ORIGINAL

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December 6, 1999

VIA OVERNIGHT MAIL

Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0870

991842-TL

Re: Application of BCGI Communications Corp. for Authority to Provide Interexchange Telecommunications Service in Florida

Dear Ms. Bayo:

Enclosed for filing on behalf of BCGI Communications Corp. ("BCGI") please find an original and six (6) copies of BCGI's application for authority to provide interexchange telecommunications service in Florida. Please find enclosed a check in the amount of $250.00 to cover the application filing fee.

Please date-stamp the enclosed extra copy of this filing and return in the self-addressed, stamped envelope provided. Should you have any questions concerning this filing, please do not hesitate to contact Jeanne Stockman at (202) 295-8392.

Respectfully yours,

Jeanne W. Stockman

Catherine Wang
Jeanne W. Stockman

Counsel for BCGI Communications Corp.

Enclosures

cc: Alan Bouffard (BCGI)

Check received with filing and forwarded to Fiscal for deposit.

Initials of person who forwarded check: DW

MAIL ROOM
99 DEC -7 AM 10: 25

DOCUMENT NUMBER-DATE
14926 DEC -7 99
FPSC-RECORDS/REPORTING

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DIVISION OF TELECOMMUNICATIONS
BUREAU OF CERTIFICATION AND SERVICE EVALUATION

Application Form for Authority to Provide Interexchange Telecommunications Service Between Points Within the State of Florida

Instructions

- This form is used as an application for an original certificate and for approval of assignment or transfer of an existing certificate. In the case of an assignment or transfer, the information provided shall be for the assignee or transferee (See Appendix A).

- Print or Type all responses to each item requested in the application and appendices. If an item is not applicable, please explain why.

- Use a separate sheet for each answer which will not fit the allotted space.

- Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of **$250.00** to:

  Florida Public Service Commission
  Division of Records and Reporting
  2540 Shumard Oak Blvd.
  Tallahassee, Florida 32399-0850
  (850) 413-6770

  Note: **No filing fee is required** for an assignment or transfer of an existing certificate to another certificated company.

- If you have questions about completing the form, contact:

  Florida Public Service Commission
  Division of Telecommunications
  Bureau of Certification and Service Evaluation
  2540 Shumard Oak Blvd.
  Tallahassee, Florida 32399-0850
  (850) 413-6600

1. This is an application for √ (check one):

   (X) **Original certificate** (new company).

   (   ) **Approval of transfer of existing certificate:**
   Example, a certificated company purchases an existing certificated company and desires to retain the authority of both certificates.

   (   ) **Approval of assignment of existing certificate:**
   Example, a non-certificated company purchases an existing company and desires to retain the certificate of authority rather than apply for a new certificate.

   (   ) **Approval of transfer of control:**
   Example, a company purchases 51 % of a certificated company. The Commission must approve the new controlling entity.

2. Name of company:

   BCGI Communications Corp. ("BCGI" or "Applicant")

3. Name under which applicant will do business (fictitious name, etc.):

   BCGI Communications Corp.

4. Official mailing address (including street name & number, post office box, city, state, zip code):

   BCGI Communications Corp.

   100 Sylvan Road

   Woburn, MA 01801

5. Florida address (including street name & number, post office box, city, state, zip code):

   BCGI does not currently have an office in the State of Florida. If BCGI does establish an office in the future, BCGI will provide this information to the Commission.

6. Select type of business your company will be conducting √ (check all that apply):

( ) **Facilities-based carrier** - company owns and operates or plans to own and operate telecommunications switches and transmission facilities in Florida.

( ) **Operator Service Provider** - company provides or plans to provide alternative operator services for IXCs; or toll operator services to call aggregator locations; or clearinghouse services to bill such calls.

( ) **Reseller** - company has or plans to have one or more switches but primarily leases the transmission facilities of other carriers. Bills its own customer base for services used.

( ) **Switchless Rebiller** - company has no switch or transmission facilities but may have a billing computer. Aggregates traffic to obtain bulk discounts from underlying carrier. Rebills end users at a rate above its discount but generally below the rate end users would pay for unaggregated traffic.

( ) **Multi-Location Discount Aggregator** - company contracts with unaffiliated entities to obtain bulk/volume discounts under multi-location discount plans from certain underlying carriers, then offers resold service by enrolling unaffiliated customers.

(X) **Prepaid Debit Card Provider** - any person or entity that purchases 800 access from an underlying carrier or unaffiliated entity for use with prepaid debit card service and/or encodes the cards with personal identification numbers.

7. Structure of organization;

( ) Individual
(X) Foreign Corporation
( ) General Partnership
( ) Other ______________________________

( ) Corporation
( ) Foreign Partnership
( ) Limited Partnership

8. <u>If individual</u>, provide:

Not Applicable.

Name: ____________________

Title: ____________________

Address: ____________________

City/State/Zip: ____________________

Telephone No.: ____________________ **Fax No.:** ____________________

Internet E-Mail Address: ____________________

Internet Website Address: ____________________

9. **<u>If incorporated in Florida</u>**, provide proof of authority to operate in Florida:

   (a) **The Florida Secretary of State Corporate Registration number:**

   ____

10. **<u>If foreign corporation</u>**, provide proof of authority to operate in Florida:

    BCGI is in the process of obtaining its Certificate of Authority to Transact Business in the State of Florida and will submit it to the Commission when it becomes available.

    (a) **The Florida Secretary of State Corporate Registration number:**

    <u>BCGI will submit the number to the Commission when it becomes available.</u>

11. **<u>If using fictitious name-d/b/a</u>**, provide proof of compliance with fictitious name statute (Chapter 865.09, FS) to operate in Florida:

    Not Applicable.

    (a) **The Florida Secretary of State fictitious name registration number:** ____________________

12. **If a limited liability partnership**, provide proof of registration to operate in Florida: **NOT APPLICABLE**

    (a) **The Florida Secretary of State registration number:** ____________________

13. **If a partnership**, provide name, title and address of all partners and a copy of the partnership agreement. **NOT APPLICABLE**

    Name: ____________________

    Title: ____________________

    Address: ____________________

    City/State/Zip: ____________________

    Telephone No.: ____________ **Fax No.:** ____________

    Internet E-Mail Address: ____________________

    Internet Website Address: ____________________

14. **If a foreign limited partnership**, provide proof of compliance with the foreign limited partnership statute (Chapter 620.169, FS), if applicable. **NOT APPLICABLE**

    (a) **The Florida registration number:** ____________________

15. Provide **F.E.I. Number** (if applicable):**04-3488238**

16. Provide the following (if applicable):

    (a) Will the name of your company appear on the bill for your services?

    ( ) **Yes** ( ) **No**

    Not applicable. As a prepaid calling card provider, BCGI will not be billing any customers.

(b) If not, who will bill for your services?

Name: ______________________________

Title: ______________________________

Address: ______________________________

City/State/Zip: ______________________________

Telephone No.: ______________ **Fax No.:** ______________

(c) How is this information provided?

____

____

17. Who will receive the bills for your service?

( ) Residential Customers ( ) Business Customers
( ) PATs providers ( ) PATs station end-users
( ) Hotels& motels ( ) Hotel & motel guests
( ) Universities ( ) Universities dormitory residents
( ) Other: (specify) ______________________________

Not applicable. As a prepaid calling card provider, BCGI will not be billing any customers.

18. Who will serve as liaison to the Commission with regard to the following?

(a) The application:

Name: Catherine Wang, Esq., Jeanne W. Stockman, Esq.

Title: Swidler Berlin Shereff Friedman, LLP

Address: 3000 K Street, N.W., Suite 300

City/State/Zip: Washington, DC 20007

Telephone No.: (202) 295-8392 **Fax No.:** (202) 424-7643

Internet E-Mail Address: cwang@swidlaw.com, jwstockman@swidlaw.com

Internet Website Address: www.swidlaw.com

(b) Official point of contact for the ongoing operations of the company:

Name: Alan Bouffard

Title: Secretary

Address: BCGI Communications Corp. 100 Sylvan Road

City/State/Zip: Woburn, MA 01801

Telephone No.: (617) 692-7000 **Fax No.:** (617) 692-6230

Internet E-Mail Address: Alan_Bouffard@Boscomm.net

Internet Website Address: www.bcgi.net

(c) Complaints/Inquiries from customers:

Name: Jeffrey McLaughlin

Title: Director of Corporate Marketing

Address: 100 Sylvan Road

City/State/Zip: Woburn, MA 01801

Telephone No.: (617) 692-7000 **Fax No.:** (617) 692-6230

Internet E-Mail Address: Jeffrey_McLaughlin@boscomm.net

internet Website Address: www.bcgi.net

BCGI's toll-free number for customer inquiries and complaints is (800) 832-4945. BCGI's customer service representatives will be available during regular business hours at its toll-free number for customer inquiries.

