CONSOLIDATED FINANCIAL STATEMENTS

Billing Services Group Limited
Years Ended December 31, 2018 and 2017

Billing Services Group Limited

Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

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Consolidated Financial Statements

Independent Auditor's Report

To the Board of Directors of
Billing Services Group Limited

We have audited the accompanying consolidated financial statements of Billing Services Group Limited, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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The Board of Directors of
Billing Services Group Limited

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Billing Services Group Limited as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

San Antonio, Texas
March 28, 2019

Billing Services Group Limited

Consolidated Balance Sheets

(In thousands, except shares)

		December 31	
	Notes	**2018**	**2017**
Assets			
Current assets:			
Cash and cash equivalents		**$ 9,234**	$ 11,528
Restricted cash	9	**342**	831
Accounts receivable		**2,321**	3,616
Purchased receivables		**-**	460
Prepaid expenses and other current assets		**277**	383
Total current assets		**12,174**	16,818
Property, equipment and software		**49,820**	50,008
Less accumulated depreciation		**46,697**	45,925
Net property, equipment and software	2	**3,123**	4,083
Intangible assets, net of accumulated amortization of $76,457 and $75,915 at December 31, 2018 and 2017, respectively	3	**5,278**	5,962
Deferred taxes	5	**1,811**	391
Goodwill	3	**1**	9,964
Other assets, net		**21**	65
Total assets		**$ 22,408**	$ 37,283

Continued on following page

Billing Services Group Limited

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

	Notes	December 31 2018	2017
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade accounts payable		**$ 1,169**	$ 1,423
Third-party payables		**4,040**	6,546
Accrued liabilities	9	**214**	2,848
Term loan note payable	4	**121**	105
Total current liabilities		**5,544**	10,922
Term loan note payable - noncurrent	4	**56**	147
Other liabilities		**368**	194
Total liabilities		**5,968**	11,263
Shareholders' equity:			
Common stock, $0.59446 par value; 350,000,000 shares authorized; 164,768,689 shares issued and outstanding at December 31, 2018 and 2017	6	**97,948**	97,948
Additional paid-in capital (deficit)		**(110,596)**	(110,611)
Retained earnings		**30,035**	39,104
Accumulated other comprehensive loss		**(947)**	(421)
Total shareholders' equity		**16,440**	26,020
Total liabilities and shareholders' equity		**$ 22,408**	$ 37,283

See accompanying notes.

Billing Services Group Limited

Consolidated Statements of Income and Comprehensive Income

(In thousands, except per share amounts)

	Notes	Years Ended December 31 2018	2017
Operating revenues		**$ 16,122**	$ 21,057
Cost of services		**6,381**	9,144
Gross profit		**9,741**	11,913
Selling, general and administrative expenses		**8,988**	10,995
Depreciation and amortization expense	2, 3	**1,825**	1,901
Impairment charge	3	**9,962**	15,309
Operating loss		**(11,034)**	(16,292)
Other income (expense):			
Interest expense		**(16)**	(181)
Interest income		**17**	36
All other income, net		**1,617**	7,381
Total other income, net		**1,618**	7,236
Loss before income taxes		**(9,416)**	(9,056)
Income tax benefit	5	**1,597**	2,381
Net loss		**(7,819)**	(6,675)
Other comprehensive (loss) income		**(526)**	552
Comprehensive loss		**$ (8,345)**	$ (6,123)

Continued on following page

Billing Services Group Limited

Consolidated Statements of Income and Comprehensive Income (continued)
(In thousands, except per share amounts)

	Notes	Years Ended December 31 2018		2017
Net loss per basic share	7	$ **(0.05)**	$	(0.02)
Basic weighted-average shares outstanding		**164,769**		278,870

See accompanying notes.

