Kingdom

**Forward Looking Statements**

***This report contains certain "forward-looking" statements and information relating to the plans, objectives, expectations and intentions of the Company that are based on the beliefs of the Company's management as well as assumptions made by and information currently available to the Company's management. When used in this report, the words "anticipate," "believe," "estimate," "expect," "intend," "projects," "could," "should," "will" and words or phrases of similar meaning are intended to identify forward-looking statements. Forward-looking statements reflect the Company's current views with respect to future events and financial performance. Such statements, including certain information set forth herein under "Financial Review" that is not historical fact or statement of current condition, reflect management's assessment of the current risks, uncertainties and assumptions related to certain factors including, without limitation, the competitive environment, general economic conditions, customer relations, relationships with local exchange carriers and other vendors, availability of credit, borrowing terms, interest rates, foreign exchange rates, litigation, governmental regulation and supervision, capital expenditures, product development, product acceptance, technological change and disruption, changes in industry practices, one-time events and other factors described herein. Based upon changing conditions or circumstances arising from any one or more of these risks or uncertainties, or should any underlying assumptions prove incorrect, actual results may vary materially from historical or anticipated results as described herein.***

***Readers are cautioned not to place undue reliance on forward-looking statements. The Company does not intend to update or revise these forward-looking statements, whether because of new information, future events or otherwise.***

Billing Services Group Limited

Condensed Consolidated Balance Sheets
*(In thousands, except shares)*

| | **June 30, 2019** | **December 31, 2018** | **June 30, 2018** |
|---|---|---|---|
| | **(Unaudited)** | **(Derived from Audited Financial Statements)** | **(Unaudited)** |
| **Assets** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 7,096 | $ 9,234 | $ 9,022 |
| Restricted cash | 342 | 342 | 442 |
| Accounts receivable | 2,536 | 2,321 | 3,521 |
| Purchased receivables | - | - | 233 |
| Prepaid expenses and other current assets | 345 | 277 | 436 |
| Total current assets | 10,319 | 12,174 | 13,654 |
| Property, equipment and software | 49,882 | 49,820 | 49,979 |
| Less: accumulated depreciation and amortization | 47,226 | 46,697 | 46,204 |
| Net property, equipment and software | 2,656 | 3,123 | 3,775 |
| Intangible assets, net of accumulated amortization of $76,534, $76,457 and $76,201 at June 30, 2019, December 31, 2018 and June 30, 2018, respectively | 5,190 | 5,278 | 5,614 |
| Right-of-use operating lease | 547 | - | - |
| Deferred taxes | 1,811 | 1,811 | 247 |
| Goodwill | - | 1 | 9,964 |
| Other assets | 21 | 21 | 65 |
| Total assets | $ 20,544 | $ 22,408 | $ 33,319 |

*Continued on following page*

Billing Services Group Limited

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

| | June 30, 2019 | December 31, 2018 | June 30, 2018 |
|---|---|---|---|
| | (Unaudited) | (Derived from Audited Financial Statements) | (Unaudited) |
| **Liabilities and shareholders' equity** | | | |
| Current liabilities: | | | |
| Trade accounts payable | $ 589 | $ 1,169 | $ 1,358 |
| Third-party payables | 3,549 | 4,040 | 4,724 |
| Accrued liabilities | 291 | 214 | 1,183 |
| Right-of-use operating lease liability - current | 407 | - | - |
| Term loan note payable | 91 | 121 | 118 |
| Total current liabilities | 4,927 | 5,544 | 7,383 |
| | | | |
| Term note payable – noncurrent | 26 | 56 | 118 |
| Right-of-use operating lease liability – noncurrent | 107 | - | - |
| Other liabilities | 320 | 368 | 577 |
| Total liabilities | 5,380 | 5, 968 | 8,078 |
| | | | |
| **Commitments and contingencies** | | | |
| | | | |
| Shareholders' equity: | | | |
| Common stock, $0.59446 par value; 350,000,000 shares authorized; 164,768,689 shares issued and outstanding at June 30, 2019, December 31, 2018 and June 30, 2018 | 97,948 | 97,948 | 97,948 |
| Additional paid-in capital (deficit) | (110,596) | (110,596) | (110,600) |
| Retained earnings | 28,781 | 30,035 | 38,518 |
| Change in accounting principle - Leases ASC 842 | 33 | - | - |
| Accumulated other comprehensive loss | (1,002) | (947) | (625) |
| Total shareholders' equity | 15,164 | 16,440 | 25,241 |
| Total liabilities and shareholders' equity | $ 20,544 | $ 22,408 | $ 33,319 |

*See accompanying notes.*

Billing Services Group Limited

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

| | **Six Months Ended June 30, 2019** | **2018** |
|---|---|---|
| | **(Unaudited)** | **(Unaudited)** |
| Operating revenues | $ 7,041 | $ 8,360 |
| Cost of services | 2,508 | 3,490 |
| Gross profit | 4,533 | 4,870 |
| Selling, general, and administrative expenses | 3,985 | 4,535 |
| EBITDA | 548 | 335 |
| Depreciation and amortization expense | 634 | 958 |
| Nonrecurring restructuring expense | - | 428 |
| Stock-based compensation expense | - | 11 |
| Operating loss | (86) | (1,062) |
| Other income: | | |
| Interest income, net | 4 | 4 |
| Foreign currency transactions | 9 | 15 |
| Other income, net | 95 | 615 |
| Total other income, net | 108 | 634 |
| Income (loss) from operations before income taxes | 22 | (428) |
| Income tax benefit (expense) | 23 | (158) |
| Net income (loss) | 45 | (586) |
| Other comprehensive loss | (55) | (204) |
| Comprehensive loss | $ (10) | $ (790) |
| Net income (loss) per basic and diluted share: | | |
| Basic net income (loss) per share | $ 0.00 | $ (0.00) |
| Diluted net income (loss) per share | $ 0.00 | $ (0.00) |
| Weighted average shares outstanding | 164,769 | 164,769 |