19. List the states in which the applicant:

(a) has operated as an interexchange telecommunications company.

BCGI has not operated as an interexchange carrier in any state.

(b) has applications pending to be certificated as an interexchange telecommunications company.

BCGI is currently applying for authorization, where required, throughout the United States to provide resold intrastate interexchange telecommunications. BCGI currently has pending applications to provide such services in Connecticut, Illinois, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Texas, Vermont, and West Virginia.

(c) is certificated to operate as an interexchange telecommunications company.

BCGI is not yet certificated to operate as an interexchange carrier in any state; however, pursuant to deregulation it is authorized to provide resold intrastate interexchange telecommunications services in Virginia.

(d) has been denied authority to operate as an interexchange telecommunications company and the circumstances involved.

BCGI has not been denied authority to offer service in any state.

(e) has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved.

BCGI has not been involved in any civil court proceeding with any violations of the telecommunications statues in any state.

(f) has been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity, and the circumstances involved.

BCGI has not been involved in any civil court proceeding with any interexchange carrier, local exchange company, or other telecommunications entity.

20. Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

(a) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. If so, please explain.

None of BCGI's officers, directors, or ten largest stockholders have previously been adjudged bankrupt, mentally incompetent, or found guilty of any felony or any crime nor will any such actions result from pending proceedings.

(b) an officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.

None of BCGI's officers, directors, or ten largest shareholders have been an officer, director, partner or stockholder in any other Florida certificated telephone company.

21. The applicant will provide the following interexchange carrier services, √ (check all that apply):

a. ______ **MTS with distance sensitive per minute rates**

______ Method of access is FGA
______ Method of access is FGB
______ Method of access is FGD
______ Method of access is 800

b. ______ **MTS with route specific rates per minute**

______ Method of access is FGA
______ Method of access is FGB
______ Method of access is FGD
______ Method of access is 800

c. ______ **MTS with statewide flat rates per minute (i.e. not distance sensitive)**

______ Method of access is FGA
______ Method of access is FGB
______ Method of access is FGD
______ Method of access is 800

d. ______ **MTS for pay telephone service providers**

e. ______ **Block-of-time calling plan (Reach Out Florida, Ring America, etc.).**

f. ______ **800 service (toll free)**

g. ______ **WATS type service (bulk or volume discount)**

______ Method of access is via dedicated facilities
______ Method of access is via switched facilities

h. ______ **Private line services (Channel Services)**
(For ex. 1.544 mbs., DS-3, etc.)

i. X **Travel service**

______ Method of access is 950
X Method of access is 800

j. ______ **900 service**

k. ______ **Operator services**
______ Available to presubscribed customers
______ Available to non presubscribed customers (for example, to patrons of hotels, students in universities, patients in hospitals).
______ Available to inmates

l. **Services included are:**

______ Station assistance
______ Person-to-person assistance
______ Directory assistance
______ Operator verify and interrupt
______ Conference calling

22. Submit the proposed tariff under which the company plans to begin operation. Use the format required by Commission Rule 25-24.485 (example enclosed). Please see Exhibit 1.

23. Submit the following:

A. Financial capability.

The application **<u>should contain</u>** the applicant's audited financial statements for the most recent 3 years. If the applicant does not have audited financial statements, it shall so be stated.

The unaudited financial statements should be signed by the applicant's chief executive officer and chief financial officer affirming that the financial statements are true and correct and should include:

1. the balance sheet;

2. income statement; and

3. statement of retained earnings.

Applicant is a recently incorporated company that is wholly owned by Boston Communications Group, Inc. BCGI will rely on the parent company's substantial financial resources to provide the proposed services. Therefore, the financial statements of Boston Communications Group, Inc. are attached as Exhibit 2.

NOTE: *This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.*

Further, the following (which includes supporting documentation) should be provided:

1 . **A written explanation** that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served. Please see Exhibit 2.

2. **A written explanation** that the applicant has sufficient financial capability to maintain the requested service. Please see Exhibit 2.

3. **A written explanation** that the applicant has sufficient financial capability to meet its lease or ownership obligations. Please see Exhibit 2.

B. **Managerial capability;** give resumes of employees/officers of the company that would indicate sufficient managerial experiences of each.

Please see Exhibit 3.

C. **Technical capability;** give resumes of employees/officers of the company that would indicate sufficient technical experiences or indicate what company has been contracted to conduct technical maintenance.

Please see Exhibit 3.

** APPLICANT ACKNOWLEDGMENT STATEMENT **

1. **REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of its gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of $50 is required.

2. **GROSS RECEIPTS TAX:** I understand that all telephone companies must pay a gross receipts tax of two and one-half percent on all intra and interstate business.

3. **SALES TAX:** I understand that a seven percent sales tax must be paid on intra and interstate revenues.

4. **APPLICATION FEE:** I understand that a non-refundable application fee of $250.00 must be submitted with the application.

UTILITY OFFICIAL:

[signature] December 2, 1999
Signature Date

Treasurer (617) 692-7000
Title Telephone No.

Address: 100 Sylvan Road (617) 692-6230
Fax No.

Woburn, MA 01801

ATTACHMENTS:

A - CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT STATEMENT
B - CUSTOMER DEPOSITS AND ADVANCE PAYMENTS
C - CURRENT FLORIDA INTRASTATE NETWORK
D - AFFIDAVIT - FLORIDA TELEPHONE EXCHANGES AND EAS ROUTES
- GLOSSARY

** APPENDIX A **

CERTIFICATE TRANSFER, OR ASSIGNMENT STATEMENT

1, (Name)____

(Title)____ of

____
(Name of Company)

and current holder of Florida Public Service Commission Certificate Number

#____________________ have reviewed this application and join in the petitioner's request for a:

( ) transfer

( ) assignment

of the above-mentioned certificate.

UTILITY OFFICIAL:

_________________________________ ______________
Signature Date

_________________________________ ______________
Title Telephone No.

Address:_________________________ ______________
Fax No.

____

____

____

____

** APPENDIX B **

CUSTOMER DEPOSITS AND ADVANCE PAYMENTS

A statement of how the Commission can be assured of the security of the customer's deposits and advance payments may be provided in one of the following ways (applicant, please √ check one):

(x) The applicant will **not** collect deposits nor will it collect payments for service more than one month in advance.

(   ) The applicant intends to collect deposits and/or advance payments for more than one month's service and will file and maintain a surety bond with the Commission in an amount equal to the current balance of deposits and advance payments in excess of one month. (The bond must accompany the application.)

UTILITY OFFICIAL:

[signature] — December 2, 1999

Signature — Date

Treasurer — (617) 692-7000

Title — Telephone No.

Address: 100 Sylvan Road — (617) 692-6230

Fax No.

Woburn, MA 01801

** **APPENDIX C** **

CURRENT FLORIDA INTRASTATE SERVICES

Applicant **has** (   ) or **has not** (X) previously provided intrastate telecommunications in Florida.

If the answer is has, fully describe the following:

a) What services have been provided and when did these services begin?

____

____

____

____

b) If the services are not currently offered, when were they discontinued?

____

____

____

____

UTILITY OFFICIAL:

Keith Vaillancourt _______ December 2, 1999
Signature Date

Treasurer _______ (617) 692-7000
Title Telephone No.

Address: 100 Sylvan Road _______ (617) 692-6230
Fax No.

Woburn, MA 01801

____

** APPENDIX D **

AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange company service in the State of Florida. I have read the foregoing and declare that, to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that, pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083."

UTILITY OFFICIAL:

[signature] December 2, 1999
Signature Date

Treasurer (617) 692-7000
Title Telephone No.

Address: 100 Sylvan Road (617) 692-6230
Fax No.

Woburn, MA 01801

FLORIDA TELEPHONE EXCHANGES AND EAS ROUTES

ORIGINATING SERVICE: Provide the list of exchanges where you are proposing to provide originating service within thirty (30) days after the effective date of the certificate.