Billing Services Group Limited

Consolidated Statements of Changes in Shareholders' Equity

(In thousands)

	Number of Shares	Common Stock	Additional Paid-In Capital (Deficit)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Shareholders' equity, December 31, 2016	282,416	167,885	(175,577)	45,779	(973)	$ 37,114
Share repurchase	(117,647)	(69,937)	64,937	-	-	(5,000)
Stock-based compensation expense	-	-	29	-	-	29
Net loss	-	-	-	(6,675)	-	(6,675)
Translation adjustment	-	-	-	-	552	552
Shareholders' equity, December 31, 2017	164,769	97,948	(110,611)	39,104	(421)	26,020
Dividend distribution	**-**	**-**	**-**	**(1,250)**	**-**	**(1,250)**
Stock-based compensation expense	**-**	**-**	**15**	**-**	**-**	**15**
Net loss	**-**	**-**	**-**	**(7,819)**	**-**	**(7,819)**
Translation adjustment	**-**	**-**	**-**	**-**	**(526)**	**(526)**
Shareholders' equity, December 31, 2018	**164,769**	**$ 97,948**	**$ (110,596)**	**$ 30,035**	**$ (947)**	**$ 16,440**

See accompanying notes.

Billing Services Group Limited

Consolidated Statements of Cash Flows
(In thousands)

	Years Ended December 31	
	2018	**2017**
Operating activities		
Net loss	**$ (7,819)**	$ (6,675)
Adjustments to reconcile net loss to		
net cash provided by (used in) operating activities:		
Depreciation	**1,231**	1,276
Amortization of intangibles and other assets	**594**	625
Asset disposal	**3**	-
Impairment loss	**9,962**	15,309
Stock-based compensation expense	**15**	29
Benefit in provision for deferred taxes	**(1,420)**	(2,314)
Changes in operating assets and liabilities:		
Decrease in accounts receivable	**1,295**	707
Decrease (increase) in prepaid expenses and other assets	**150**	(28)
Decrease in income taxes payable, net	**-**	(22)
Decrease in trade accounts payable	**(254)**	(783)
Decrease in third-party payables	**(2,332)**	(3,633)
Decrease in accrued liabilities	**(2,634)**	(3,422)
Net cash (used in) provided by operating activities	**(1,209)**	1,069
Investing activities		
Purchases of property, equipment and software	**(274)**	(943)
Net receipts on purchased receivables	**460**	284
Net cash provided by (used in) investing activities	**186**	(659)

Continued on following page

Billing Services Group Limited

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

	Years Ended December 31	
	2018	**2017**
Financing activities		
Borrowings on term loan note payable	**$ 37**	$ 142
Payments on long-term debt	**(112)**	(68)
Dividend distribution	**(1,250)**	-
Stock repurchase	**-**	(5,000)
Net cash used in financing activities	**(1,325)**	(4,926)
Effect of exchange rate changes	**(435)**	109
Net decrease in cash, cash equivalents and restricted cash	**(2,783)**	(4,407)
Cash, cash equivalents and restricted cash at beginning of year	**12,359**	16,766
Cash, cash equivalents and restricted cash at end of year	**$ 9,576**	$ 12,359
Supplemental cash flow information		
Cash paid during the year for:		
Interest	**$ 11**	$ 9
Taxes	**$ -**	$ -

See accompanying notes.

1. Organization and Summary of Significant Accounting Policies

Organization

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

Principles of Consolidation

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

Cash, Cash Equivalents and Restricted Cash

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

Restricted cash represents deposits made under the deposit account security and control agreement (the "Deposit Agreement") discussed in Note 9.

At December 31, 2018, the Company had $9.2 million in cash and cash equivalents in addition to $0.3 million in restricted cash. At December 31, 2017, the Company had $11.5 million in cash and cash equivalents in addition to $0.8 million in restricted cash.

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

Accounts Receivable

The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Losses are charged against the allowance when management believes the uncollectibility of a receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management and is based on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. Management believes all receivables to be collectible, and there is no need for an allowance as of December 31, 2018 and 2017.

Purchased Receivables

The Company offered advance funding arrangements to certain customers. Under the terms of the arrangements, the Company purchased 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 deductions, including financing fees, LEC charges, rejects and other similar charges. The Company advanced 40% to 72% of the purchased receivable to the customer and charged financing fees at rates up to 8% per annum over prime (prime was 4.50% per annum at December 31, 2017) until the funds were received from the LECs. The face amount of the call record value was recorded as purchased receivables in the consolidated balance sheets. The Company terminated the advance funding program in 2018.