*See accompanying notes.*

Billing Services Group Limited
Condensed Consolidated Statements of Cash Flows
*(In thousands)*

| | Six Months Ended June 30, 2019 (Unaudited) | Six Months Ended June 30, 2018 (Unaudited) |
|---|---|---|
| **Operating activities** | | |
| Net income (loss) | $ 45 | $ (586) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation | 552 | 650 |
| Amortization of intangibles | 82 | 308 |
| Stock-based compensation expense | - | 11 |
| Loss on asset disposal | 1 | 3 |
| Expense in provision for deferred taxes | - | 144 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (215) | 95 |
| Increase in other current assets and other assets | (68) | (53) |
| Decrease in trade accounts payable | (580) | (65) |
| Decrease in third-party payables | (539) | (1,439) |
| Increase (decrease) in accrued and other liabilities | 77 | (1,665) |
| Net cash used in operating activities | (645) | (2,597) |
| **Investing activities** | | |
| Purchases of property, equipment and software | (85) | (345) |
| Net receipts on purchased receivables | - | 227 |
| Net cash used in investing activities | (85) | (118) |
| **Financing activities** | | |
| Borrowings of long-term debt | - | 37 |
| Payments on long-term debt | (60) | (53) |
| Restricted cash | - | 389 |
| Dividend payment | (1,300) | - |
| Net cash (used in) provided by financing activities | (1,360) | 373 |
| Effect of exchange rate changes on cash | (48) | (164) |
| Net decrease in cash and cash equivalents | (2,138) | (2,506) |
| Cash and cash equivalents at beginning of period | 9,234 | 11,528 |
| Cash and cash equivalents at June 30 | $ 7,096 | $ 9,022 |

*See accompanying notes.*

## NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited interim condensed consolidated financial statements of Billing Services Group Limited (BSG or the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not include all of the information and disclosures required by generally accepted accounting principles for complete financial statements. Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could vary from the estimates that were used.

## NOTE 2 NET INCOME OR LOSS PER COMMON SHARE

Basic and diluted net income or loss per share are computed by dividing net income or loss by the weighted average number of shares of common stock outstanding during the relevant periods.

Diluted net income or loss per share includes the effect of all dilutive options exercisable into common stock, unless the effect of such inclusion would be anti-dilutive.

## NOTE 3 COMMITMENTS AND 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 outcome of any of the claims or proceedings to which the Company is a party will have a material adverse effect on the Company's financial position. Due to the inherent uncertainty of litigation and regulatory proceedings, however, 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 results of operations for the fiscal period in which such resolution occurred.

The Company’s subsidiary’s federal tax returns for 2016 through 2018 remain subject to examination by the federal tax authority. Most state tax returns for the 2016 through 2018 tax years remain open for examination by the relevant tax authorities.

## NOTE 4 CHANGE IN ACCOUNTING PRINCIPLE – LEASES

On January 1, 2018, the Company adopted ASC Topic 842, *Leases.* The new guidance requires the recognition of right-of-use assets and lease liabilities on the balance sheet for leases with terms greater than 12 months or leases that contain a purchase option that is reasonably certain to be exercised. Lessees are now required to classify leases as either finance or operating leases. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease.

## NOTE 4 CHANGE IN ACCOUNTING PRINCIPLE – LEASES (continued)

The Company elected to utilize the package of practical expedients in ASC 842-10-65-1(f) that, upon adoption of ASC 842, allows entities to (1) not reassess whether any expired or existing contracts are or contain leases, (2) retain the classification of leases (*e.g.*, operating or finance lease) existing as of the date of adoption and (3) not reassess initial direct costs for any existing leases. The Company elected to utilize the practical expedient in ASC 842-10-65-1(gg) in which an entity not need to assess whether existing land easements not previously accounted for as leases contain a lease under ASC 842. The Company also elected to utilize the practical expedient in ASC 842-10-15-37 in which the Company has chosen to account for each separate lease component of a contract and its associated nonlease components as a single lease component.

The Company adopted ASC 842 using the modified retrospective method, and accordingly, the new guidance was applied retrospectively to leases that existed as of January 1, 2019 (the date of initial application). As a result, the Company has recorded total right-of-use assets of approximately $706 thousand, total current lease liabilities of approximately $358 thousand, total noncurrent lease liabilities of $315 thousand and an adjustment to beginning retained earnings of approximately $33 thousand as of January 1, 2019. The adoption of ASC 842 did not have a material impact on the Company's results of operations or cash flows.

The Company's right of use assets and lease liabilities relate to office facilities used for the Company's headquarters. The lease does not contain options to renew, options to purchase the leased property, or material residual value guarantees, or material restrictions and covenants.

Long-term leases (leases with terms greater than 12 months) are recorded on the consolidated balance sheet at the present value of the minimum lease payments not yet paid. The Company uses its incremental borrowing rate to determine the present value of the lease when the rate implicit in the lease is not readily determinable.

Short-term leases (leases with an initial term of 12 months or less or leases that are cancelable by the lessee and lessor without significant penalties) are not recorded on the consolidated balance sheet and are expensed on a straight-line basis over the lease term.

For the six month period ended June 30, 2019, the Company recognized expense related to operating leases in the amount of approximately $211 thousand.