Describe the service area in which you hold yourself out to provide service by telephone company exchange. If all services listed in your tariff are not offered at all locations, so indicate.

In an effort to assist you, attached is a list of major exchanges in Florida showing the small exchanges with which each has extended area service (EAS).

FLORIDA EAS FOR MAJOR EXCHANGES

Extended Service Area	in These Exchanges
PENSACOLA:	Cantonment, Gulf Breeze, Milton, Holley-Navarre. Pace
PANAMA CITY:	Lynn Haven, Panama City Beach, Youngstown-Fountain, Tyndall AFB.
TALLAHASSEE:	Crawfordville, Havana, Monticello, Panacea, Sopchoppy, St. Marks.
JACKSONVILLE:	Baldwin, Ft. George, Jacksonville Beach, Callahan, Maxville, Middleburg, Orange Park, Ponte Vedra, Julington.
GAINESVILLE:	Alachua, Archer, Brooker, Hawthorne, High Springs, Melrose, Micanopy, Newberry, Waldo.
OCALA:	Belleview, Citra, Dunnellon, Forest, Lady Lake, McIntosh, Oklawaha, Orange Springs, Salt Springs, Silver Springs Shores.

Extended Service Area	in	These Exchanges
DAYTONA BEACH:	New Smyrna Beach	
TAMPA:	Central	None
	East	Plant City
	North	Zephyrhills
	South	Palmetto
	West	Clearwater
CLEARWATER:	St. Petersburg, Tampa-West, Tarpon, Springs.	
ST. PETERSBURG:	Clearwater.	
LAKELAND:	Bartow, Mulberry, Plant City Polk City, Winter Haven.	
ORLANDO:	Apopka, East Orange, Lake Buena Vista, Orlando, Oviedo, Sanford, Windermere, Winter Garden, Oviedo-Winter Springs, Reedy Creek, Geneva, Monteverde.	
TITUSVILLE:	Cocoa and Cocoa Beach.	
COCOA:	Cocoa Beach, Eau Gallie, Melbourne, Titusville.	
MELBOURNE:	Cocoa, Cocoa Beach, Eau Gallie, Sebastian	
SARASOTA:	Bradenton, Myakka, Venice	

Extended Service Area	in These Exchanges
FT. MYERS:	Cape Coral, Ft. Myers Beach, North Cape Coral, North Ft. Myers, Pine Island, Lehigh Acres, Sanibel-Captiva Islands.
NAPLES:	Marco Island and North Naples.
WEST PALM BEACH:	Boynton Beach and Jupiter.
POMPANO BEACH:	Boca Raton, Coral Springs, Deerfield Beach, Ft. Lauderdale.
FT. LAUDERDALE:	Coral Springs, Deerfield Beach, Hollywood, Pompano Beach.
HOLLYWOOD:	Ft. Lauderdale and North Dade.
NORTH DADE:	Hollywood, Miami, Perrine.
MIAMI:	Homestead, North Dade, Perrine

GLOSSARY

ACCESS CODE: A uniform four- or seven-digit code assigned to an individual IXC. The five-digit code has the form 1 OXXX and the seven-digit code has the form 950-XXXX.

BYPASS: Transmission facilities that go direct from the local exchange end user to an IXC point of presence, thus bypassing the local exchange company.

CARRIERS CARRIER: An IXC that provides telecommunications service, mainly bulk transmission service, to other IXCs only.

CENTRAL OFFICE: A local operating unit by means of which connections are established between subscribers' lines and trunk or toll lines to other central offices within the same exchange or other exchanges. Each three-digit central office code (NXX) used shall be considered a separate central office unit.

CENTRAL OFFICE CODE: The first three digits (NXX) of the seven-digit telephone number assigned to a customer's telephone exchange service.

COMMISSION: The Florida Public Service Commission.

COMPANY, TELEPHONE COMPANY, UTILITY: These terms are used interchangeably herein and refer to any person, firm, partnership or corporation engaged in the business of furnishing communication service to the public under the jurisdiction of the Commission.

DEDICATED FACILITY: A transmission circuit which is permanently for the exclusive use of a customer or a pair of customers.

END USER: Any individual, partnership, association, corporation, governmental agency or any other entity which (A) obtains a common line, uses a pay telephone or obtains interstate service arrangements in the operating territory of the company or (13) subscribes to interstate services provided by an IXC or uses the services of the IXC when the IXC provides interstate service for its own use.

EQUAL ACCESS EXCHANGE AREAS (EAEA): A geographic area, configured based on 1987 planned toll center/access tandem areas, in which local exchange companies are responsible for providing equal access to both carriers and customers of carriers in the most economically efficient manner.

EXCHANGE: The entire telephone plant and facilities used in providing telephone service to subscribers located in an exchange area. An exchange may include more than one central office unit.

EXCHANGE (SERVICE) AREA: The territory, including the base rate suburban and rural areas served by an exchange, within which local telephone service is furnished at the exchange rates applicable within that area.

EXTENDED AREA SERVICE: A type of telephone service furnished under tariff provision whereby subscribers of a given exchange or area may complete calls to, and receive messages from, one or more other contiguous exchanges without toll charges, or complete calls to one or more other exchanges without toll message charges.

FACILITIES BASED: An IXC that has its own transmission and/or switching equipment or other elements of equipment and does not rely on others to provide this service.

FOREIGN EXCHANGE SERVICES: A classification of exchange service furnished under tariff provisions whereby a subscriber may be provided telephone service from an exchange other than the one from which he would normally be served.

FEATURE GROUPS: General categories of unbundled tariffs to stipulate related services.

Feature Group A: Line side connections presently serving specialized Common carriers.

Feature Group B: Trunk side connections without equal digit or code dialing.

Feature Group C: Trunk side connections presently serving AT&T-C.

Feature Group D: Equal trunk access with prescription.

INTEREXCHANGE COMPANY (IXC): Any telephone company, as defined in Section 364.02(4), F.S. (excluding Payphone Providers), which provides telecommunications service between exchange areas as those areas are described in the approved tariffs of individual local exchange companies.

INTER-OFFICE CALL: A telephone call originating in one central office unit or entity but terminating in another central office unit or entity, both of which are in the same designated exchange area.

INTRA-OFFICE CALL: A telephone call originating and terminating within the same central office unit or entity.

INTRASTATE COMMUNICATIONS: Any communications in Florida subject to oversight by the Florida Public Service Commission as provided by the laws of the State.

INTRA-STATE TOLL MESSAGE: Those toll messages which originate and terminate within the same state.

LOCAL ACCESS AND TRANSPORT AREA (LATA): The geographic area established for the administration of communications service. It encompasses designated exchanges, which are grouped to serve common social, economic and other purposes

LOCAL EXCHANGE COMPANY (LEC): Any telephone company, as defined in Section 364.02(4), F.S., which, in addition to any other telephonic communication service, provides telecommunications service within exchange areas as those areas are described in the approved tariffs of the telephone company.

OPTIONAL CALLING PLAN: An optional service furnished under tariff provisions which recognizes a need of some subscribers for extended area calling without imposing the cost on the entire body of subscribers.

900 SERVICE: A service similar to 800 service, except this service is charged back to the customer based on first minute plus additional minute usage.

PIN NUMBER: A group of numbers used by a company to identify its customers.

PAY TELEPHONE SERVICE COMPANY: Any telephone company, other than a LEC, which provides pay telephone service as defined in Section 364.335(4), F.S.

POINT OF PRESENCE (POP): Bell-coined term which designates the actual (physical) location of an IXC's facility. Replaces some applications of the term "demarcation point."

PRIMARY SERVICE: Individual line service or party line service.

RESELLER: An IXC that does not have certain facilities but purchases telecommunications service from an IXC and then resells that service to others.

STATION: A telephone instrument consisting of a transmitter, receiver, and associated apparatus so connected as to permit sending and/or receiving telephone messages.

SUBSCRIBER, CUSTOMER: Terms used interchangeably to mean any person, firm, partnership, corporation, municipality, cooperative organization, or governmental agency supplied with communication service by a telephone company.

SUBSCRIBER LINE: The circuit or channel used to connect the subscriber station with the central office equipment.

SWITCHING CENTER: Location at which telephone traffic, either local or toll, is switched or connected from one circuit or line to another. A local switching center may be comprised of several central office units.

TRUNK: A communication channel between central office units or entities, or private branch exchanges.