Concentration of Credit Risk and Significant Customers

At December 31, 2018, ten customers represented approximately 80% of accounts receivable. At December 31, 2017, ten customers represented approximately 49% of accounts receivable, and six customers represented 100% of outstanding purchased receivables. Credit risk with respect to trade accounts receivable generated through billing services is limited as the Company collects a significant percentage of its fees through receipt of cash directly from the LECs. For the year ended December 31, 2018, twenty customers represented approximately 75% of revenues. For the year ended December 31, 2017, twenty customers represented approximately 70% of revenues.

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

Property, Equipment and Software

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

Impairment of Long-Lived Assets

The Company reviews the carrying value of property, equipment and software for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, and the effects of obsolescence, demand, competition and other economic factors. The Company did not recognize an impairment of property, equipment and software during the years ended December 31, 2018 and 2017.

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.

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

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

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

For the years ended December 31, 2018 and 2017, the Company capitalized $0.1 million and $1.3 million of software development costs, respectively. During 2018 and 2017, the Company transferred $0.1 million and $1.3 million, respectively, of software development costs to computer software. Depreciation expense on computer software was $1.0 million and $1.1 million for the years ended December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, the Company had undepreciated software costs of $2.8 million and $3.5 million, respectively.

Intangible Assets and Goodwill

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

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

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

The Company tests for possible impairment of definite-lived intangible assets whenever events or changes in circumstances, such as a reduction in operating cash flow or a material change in the manner for which the asset is intended to be used, indicate that the carrying amount of the asset may not be recoverable. If such indicators exist, the Company compares the undiscounted cash flows related to the asset to the carrying value of the asset. If the carrying value is greater than the undiscounted cash flow amount, an impairment charge is recorded in amortization expense in the consolidated statements of operations for amounts necessary to reduce the carrying value of the asset to fair value.

The Company's indefinite-lived intangible assets consist of trademarks, which were originally recorded at their acquisition date fair value. The Company's indefinite-lived intangible assets are not subject to amortization but are tested for impairment at least annually. The Company tests its indefinite-lived intangible assets for impairment annually on October 1, or more frequently when events or changes in circumstances indicate that impairment may have occurred.

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

The Company tests goodwill for impairment using a two-step process. The first step, used to screen for potential impairment, compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying value, goodwill of the reporting unit is considered not impaired, and the second step of the impairment test is not necessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's 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.

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

Third-Party Payables

The Company provides clearing and financial settlement solutions to telecommunications and other service providers through billing agreements with LECs and through direct billing with end-user consumers.

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

For its direct billing transactions, the Company receives individual call records from telecommunications and other service providers, processes the records and generates and submits invoices to end-users for payment. Funds are collected by the Company, which in turn remits these funds to its customers, net of fees, reserves, taxes and other charges.

Reserves represent cash withheld from customers to satisfy future obligations on behalf of the customers. These obligations consist of bad debt, customer service, indemnification obligations 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 and end-user consumers, the Company’s trade receivables are reduced by the amount corresponding to the processing fees, which are retained by the Company. In certain instances, the Company also retains a reserve from its customers’ settlement proceeds to cover the LECs’ billing fees and other charges. The remaining funds due to customers are recorded as liabilities and reported in third-party payables in the consolidated balance sheets.

Revenue Recognition

The Company’s revenue is generated from the following products and services:

- LEC billing – The Company processes and remits records to LECs for billing to end-users.
- Third-party verification – Verification services are provided through automated and/or live operators.

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

- Wi-Fi – Managed service and application development fees are generated from the Company’s interconnections, Wireless Location Data System (WLDS) and Mobile/Web Application product lines.

The Company earns the majority of its revenue from LEC billing.

The Company recognizes revenue when it has satisfied a performance obligation by transferring control over a product or delivering a service to a customer. Revenue is based on the terms set forth in each customer’s contract. The revenue recognition criteria applied to each of the products and services are as follows:

- LEC billing – Revenue is recognized when the Company electronically delivers end-user records to the LEC for billing. Revenue is based on a number of factors, including the volume of records delivered, the gross transmission value of such records and the number of invoices related to each end-user customer.

- Third-party verification – Revenue is recognized primarily when the verification call is completed. Revenue is based on the length of calls as well as fees related to set-up, script changes, reporting and minimum commitments.

- Wi-Fi – Revenue is derived from monthly managed service fees, software development, transaction fees, set-up fees and minimum commitments. Revenue is recognized when the services are provided. If the Company is paid in advance for these services, the payment is recorded as deferred revenue until the services are completed.

The LECs collect sales tax on end-user billings as required under applicable law. These funds are remitted to the Company and the Company distributes the funds to the applicable taxing jurisdictions. Sales tax collected is not included in revenue; it is recorded as a liability payable to taxing authorities.

The Company generally bills customers for managed services when these services have been completed. The Company may incur costs in delivering the managed services prior to that time. Such costs are generally not material. Accordingly, the Company does not record a contract asset for managed services in process but not yet billed.

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

The Company incurs incremental costs in the form of sales commissions paid to sales personnel. The Company has elected to apply the practical expedient and as such, these costs are expensed in full at the time revenue is recognized.

See Note 12 for disaggregated revenue information.

Earnings Per Share

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

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses and gains and losses be included in net income. Although certain changes in assets and liabilities, such as translation gains and losses, are reported as a separate component of the equity section on the balance sheet, such items, along with net income, are components of comprehensive income.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized.

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

U.S. generally accepted accounting principles (“GAAP”) requires that the Company recognize the impact of a tax position that is more likely than not to be disallowed upon examination, including resolution of any appeals or litigation processes, based upon the technical merits of the position. Tax positions taken related to the Company’s tax status and federal and state filing requirements have been reviewed, and management is of the opinion that they would more likely than not be sustained by examination. Accordingly, the Company has not recorded an income tax liability for uncertain tax benefits. As of December 31, 2018, the Company’s tax years 2015 and thereafter remain subject to examination for federal tax purposes, and 2012 and thereafter remain subject to examination for state tax purposes.

The Company and its subsidiaries are subject to federal income taxes in the United States and United Kingdom and various state income taxes in the United States.

Stock-Based Compensation

Under the fair value recognition provisions of ASC 718-10, *Compensation – Stock Compensation*, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense on a straight-line basis over the vesting period. Determining the fair value of stock-based awards at the grant date requires assumptions and judgments about expected volatility and forfeiture rates, among other factors.

Foreign Currency

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

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

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

New Accounting Standards and Disclosures

Leases

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases*. The guidance in this ASU supersedes the current leasing guidance. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements, with certain practical expedients available. In accordance with this standard, the operating lease for the corporate office space will be presented accordingly upon implementation beginning with the interim and annual financial statements for 2019.

Revenue

In August 2015, the FASB issued ASU No. 2015-14, *Revenue From Contracts With Customers*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard replaces most existing revenue recognition guidance in GAAP once effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. ASU No. 2015-14 is effective for annual reporting periods beginning after December 15, 2017. The Company has determined the adoption of the standard will have no effects on the consolidated financial statements.

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

Statement of Cash Flows – Restricted Cash

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows: Restricted Cash*, requiring the statement of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows and is effective for annual periods beginning after December 15, 2017. The Company implemented the standard during 2018 which resulted in a reduction of financing cash flows for the year ended December 31, 2017 of $0.8 million and additional disclosure concerning restricted cash accounts included in *Cash, Cash Equivalents and Restricted Cash* above.

Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or retained earnings.

Subsequent Events

Subsequent events were evaluated through March 28, 2019, the date at which the consolidated financial statements were available to be issued.