EXHIBIT 1

Proposed Tariff

TITLE SHEET

INTRASTATE TELECOMMUNICATIONS SERVICES

This tariff applies to resold Intrastate telecommunications services furnished by BCGI Communications Corp. ("Carrier") between one or more points in the State of Florida. This tariff is on file with the Florida Public Service Commission, and copies may be inspected, during normal business hours, at Carrier's principal place of business, 100 Sylvan Road, Woburn, Massachussetts 01801.

CHECK SHEET

The sheets of this tariff are effective as of the date shown at the bottom of the respective sheet(s). Original and revised sheets as named below comprise all changes from the original tariff and are currently in effect as of the date on the bottom of this page.

SHEET	REVISION
Title Sheet	Original
1	Original
2	Original
3	Original
4	Original
5	Original
6	Original
7	Original
8	Original
9	Original
10	Original
11	Original
12	Original
13	Original
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17	Original
18	Original
19	Original
20	Original
21	Original
22	Original

TABLE OF CONTENTS

By: Fritz von Mering, Treasurer
BCGI Communications Corp.
100 Sylvan Road
Woburn, Massachusetts 01801

SYMBOLS

The following are the only symbols used for the purposes indicated below:

C - To signify a changed listing, rule or condition which may be affect rates or charges.

D - Delete or Discontinue

I - Change Resulting In An Increase to A Customer's Bill

M - Moved From Another Tariff Location

N - New

R - Change Resulting In A Reduction to A Customer's Bill

T - Change In Text or Regulation But No Change In Rate or Charge

Z - To signify a correction

TARIFF FORMAT

A. Sheet Numbering - Sheet numbers appear in the upper right corner of the page. Sheets are numbered sequentially. However, new sheets are occasionally added to the tariff. When a new sheet is added between sheets already in effect, a decimal is added. For example, a new sheet added between sheets 14 and 15 would be 14.1.

B. Sheet Revision Numbers - Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current sheet version on file with the Commission. For example, the 4th Revised Sheet 14 cancels the 3rd Revised Sheet 14. Because of various suspension periods, deferrals, etc. the Commission follows in their tariff approval process, the most current sheet number on file with the Commission is not always the tariff page in effect.

C. Paragraph Numbering Sequence - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level:

2.
2.1.
2.1.1.
2.1.1.A.
2.1.1.A.1.
2.1.1.A.1.(a).
2.1.1.A.1.(a).I.
2.1.1.A.1.(a).I.(i).
2.1.1.A.1.(a).I.(i).(1).

D. Check Sheets - When a tariff filing is made with the Commission, an updated check sheet accompanies the tariff filing. The check sheet lists the sheets contained in the tariff, with a cross reference to the current revision number. When new pages are added, the check sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (*). There will be no other symbols used on the check sheet if these are the only changes made to it (i.e., the format, etc. remains the same, just revised revision levels on some pages). The tariff user should refer to the latest check sheet to find out if a particular sheet is the most current on file with the Commission.

SECTION 1. TECHNICAL TERMS AND ABBREVIATIONS

Authorization Code - A numerical code, one or more of which may be assigned to a Subscriber, to enable Carrier to identify the origin of service User so it may rate and bill the call. All authorization codes shall be the sole property of Carrier and no Subscriber shall have any property or other right or interest in the use of any particular authorization code. Automatic numbering identification (ANI) may be used as or in connection with the authorization code.

Automatic Numbering Identification (ANI) - A type of signaling provided by a local exchange telephone company which automatically identifies the local exchange line from which a call originates.

Calling Card - A postpaid or prepaid calling card issued by Carrier which allows Subscribers and/or Users to make telephone calls and charge the calls to a postpaid or prepaid account. Calls charged to a Carrier-issued postpaid Calling Card will appear on the Subscriber's regular monthly bill. Calls charged to a Carrier-issued prepaid calling cards will be charged against the debit account.

Carrier or Company - Refers to BCGI Communications Corp.

Commission - Refers to the Florida Public Service Commission.

Common Carrier - A company or entity providing telecommunications services to the public.

Complaint - Any oral or written report from a Subscriber or user of telephone service relating to a physical defect, difficulty or dissatisfaction with the operation of telephone facilities, errors in billing or the quality of service rendered.

SECTION 1. TECHNICAL TERMS AND ABBREVIATIONS (Cont'd)

Holiday - New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

Local Access and Transport Area (LATA) - The term "Local Access Transport Area" denotes a geographical area established by the U.S. District Court for the District of Columbia in Civil Action No. 82-0192, within which a local exchange company provides communications services.

Measured Charge - A charge assessed on a per minute basis in calculating a portion of the charges due for a completed interexchange call.

Subscriber/Customer - The person, firm, corporation or legal entity that enters into arrangements for Carrier's telecommunications services and is responsible for payment of Carrier's services.

Telecommunications - The transmission of voice communications or, subject to the transmission capabilities of the service, the transmission of data, facsimile, signaling, metering, or other similar communications.

User - The person(s) utilizing Carrier's services.

SECTION 2. RULES AND REGULATIONS

2.1 Undertaking of the Carrier

2.1.1 The Company's services are furnished for communications originating at specified points within the State of Florida under terms of this tariff.

2.1.2 The Company provides the communications services described herein in accordance with the terms and conditions set forth under this tariff. It may act as the Customer's agent for ordering access connection facilities provided by other carriers or entities when authorized by the Customer, to allow connection of a customer's location to the Company's network. The Customer shall be responsible for all charges due for such service arrangement.

2.1.3 The Company's services are provided on a monthly basis unless ordered on a longer term basis, and are available twenty-four hours per day, seven days per week.

2.1.4 The selling of Intrastate interexchange ("IXC") telecommunications service to uncertificated IXC resellers is prohibited.

SECTION 2. RULES AND REGULATIONS (Cont'd)

2.2 Limitations

2.2.1 Service is offered subject to the availability of facilities and provisions of this tariff.

2.2.2 The Company reserves the right to discontinue furnishing service or limit the use of service (1) when conditions beyond its control necessitate such discontinuance or limitation of service; or (2) when the Customer is using the Company's service in violation of the law or the provisions of this tariff.

2.2.3 All facilities provided under this tariff are directly controlled by the Company and the Customer may not transfer or assign the use of service or facilities, except with the express written consent of the Company. Such transfer or assignment shall only apply where there is no interruption of the use or location of the service or facilities.

2.2.4 Prior written permission from the Company is required before any assignment or transfer. All regulations and conditions contained in this tariff shall apply to all such permitted assignees or transferees, as well as all conditions for service.

2.2.5 Customers reselling or rebilling services must have a Certificate of Public Convenience and Necessity as an interexchange carrier from the Commission.

SECTION 2. RULES AND REGULATIONS (Cont'd)

2.3 Liability of Carrier

2.3.1 Except as otherwise stated in this section, the liability of Carrier for damages arising out of either: (1) the furnishing of its services, including but not limited to mistakes, omissions, interruptions, delays, or errors, or other defects, representations, or use of these services, or (2) the failure to furnish its service, whether caused by acts or omission, shall be limited to the extension of allowances to the Customer for interruptions in service as set forth herein.

2.3.2 Except for the extension of allowances to the Customer for interruptions in service as set forth herein, Carrier shall not be liable to a Customer or third party for any direct, indirect, special, incidental, reliance, consequential, exemplary or punitive damages, including, but not limited to, loss of revenue or profits, for any reason whatsoever, including, but not limited to, any act or omission, failure to perform, delay, interruption, failure to provide any service or any failure in or breakdown of facilities associated with the service.

2.3.3 The liability of Carrier for errors in billing that result in overpayment by the Customer shall be limited to a credit equal to the dollar amount erroneously billed or, in the event that payment has been made and service has been discontinued, to a refund of the amount erroneously billed.

2.3.4 Carrier shall not be liable for any claims for loss or damages involving:

A. Any act or omission of: (1) the Customer; (2) any other entity furnishing service, equipment or facilities for use in conjunction with services or facilities provided by Carrier; or (3) common carriers or warehousemen;

By: Fritz von Mering, Treasurer
BCGI Communications Corp.
100 Sylvan Road
Woburn, Massachusetts 01801

SECTION 2. RULES AND REGULATIONS (Cont'd)

2.3 Liability of Carrier (Cont'd)

2.3.4 (Cont'd)

B. Any delay or failure of performance or equipment due to causes beyond Carrier's control, including but not limited to, acts of God, fires, floods, earthquakes, hurricanes, or other catastrophes; national emergencies, insurrections, riots, wars or other civil commotions; strikes, lockouts, work stoppages or other labor difficulties; criminal actions taken against Carrier; unavailability, failure or malfunction of equipment or facilities provided by the Customer or third parties; and any law, order, regulation or other action of any governing authority or agency thereof;

C. Any unlawful or unauthorized use of Carrier's facilities and services;

D. Libel, slander, invasion of privacy or infringement of patents, trade secrets, or copyrights arising from or in connection with the transmission of communications by means of Carrier-provided facilities or services; or by means of the combination of Carrier-provided facilities or services with Customer-provided facilities or services;

E. Breach in the privacy or security of communications transmitted over Carrier's facilities;

F. Changes in any of the facilities, operations or procedures of Carrier that render any equipment, facilities or services provided by the Customer obsolete, or require modification or alteration of such equipment, facilities or services, or otherwise affect their use or performance, except where reasonable notice is required by Carrier and is not provided to the Customer, in which event Carrier's liability is limited as set forth in subsection 2.3.1 of this Section 2.3.

SECTION 2. RULES AND REGULATIONS (Cont'd)

2.3 Liability of Carrier (Cont'd)

2.3.4 (Cont'd)

G. Injury to property or injury or death to persons, including claims for payments made under Workers' Compensation law or under any plan for employee disability or death benefits, arising out of, or caused by, any act or omission of the Customer, or the construction, installation, maintenance, presence, use or removal of the Customer's facilities or equipment connected, or to be connected to Carrier's facilities;

H. Any intentional, wrongful act of a Carrier employee when such act is not within the scope of the employee's responsibilities for Carrier and/or is not authorized by Carrier;

I. Any representations made by Carrier employees that do not comport, or that are inconsistent, with the provisions of this Tariff;

J. Any act or omission in connection with the provision of 911, E911, or similar services involving emergencies;

K. Any noncompletion of calls due to network busy conditions;

L. Any calls not actually attempted to be completed during any period that service is unavailable.

SECTION 2. RULES AND REGULATIONS (Cont'd)

2.3 Liability of Carrier (Cont'd)

2.3.5 Carrier shall be indemnified, defended and held harmless by the Customer or end user from and against any and all claims, loss, demands, suits, expense, or other action or any liability whatsoever, including attorney fees, whether suffered, made, instituted, or asserted by the Customer or by any other party, for any personal injury to or death of any person or persons, and for any loss, damage or destruction of any property, including environmental contamination, whether owned by the Customer or by any other party, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, presence, condition, location, use or removal of any Carrier or Customer equipment or facilities or service provided by Carrier.

2.3.6 Carrier does not guarantee nor make any warranty with respect to installations provided by it for use in an explosive atmosphere. Except as otherwise provided for by applicable law or regulations or determined by a court of competent jurisdiction and unless due to Carrier's negligence, Carrier shall be indemnified, defended and held harmless by the Customer from and against any and all claims, loss, demands, suits, or other action, or any liability whatsoever, including attorney fees, whether suffered, made, instituted or asserted by the Customer or by any other party, for any personal injury to or death of any person or persons, and for any loss, damage or destruction of any property, including environmental contamination, whether owned by the Customer or by any other party, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, presence, condition, location, use or removal of any equipment or facilities or the service.

SECTION 2. RULES AND REGULATIONS (Cont'd)

2.3 Liability of Carrier (Cont'd)

2.3.7 Carrier assumes no responsibility for the availability or performance of any cable or satellite systems or related facilities under the control of other entities, or for other facilities provided by other entities used for service to the Customer, even if Carrier has acted as the Customer's agent in arranging for such facilities or services. Such facilities are provided subject to such degree of protection or nonpreemptibility as may be provided by the other entities.

2.3.8 Any claim of whatever nature against Carrier shall be deemed conclusively to have been waived unless presented either orally or in writing to Carrier within 180 days after the date of the occurrence that gave rise to the claim.

2.4 Deposits

The Company does not require a deposit from the Customer.

SECTION 2. RULES AND REGULATIONS (Cont'd)

2.5 Customer Complaints

Customer complaints are handled by a full service customer service department. Carrier's toll-free number will be printed on customer bills. Customers may call Carrier during normal business hours or submit a written complaint to:

Mr. Jeffrey McLaughlin
BCGI Communications Corp.
100 Sylvan Road
Woburn, Massachussetts 01801

If the customer is not satisfied with the Company's response, the customer may contact:

The Florida Public Service Commission
2540 Shumard Oak Blvd.
Talahassee, FL 32399
Phone: (850) 413-6770

2.6 Credit and Refunds

If a credit is requested on a call due to trouble on the line (such as bad connection, disconnection, wrong number dialed, etc.), and the credit is requested immediately through the operator of the underlying carrier, it is issued promptly. All other credit requests are handled through the Company's business office.

2.7 Taxes

All Commonwealth and local taxes (i.e., gross receipts tax, sales tax, municipal utilities tax) are separate items and are not included in the quoted rates.

SECTION 3. DESCRIPTION OF SERVICES AND RATES

3.1 When Billing Charges Begin and End for Phone Calls

The Customer's long distance usage charge is based on the actual usage of the Company's network. Usage begins when the called party picks up the receiver, (i.e., when 2-way communications, often referred to as "conversation time" is possible.). When the called party picks up is determined by hardware answer supervision in which the local telephone company sends a signal to the switch or the software utilizing audio tone detection. When software answer supervision is employed, up to sixty (60) seconds of ringing is allowed before it is billed as usage of the network. A call is terminated when the calling or called party hangs up.

3.2 Billing Increments

Except as otherwise stated herein, the minimum call duration for billing purposes is three (3) minutes for a connected call and calls beyond three (3) minutes are billed in one (1) minute increments.

3.3 Uncompleted Calls/Minimum Call Completion Rate

The Company does not bill Customers for calls which are not completed (busy numbers, no answer, etc.).

A Customer can expect a call completion rate (number of calls completed / number of calls attempted) of not less than 90% during peak use periods.

SECTION 3. DESCRIPTION OF SERVICES AND RATES

3.4 Message Telecommunications Services

Message Telecommunications Services ("MTS") consist of the furnishing of message telephone service between telephone stations located within the State. MTS is available on both a switched and dedicated basis. Rates for dedicated service depend upon the Customer's term commitment. Rates for Switched service are on a 24 hours a day, everyday basis with no monthly fees. Calls are billed in full minute increments for Intrastate calls. 1+ interLATA is completed through presubscription, while 1+intraLATA is completed through 10XXX or other access codes.

Rate per minute: **[Reserved for future use]**

3.5 800 Service

800 Service is an inbound-only service in which callers located within the State may place toll-free calls to a telephone in the 800 area code assigned to the Customer. 800 Service is available to Customers utilizing switched or dedicated access. Rates for dedicated service depend upon the Customer's term commitment. 800 service calls are billed in six second initial and additional billing increments.

Rate per minute: **[Reserved for future use]**

SECTION 3. DESCRIPTION OF SERVICES AND RATES (Cont'd)

3.6 Company Prepaid Calling Card Services

3.6.1 General Rules and Regulations

Company prepaid calling card service provides voice grade communications service for calls charged to a Company prepaid calling card.

A. Calls That May Not Be Completed

The following types of calls may not be completed with a Company prepaid calling card:

- Calls to 500 numbers
- Calls to 700 numbers
- Calls to 900 numbers
- Operator services
- Conference calls

B. Expiration

Company prepaid calling cards expire six (6) months after its initial use, or by the end of the calendar year of purchase if never used.

C. Availability

Company prepaid calling card service is available twenty-four hours a day, seven days a week from Dual Tone Multi Frequency phones. The number of available Company prepaid calling cards is subject to technical limitations. Such cards will be offered to Customers on a first come, first served basis.

SECTION 3. DESCRIPTION OF SERVICES AND RATES (Cont'd)

3.6 Company Prepaid Calling Card Services (Cont'd)

3.6.1 General Rules and Regulations (Cont'd)

D. Access and Use

1. Company prepaid calling card service is accessed using the 800 number printed on the specific card.

2. All calls must be charged against a Company prepaid calling card that has a sufficient available balance.

3. A Customer's call will be interrupted with an announcement when the balance is about to be depleted. Such announcement will occur one minute before the balance will be depleted, based on the terminating location of the call.