2. Property, Equipment and Software

Property, equipment and software consisted of the following:

	December 31	
	2018	**2017**
	(In thousands)	
Furniture and fixtures	**$ 236**	$ 272
Telecommunication equipment	**1,839**	1,839
Computer equipment	**6,721**	6,898
Computer software	**38,852**	38,827
Leasehold improvements	**2,172**	2,172
	49,820	50,008
Less accumulated depreciation	**46,697**	45,925
Net property, equipment and software	**$ 3,123**	$ 4,083

Depreciation expense was $1.2 million and $1.3 million for the years ended December 31, 2018 and 2017, respectively.

3. Intangible Assets and Goodwill

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

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

3. Intangible Assets and Goodwill (continued)

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

	2018		2017		
	Gross Carrying Amount	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**	**Amortization Period**
	(In thousands)				
Customer contracts	**$ 70,395**	**$ 69,817**	$ 70,475	$ 69,699	10 years
Local exchange carrier contracts	**6,640**	**6,640**	6,640	6,216	15 years
Trademarks	**4,700**	**-**	4,762	-	N/A
	$ 81,735	**$ 76,457**	$ 81,877	$ 75,915	

Total amortization expense from definite-lived intangibles was $0.5 million for the year ended December 31, 2018 and $0.7 million for the year ended December 31, 2017. The estimate of amortization expense for the five succeeding fiscal years for definite-lived intangibles is $0.1 million each for 2019, 2020 and 2021 and less than $0.1 million for the years ended 2022 and 2023.

During 2018 and 2017, the Company made an adjustment to reduce goodwill by $9.9 million and $15.3 million, respectively, based on its annual impairment test. The following table presents the change in carrying amount of goodwill for the years ended December 31, 2018 and 2017:

	Goodwill
	(In thousands)
Balance as of December 31, 2016	$ 25,275
Adjustments – 2017	(2)
Impairment loss	(15,309)
Balance as of December 31, 2017	9,964
Adjustments – 2018	**(1)**
Impairment loss	**(9,962)**
Balance as of December 31, 2018	**$ 1**

4. Debt

On May 22, 2018, the Company financed the purchase of additional computer equipment through a term loan in the amount of $0.1 million. The term loan note requires 36 equal monthly payments of principal and interest, commencing on June 2018. The interest rate is fixed at 6.70% per annum. The outstanding note may be prepaid at any time without penalty.

In September 2017, the Company financed the purchase of computer equipment through a term loan in the amount of $0.1 million. The term loan note requires 36 equal monthly payments of principal and interest, ending in September 2020. The interest rate is fixed at 5.56% per annum. The outstanding note may be prepaid at any time without penalty.

5. Income Taxes

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

	Years Ended December 31	
	2018	**2017**
	(In thousands)	
Current expense (benefit):		
Federal	**$ -**	$ (22)
State	**(177)**	57
Foreign	**-**	(102)
	(177)	(67)
Deferred expense (benefit):		
Federal	**(1,560)**	(2,117)
State	**140**	(58)
Foreign	**-**	(139)
	(1,420)	(2,314)
Total income tax benefit	**$ (1,597)**	$ (2,381)

5. Income Taxes (continued)

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

	Years Ended December 31 2018	2017
	(In thousands)	
Estimated federal tax benefit	**$ (1,906)**	$ (3,179)
Increases (reductions) from:		
State tax, net of federal deferred tax benefit	**(146)**	46
Provision to return adjustment	**327**	(228)
Nonrecurring other income	**-**	(20)
Tax credits and permanent differences	**58**	104
Foreign tax rate differential	**-**	13
Goodwill impairment	**-**	819
Tax rate change	**-**	(58)
Valuation allowance	**60**	143
Other	**10**	(21)
Income tax benefit	**$ (1,597)**	$ (2,381)

5. Income Taxes (continued)

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

	December 31	
	2018	**2017**
	(In thousands)	
Deferred tax assets (liabilities):		
Reserve for bad debts	**$ 13**	$ 7
Accrued liabilities	**111**	470
State taxes	**348**	378
Stock-based compensation expense	**286**	283
Prepaid expense	**(48)**	(57)
Property, equipment and software	**637**	377
Intangible assets	**(634)**	(1,533)
Capitalized interest	**(827)**	(827)
Net operating loss/capital loss carryforward	**2,879**	1,972
Cancellation of debt deferral	**(133)**	(244)
Deferred tax assets	**$ 2,632**	$ 826
Valuation allowance on NOL	**(821)**	(435)
Net deferred tax assets	**$ 1,811**	$ 391