4. Calls in progress will be terminated by the Company if the balance on the Company prepaid calling card is insufficient to continue the call.

SECTION 3. DESCRIPTION OF SERVICES AND RATES (Cont'd)

3.6 Company Prepaid Calling Card Services (Cont'd)

3.6.1 General Rules and Regulations (Cont'd)

E. Rate and Charge Application

1. Company prepaid calling cards are available in various dollar denominations. These prices include taxes that are calculated based on usage. They do not include sales or excise taxes due at the point of purchase. Company prepaid calling card service rates apply twenty-four hours per day, seven days per week.

2. The various dollar denominations may range from $5.00 to $100.00, or as otherwise specified by the Company. Company prepaid calling cards will be decremented the appropriate Rate per Minute specified herein, that are in effect at the time the call is made. The Rates per Minute apply to each minute or fraction thereof for a call. Where the dollar value left on a Company prepaid calling card is less than the lowest Rate per Minute for the respective Company prepaid calling card service, the card will be retired and the unused balance forfeited. Company prepaid calling cards are not rechargeable.

3. A $0.50 call charge is applicable to calls that originate from any payphone used to access Company's services. This charge is applied in addition to standard tariffed usage charges and any applicable surcharges associated with Company's services, and is not eligible to receive discounts or contribute to minimum wage requirements.

SECTION 3. DESCRIPTION OF SERVICES AND RATES (Cont'd)

3.6 Company Prepaid Calling Card Services (Cont'd)

3.6.1 General Rules and Regulations (Cont'd)

F. Credit Allowances for Interruptions

A credit allowance for Company prepaid calling card service is applicable to that portion of a call that is interrupted due to poor transmission, one-way transmission, or involuntary disconnection of the call. To receive the proper credit, the Customer must notify the Company at the designated Customer Service Number printed on the Company prepaid calling card and furnish the called number, the trouble experienced (*e.g.*, cut-off, noisy circuit, etc.), the approximate time the call was placed and the number from which the call was made. A customer will not receive credit for reaching a wrong number.

1. Interruptions to Established Calls

When a call that is charged to a Company prepaid calling card is interrupted due to cut-off, one-way transmission, or poor transmission conditions, the Customer will receive credit equivalent to the Rate per Minute in effect for that call.

2. When Credit Allowances Do Not Apply

Credit allowances for calls pursuant to a Company prepaid calling card do not apply for:

- Interruptions not reported to the Company,
- Interruptions that are due to the failure of power, equipment or systems not provided by the Company,
- Interruptions caused by the failure of other services provided by this Company which are connected to the Company prepaid calling card service, or
- Error on Customer's or end user's part.

SECTION 3. DESCRIPTION OF SERVICES AND RATES (Cont'd)

3.6 Company Prepaid Calling Card Services (Cont'd)

3.6.1 General Rules and Regulations (Cont'd)

G. Prepaid Calling Card Promotions

Company prepaid calling card service may be offered to Customers from time to time at various locations including, but not limited to, trade shows, country fairs, exhibits, meetings, seminars, and similar events and also in certain Consumer Telecommunications Service Customer complaint situations.

All promotions are subject to the Commission's review and are offered on a non-discriminatory basis.

SECTION 3. DESCRIPTION OF SERVICES AND RATES (Cont'd)

3.6 Company Prepaid Calling Card Services (Cont'd)

3.6.2 Prepaid Calling Card

Rates and charges that apply to calls placed using the Prepaid Calling Card are as follows:

Rate per minute: $0.25

EXHIBIT 2

FINANCIAL STATEMENTS

BCGI has sufficient financial capability to provide and maintain the requested service within the State of Florida. BCGI also has sufficient financial capability to meet its lease obligations. As a resale carrier, BCGI will rely upon its existing personnel and technological and financial resources to provide intrastate services. Any additional investment needed to offer the proposed services will be furnished by its ultimate corporate parent, Boston Communications Group, Inc. BCGI submits as Exhibit 2 a copy of Boston Communications Group, Inc.'s SEC Form 10-K for the year ending December 31, 1998. For the year ending December 31, 1998, Boston Communications Group, Inc. had total assets of approximately $92 million, which exceeded total liabilities of $13 million, providing stockholders' equity of $79million. With access to the substantial financial resources of its ultimate corporate parent, Boston Communications Group, Inc., BCGI is financially well qualified to provide the telecommunications services proposed in this Application.

BOSTON COMMUNICATIONS
GROUP, INC.

For the fiscal year ended December 31, 1998

form 10-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1998

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 333-4128

BOSTON COMMUNICATIONS GROUP, INC.

(Exact Name of Registrant as Specified in its Charter)

MASSACHUSETTS	**043026859**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
100 Sylvan Road, Suite 100, Woburn, Massachusetts	**01801**
(Address of Principal Executive Office)	(Zip Code)
Registrant's telephone number, including area code:	**(617) 692-7000**

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $.01 per share

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation SK is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10K or any amendment to this Form 10K. [ ]

The approximate aggregate value of the voting stock held by non-affiliates of the registrant, computed by reference to the closing sales price of such stock quoted on the Nasdaq National Market on March 1, 1999, was $193,316,499. The number of shares outstanding of the Registrant's common stock, $.01 par value per share, as of March 1, 1999 was 16,452,468.

DOCUMENTS INCORPORATED BY REFERENCE

The following document is incorporated by reference in the following part of this Form 10-K: information required by Part III (Items 10, 11, 12 and 13) of this Annual Report on Form 10-K is incorporated from the Proxy statement relating to the 1998 Annual Meeting of Stockholders of the Company.

Item 1. BUSINESS

Background

General

Boston Communications Group, Inc. (BCGI) is the leading provider of prepaid services to wireless carriers in North and South America. Taken together with the Company's innovative roaming services and teleservices, this suite of offerings has made BCGI a leading provider of enhanced services to the wireless telecommunications industry. The Company's Prepaid Wireless Services Division provides U.S and Canadian carriers with prepaid wireless services through its C_2C[1] network, which enables carrier's subscribers to use their wireless phone as if they were a post-pay subscriber, thereby expanding carriers's service offerings to new and existing subscribers without the added billing costs and collection risk. The Systems Division markets a voice processing platform with enhanced features for providing prepaid wireless, voice messaging and fax mail services to international wireless and wireline carriers. The Systems Division also manufactures prepaid systems that are used to support the Company's C_2C network. The Company's Teleservices Division provides customer support teleservices to wireless carriers which allows them to outsource all or a portion of their customer service activities, and are designed to help wireless carriers retain subscribers, reduce costs and manage growth. The Company's ROAMER*plus*™ Division provides carriers with the ability to cost-effectively generate revenues from subscribers who are not covered under traditional roaming agreements by arranging payment for roaming calls and paying carriers for the airtime used. The required disclosure information for the reportable operating segments is included in Note 5 of the Company's Consolidated Financial Statements.

Wireless telephone service has been one of the fastest growing areas of the telecommunications industry over the last thirteen years. Currently, prepaid wireless is one of the fastest growing markets within the wireless industry. The Cellular Telecommunications Industry Association ("CTIA") estimates that the number of wireless subscribers in the United States increased from approximately 340,000 in December 1985 to approximately 61 million in June 1998. This represents an increase in market penetration from under 1% to over 22% of the United States population. The CTIA also estimates that aggregate annual service revenues from wireless subscribers grew from approximately $482.4 million in 1987 to approximately $29.6 billion in 1998. A number of factors have contributed to this growth, including the build-out of the wireless network infrastructure, the decreasing cost of wireless telephones, the increasing mobility of the United States population, technological improvements in the size and battery life of wireless telephones and greater acceptance of wireless telephone use. Significant growth in the wireless telephone market is expected to continue in the future, particularly given the emergence of digital wireless as the most recent form of wireless service. Industry sources forecast that the number of wireless subscribers will grow to 80 million by the end of the year 2000, representing a market penetration of approximately 30% of the United States population, and estimate that the aggregate annual services revenue from wireless subscribers alone will be over $35 billion.

The Company was organized as a Massachusetts corporation in 1988 and introduced its ROAMER*plus* roaming service in 1991. The Company introduced teleservices in 1993 and its prepaid wireless service in 1996. The Company's systems were introduced in 1996 with the acquisition of Voice Systems Technology Inc, now the Systems Division. The Company's principal office is located at 100 Sylvan Road, Suite 100, Woburn, Massachusetts 01801 and its telephone number is (617) 692-7000.

Description of Business

Prepaid Wireless Services Division

The Company introduced its C_2C network-based prepaid wireless service offering in early 1996 and was offering the service in over 150 U.S. Metropolitan Service Areas (MSA's) which cover more than 70% of the U.S. population and all major markets in Canada as of December 31, 1998. The Company has become the leading prepaid wireless service provider for wireless carriers in the United States and Canada and significantly expanded its subscriber base from 290,000 at December 31, 1997 to 890,000 at December 31, 1998. The average monthly minutes of use per subscriber were approximately 49 minutes during the fourth quarter of 1998.

The C_2C network permits a wireless carrier to automatically switch a prepaid subscriber's call to The C_2C network where information regarding the status of that subscriber's prepaid account is maintained. A subscriber establishes an account with the wireless carrier by prepaying a specific dollar amount to be credited toward future service. Subsequently, each call that is initiated or received by the subscriber is routed to the C_2C network and rated in real time based on the telephone number called, carrier usage charges, taxes and applicable surcharges. When the remaining balance is reduced to a minimal amount, the subscriber is able to replenish the account by purchasing additional prepaid service from the carrier by credit card through C_2C's automated replenishment feature or by paying cash at any of the carrier's affiliated retail outlets. The C_2C network can complete a call and debit the account automatically without requiring the subscriber to enter a debit card number or other information. As a result, a prepaid subscriber receives service substantially similar to a subscriber using traditional billing arrangements, including the ability to make outgoing and receive incoming calls, as well as roam into other markets. Prepaid roaming can be done automatically within C_2C, via the Company's C_2C service agreements, and through the Company's ROAMER*plus* service.

The C_2C network consists of a central computer database linked by a high speed, wide area frame relay network to geographically distributed proprietary call processing subsystems, called voice nodes. Each voice node site is capable of serving more than one carrier and consists of a computer controlled telecommunications switch and an interactive voice response unit that provides high quality personalized voice prompts. These voice nodes are linked to the carriers' mobile switching centers via dedicated telephone facilities. The distributed node architecture is designed to be modular and scaleable, while remaining efficient and cost-effective. The centralized database enables prepaid users to make calls while roaming in other service areas where the C_2C network is in place.

During 1998, BCGI expanded the features of its prepaid wireless services to offer additional functionality to its carriers and their prepaid subscribers. International dialing capabilities were added to the system to permit prepaid subscribers to make calls from within the United States and Canada to countries around the world. The Passport feature was also introduced into the C_2C product line. This feature allows subscribers to use prepaid wireless services from any prepaid or traditional postpaid mobile phone and select prepaid service on a per-call basis. Other features were added including outbound roaming, automated replenishment options and credit card address verification. The Company works closely with the carriers on an ongoing basis to develop additional features and functionality to expand the capabilities and value of prepaid wireless services. During 1998, the Company upgraded its nodes and migrated the prepaid system to an Oracle database platform. These improvements and others dramatically enhanced the overall system reliability.

The Company signed an agreement in 1998 with AG Communication Systems (AGCS) to jointly develop a Wireless Intelligent Network (WIN) based solution for prepaid wireless service, including prepaid roaming. This new WIN system will take advantage of the call processing efficiency and enhanced feature capabilities of WIN, while building on BCGI's existing strengths in all areas of prepaid service delivery. The WIN system will allow BCGI to enhance the current features enjoyed by its carrier customers in the areas of rating, reporting, distribution support, customer care and replenishment. This will enable BCGI to provide a state-of-the-art, full-featured platform to new customers while allowing a smooth migration for current customers, including roaming capability between WIN and non-WIN systems. The WIN service logic that BCGI and AGCS are developing is intended to operate on many Service Control Point (SCP) platforms, providing carriers the flexibility to run WIN service logic on their own SCP platform if they choose.

Carriers compensate BCGI for network usage by contracting at a per minute rate for prepaid subscriber usage based on connection time between the carrier's mobile switching center and the C_2C network voice node. The terms of the Company's existing contracts to provide prepaid wireless services through the C_2C network are generally two or three years.

The Company currently provides C_2C to several U.S. carriers, including AirTouch Communications, Southwestern Bell Mobile Systems, Bell Atlantic Mobile, Bell South Cellular Corp., LA Cellular, AT&T Wireless (AWS), Frontier Cellular, Bay Area Cellular, Western Wireless's PCS Division, Aliant Cellular, Dobson Cellular Systems, Inc., and Southern New England Telephone Corp., in addition to more than 15 wireless resellers. The Company also provides prepaid wireless services in Canada to Rogers Cantel. As of February 28, 1999 the Company was supporting over one million prepaid subscribers on behalf of carriers who have deployed a BCGI prepaid system in the United States and Canada.

Teleservices Division

The Company began providing teleservices in 1993 in response to the industry's need for 24-hour. 365 day customer service. The Company's teleservices program allows a wireless carrier's subscriber to obtain information on rate plans, phone operations and service center locations, as well as instructions on roaming features and promotions. Subscribers also may make billing inquiries, initiate address and rate plan changes, and obtain other customer assistance. The Company's teleservice representatives also assist carriers in billing and collections. Most carriers using BCGI's teleservices use these services for off-hours and overflow subscriber support. However, the Company's services range from narrowly defined, short-term projects to the provision of all of the carrier's customer service activities. The Company currently provides teleservices to thirty-three wireless customers. Certain wireless carriers that have contracted for the Company's prepaid wireless services have also engaged the Company to provide teleservices for their prepaid subscribers.

The Company provides its teleservices from four telecommunications call centers located in the United States and Canada. The largest call center is located at the Company headquarters in Woburn, Massachusetts and has been in operation since 1996. In March 1998, the Company, in collaboration with the University of Massachusetts—Lowell, opened its second service center in Lowell, Massachusetts. This service center is located on the campus of the university and provides students the opportunity to learn about call center operations while earning money and scholarships to pay for their education. More than 50% of the current teleservices representatives at this service center are student employees of the university. The third telecommunications call center was opened in Deland, Florida in August 1998 and employed over 300 personnel as of December 31, 1998. In December 1998, the Company began to provide services in a fourth call center in New Brunswick, Canada. The ICT Group, Inc. handles the management and operational functions of this call center, in accordance with company specifications. BCGI is responsible for call routing, initial training and ongoing quality assurance and mentoring to ensure compliance with the Company's standards.

Each of the Company's facilities is designed to provide highly efficient, rapid customer response through the deployment of state-of-the-art switching technologies with client/server architecture and open, automatic call delivery platforms. Each customer service representative utilizes database interfaces customized for each carrier, to facilitate subscriber inquiry response, technical problem resolution, program/feature clarification, on-line follow-up and performance reporting. These customized interfaces can be programmed to give the Company complete access to a particular carrier's subscriber databases. Administration of call center floor personnel is facilitated by the use of forecasting, scheduling and monitoring systems that allow floor supervisors to observe numerous aspects of the call center's performance in a graphical format, including information on call duration, compliance with contract standards and operator performance.

BCGI has identified additional specific teleservices needs in the wireless industry and has developed services to meet those needs. These services allow the carriers to better manage the demands of hiring, training, managing and retaining a large number of customer service representatives for specialized service projects that often place significant increased demands on the capacity of customer service centers. For example, BCGI provides teleservices support to carriers who are currently supporting prepaid subscribers on the C_2C network. BCGI's wireless-trained representatives are available to effectively answer subscriber questions that are not handled by C_2C's automated customer service application. BCGI also provides special support services to carriers including dealer support, phone number and NPA-NXX area code changes and third party verification services.

The Company offers extensive in-house classroom and on-the-job training programs for its teleservices personnel, including instruction on a full breadth of customer service skills, call handling techniques and service quality. In addition, carrier-specific training allows the teleservices staff to disseminate information on a particular carrier's services, as well as to update and edit information in the carrier's databases. BCGI intends to continue to market and invest in its teleservices technology in order to provide additional service offerings.