5. Income Taxes (continued)

At December 31, 2018, BSG North America had a net operating loss carryforward of approximately $5.2 million with no valuation allowance against it. At December 31, 2018, BSG North America had a state credit carryforward of approximately $0.4 million with an approximate $0.1 valuation allowance. At December 31, 2018, BSG Wireless had a net operating loss carryforward of $9.7 million with a full valuation allowance.

Realization of deferred tax assets is dependent upon, among other things, the ability to generate taxable income of the appropriate character in the future. As of December 31, 2018, a valuation allowance of $0.2 million has been recorded for the portion of the deferred tax asset that is more likely than not to be realized. As of December 31, 2018, the Company does not have an uncertain tax position and does not anticipate that this amount will change in the near future.

The Company has not undertaken a detailed study in connection with Internal Revenue Code (“IRC”) Section 382 in order to determine if there is any limitation of the utilization of its net operating loss carryforward. If IRC Section 382 limitation was deemed to apply, the Company’s gross deferred tax asset and its corresponding valuation allowance could be reduced. The 2017 Tax Cuts and Jobs Act revised the use of net operating loss carryforwards and limits them to 80% of taxable income each year, but removed the limitation on years carried forward.

On December 22, 2017, the President of the United States signed the Tax Cuts and Jobs Act (“U.S. Tax Reform”), which enacts a wide range of changes to the U.S. corporate income tax system. The impact of U.S. Tax Reform primarily represents the Company’s estimates of revaluing the Company’s U.S. deferred tax assets and liabilities based on the rates at which they are expected to be recognized in the future. For U.S. federal purposes the corporate statutory income tax rate was reduced from 35% to 21%, effective for the 2018 tax year. Based on the Company’s historical financial performance, at December 31, 2017, the net deferred tax asset position was remeasured at the lower corporate rate of 21% and a tax expense was recognized to adjust net deferred tax assets to the reduced value.

6. Common Stock

In connection with a tender offer, on December 6, 2017, the Company announced the authorization of a $5.0 million share purchase of approximately 118 million shares of its common stock based on a price of $0.0425 per share. On December 14, 2017, the share purchase was completed, reducing the number of shares in issue from 282 million to 164 million shares. The purchased shares were cancelled on December 21, 2017.

7. Earnings Per Share

Earnings per share are calculated based on the weighted-average number of shares of the Company's common stock outstanding during the period. Common stock equivalents of 3,576,250 and 7,227,813 at December 31, 2018 and 2017, respectively, were anti-dilutive.

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

	Years ended December 31	
	2018	**2017**
	(In thousands, except per share amounts)	
Numerator:		
Net loss	**$ (7,819)**	$ (6,675)
Denominator:		
Weighted-average shares – basic	**164,769**	278,870
Basic net loss per share	**$ (0.05)**	$ (0.02)

8. Commitments

The Company leases certain office space and equipment under various operating leases. Annual future minimum lease commitments as of December 31, 2018, are as follows (in thousands):

Year ending December 31:	
2019	$ 432
2020	328
2021	2
2022	2
2023	2

Rental expense under these operating leases approximated $0.6 million and $0.7 million for the years ended December 31, 2018 and 2017, respectively.

9. Contingencies

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

9. Contingencies (continued)

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

Included in accrued liabilities at December 31, 2018 and 2017 are less than $0.1 million and $0.4 million, respectively, in reserves which are comprised of these deposits and other payables available to satisfy potential future obligations.

During 2018 and 2017, the Company allocated approximately $0.1 million and $3.9 million, respectively, in class action settlement expenses to its customer base. These allocations included both direct end-user payments and shared expenses (*e.g.*, claims administration, counsel fees, *etc.*). These expenses had been previously paid by the local exchange carriers and withheld in the settlement process. This allocation resulted in certain customer accounts payable balances being reclassified to receivable balances and ultimately deemed uncollectible and written off as a non-cash expense. The net sum of these actions is included within the "All other income, net" amount shown in the accompanying Consolidated Statements of Income and Comprehensive Income in 2018 and 2017.

10. Employee Benefit Plan

A Company subsidiary sponsors a 401(k) retirement plan (the "Retirement Plan"), which is offered to eligible employees. Generally, all U.S.-based employees are eligible for participation in the Retirement Plan. The Retirement Plan is a defined contribution plan, which provides that participants may make voluntary salary deferral contributions, on a pretax basis, in the form of voluntary payroll deductions, subject to annual Internal Revenue Service limitations. The Company matches a defined percentage of a participant's contributions, subject to certain limits, and may make additional discretionary contributions. For years ended December 31, 2018 and 2017, the Company's matching contributions totaled $0.1 million and $0.2 million, respectively. No discretionary contributions were made in either period.

11. Stock Option Plans

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

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

11. Stock Option Plans (continued)

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

No options were granted during 2018 and 2017.

11. Stock Option Plans (continued)

The following is a summary of option activity:

	Options Outstanding	Weighted-Average Exercise Price
Options outstanding at December 31, 2016	10,089,272	6.2 pence
Granted	-	
Forfeited	(1,738,022)	
Options outstanding at December 31, 2017	8,351,250	5.9 pence
Granted	-	
Cancelled	(2,000,000)	
Forfeited	(2,775,000)	
Options outstanding at December 31, 2018	**3,576,250**	**3.6 pence**
Options exercisable at December 31, 2018	**3,576,250**	**3.6 pence**
Options available for grant at December 31, 2018	**8,115,771**	

During 2018, less than $0.1 million of total unrecognized noncash compensation cost related to nonvested share-based compensation arrangements granted under the BSG North America Plan was recognized.

11. Stock Option Plans (continued)

The following is a summary of nonvested option activity:

	Number of Options	Weighted-Average Exercise Price
Nonvested options outstanding at December 31, 2016	2,699,375	3.5 pence
Granted	-	
Vested	(1,163,438)	
Forfeited	(412,500)	
Nonvested options outstanding at December 31, 2017	1,123,437	3.5 pence
Granted	-	
Vested	**(804,687)**	
Forfeited	**(318,750)**	
Nonvested options outstanding at December 31, 2018	**-**	

12. Segment Information

The FASB requires that public business enterprises report certain information about operating segments in complete sets of financial statements of the enterprise. It also requires that public business enterprises report certain information about their products and services, the geographic areas in which they operate and their major customers.

The Company provides clearing and financial settlement products, innovative Wi-Fi roaming solutions to mobile carriers and network operators and third-party verification services to the telecommunications, cable and utilities industries, and has two geographical reportable operating segments – North America and EMEA (Europe, the Middle East and Africa). The Company evaluates performance based on business segment operating income before depreciation and amortization expense and impairment charge. Operating income of segments does not include other income, net, interest income, interest expense or income tax expense. Identifiable assets consist of all assets other than intercompany receivables.

12. Segment Information (continued)

The following table presents the 2018 and 2017 segment information:

	North America	EMEA	Totals
		(In thousands)	
2018			
Operating revenues	**$ 15,654**	**$ 468**	**$ 16,122**
Cost of services	**6,196**	**185**	**6,381**
Operating expenses	**8,727**	**261**	**8,988**
Depreciation and amortization	**888**	**937**	**1,825**
Impairment charge	**9,962**	**-**	**9,962**
Operating income before depreciation and amortization expense and impairment charge	**731**	**22**	**753**
Identifiable assets	**17,701**	**4,707**	**22,408**
2017			
Operating revenues	$ 20,554	$ 503	$ 21,057
Cost of services	8,926	218	9,144
Operating expenses	10,732	263	10,995
Depreciation and amortization	1,088	813	1,901
Impairment charge	15,309	-	15,309
Operating income before depreciation and amortization expense and impairment charge	896	22	918
Identifiable assets	30,368	6,915	37,283