Roaming Services Division

BCGI's ROAMER*plus* roaming service enables wireless carriers to cost-effectively generate revenues from subscribers roaming in a carrier's service area who are not covered under traditional roaming agreements. These unregistered roamers attempting to place calls in the serving carrier's territory are automatically switched to

BCGI, which arranges payment for the calls, completes the calls and pays the serving carrier based on the length of the call. When an unregistered roamer places a call in the carrier's service area, the carrier's mobile switching center forwards the call, at the Company's expense, to the Company's proprietary digital call processing system. The roamer may complete the call by charging the call to a telephone calling card, a commercial credit card, a prepaid account or as a collect call. A majority of all incoming traffic is initially handled by an automated call processing system, which prompts the caller for billing and calling information. The Company's specially trained service representatives handle all remaining calls, as well as calls requiring additional operator assistance. The Company's roaming service is being used by approximately 95 wireless carriers that collectively hold licenses for over 1,100 markets in the United States, Canada and Mexico. BCGI services 8 of the 10 largest wireless carriers, by number of subscribers, in the United States.

In order to implement the Company's ROAMER*plus* service, a carrier need only make a minor software change in its switches. BCGI pays for transport of the calls to its facilities and for completion of the calls. Under its agreements with carriers, which typically have a term of one year, BCGI pays the serving carrier for the airtime that the roamer uses and charges the roamer for the call. The charge for the call appears directly on a telephone or credit card bill, with BCGI (typically, under the trade name "Wireless Roaming") as the vendor. ROAMER*plus* eliminates collection and fraud risk for the carrier because BCGI takes responsibility for collection from the customer. The Company manages this collection and fraud risk by utilizing its own proprietary and external fraud control systems as well as validating the caller's credit before completing the call. Over the past few years there has been a decrease in the suspension of inter-carrier roaming agreements due to improved fraud controls implemented by the carriers.

Systems Division

The Systems Division delivers prepaid wireless solutions to carriers which, when coupled with the Prepaid Wireless Services Division's carrier customers, makes BCGI the leading provider of prepaid wireless services to carriers in North and South America. The Systems Division sells systems that enable prepaid wireless calling on a turnkey basis primarily to international customers. The Division also markets and sells systems for voice messaging, fax mail and other enhanced service applications to Original Equipment Manufacturers (OEM's) and wireless and wireline carriers throughout North America.

Prepaid systems have been sold to several customers whose efforts are focused on international prepaid wireless, including Cable & Wireless, Bell South Wireless International and Cellstar, Ltd. These customers have operations throughout the world and have enabled the Company to make significant prepaid system sales in Mexico, Brazil, Venezuela and several other South American countries. The Company expects to continue to market and sell its systems through these and other companies to expand prepaid wireless services beyond North and South America. To support its systems and on-going sales efforts in Mexico, in 1997 the Company established a Mexican subsidiary, BCG de Mexico, S.R.L, that employs technicians and other support staff throughout Mexico.

Engineering, Research and Development

BCGI believes that its future success will depend in large part on its ability to enhance existing services and develop new services in response to changing market, customer or technological requirements of the wireless telephone industry. An important factor in the future success of the Company's prepaid wireless service will be the Company's ability to provide, at competitive prices, more functionality and features than those typically available in other competitive offerings. The Company has developed proprietary software to enable its call processing platform to handle custom signaling interfaces to various types of wireless switches, specialized call rating requirements of prepaid wireless services, and interfaces to wireless administration and management information systems. The Company is developing a number of enhanced services that it intends to make available to prepaid and traditional subscribers through the C_2C network. In addition, BCGI's agreement with AGCS to jointly develop the WIN system is expected to improve call processing efficiency and provide BCGI the ability to enhance the features available to carriers. These enhanced services are intended to be designed to enable carriers to generate additional sources of revenue from subscribers, to provide carriers with more extensive internal reporting capabilities and help to reduce carriers's telecommunications costs.

The Company spent approximately $3.2 million, $5.4 million and $5.5 million on engineering, research and development in 1996, 1997, and 1998, respectively. During 1998, the responsibilities of a number of prepaid wireless service personnel were shifted from development and engineering of the prepaid architecture to the duties of maintaining and upgrading the C_2C network to provide high quality performance. This trend is expected to continue in 1999. The Company expects to continue to devote significant resources to its engineering, research and development activities in future years.

Sales, Marketing and Distribution

The Company's sales strategy is to establish and maintain long-term relationships with its customers. The Company utilizes a consultative sales process to understand and define customer needs and determine how those needs can be addressed by the Company's services. BCGI seeks to build upon its existing customer relationships by integrating and cross-selling its different service offerings. The Company's sales cycle varies for different services and can be up to 12 months for the Company's Teleservices, Prepaid Wireless Services and Systems Divisions.

The Company's sales force consists of sales representatives who generally have significant experience in the wireless industry, either as former employees of wireless carriers or in selling products and services to wireless carriers. The Company typically assigns each sales representative to a single group of wireless telephone carriers in order to support the development and maintenance of long-term strategic customer relationships. The sales representatives are supported by product specific account and service managers who also typically have experience in the wireless industry and manage the accounts on a daily basis after the completion of the initial sale. Most sales representatives are strategically located in the carriers major geographic regions, however, the Company's marketing and product management activities are supported from its Woburn, Massachusetts facility and from its Tulsa, Oklahoma Systems Division location.

The Company's direct sales strategy is complemented by a marketing program that includes participation in industry trade shows, advertising and public relations. Because the Company's customers are a group of large-scale wireless carriers, the Company seeks to gain wide exposure through carefully selected events and activities specific to the wireless telephone industry.

Product and account management groups have been established for the Prepaid Wireless Services, Teleservices and Systems Divisions. Each group focuses on supporting carriers's operational issues, understanding the prepaid market and providing carriers with valuable information regarding prepaid marketing and subscriber trends, distribution techniques and marketing success factors. The Company works closely with the carriers and the industry to disseminate and integrate this information into their prepaid programs to help generate and retain prepaid subscribers. In addition, the product and account management groups focus on identification of new features and functionality that drive incremental prepaid business.

Distribution of prepaid wireless is an integral piece of the service because it provides consumers with numerous channels to purchase or replenish prepaid service. The Company continues to improve distribution options for prepaid cards on behalf of wireless carriers by seeking arrangements with national distributors, retailers, resellers and alternative channels to increase market penetration and exposure. The Company intends to focus more efforts on its marketing program in 1999 to expand awareness of its prepaid product offering, specifically to provide more assistance to its carrier customers in strategically marketing and promoting prepaid services through their sales and distribution channels.

Customers

The Company provides its services to wireless carriers and resellers of varying size, expertise and capabilities. The Company currently provides one or more of its services to approximately 95 wireless carriers in the United States, Canada and Mexico, including 8 of the 10 largest wireless carriers in the United States. Historically, a significant portion of the Company's revenues in any particular period has been attributed to a limited number of customers. Net revenues attributable to the Company's ten largest customers accounted for approximately 82%, 75% and 79% of the Company's total revenues in 1996, 1997, and 1998, respectively. Ameritech Cellular Services, Bell Atlantic Mobile, Southwestern Bell Mobile Systems, Bell South Cellular and Airtouch Communications accounted for approximately 12%, 12%, 11%, 5% and 9%, respectively, of total revenues in 1997 and for 15%, 11%, 10%, 13% and 13%, respectively, of total revenues in 1998.

For the year ended December 31, 1998, the Company's Systems Division generated $13.6 million in prepaid and voice system revenues. Of this revenue, a significant portion represented sales to support prepaid wireless service in several South American countries on behalf of Bell South International Wireless, Inc.

Competition

The market for services to wireless carriers is highly competitive and subject to rapid change. A number of companies currently offer one or more of the services offered by the Company. In addition, many wireless carriers are providing or can provide, in-house, the services that the Company offers. Trends in the wireless telephone industry, including greater consolidation and technological or other developments that make it simpler or more cost-effective for wireless carriers to provide certain services themselves, could affect demand for the Company's services and could make it more difficult for the Company to offer a cost-effective alternative to a wireless carrier's in-house capabilities. In addition, the Company anticipates continued growth in the wireless carrier services industry, and consequently, the entrance of new competitors in the future. BCGI's principal competitor in the unregistered roaming market is National Telemanagement Corporation and in the prepaid network market, Brite Voice Systems, Inc., National Telemanagement Corporation, and GTE Telecommunications Services, Inc. In the teleservices market, BCGI competes with a variety of companies that have inbound and outbound service centers. The Systems Division's principal competitors in the turnkey prepaid and voice processing systems markets include Comverse Technology, Inc., Brite Voice Systems, Inc. and Centigram Communications Corp.

The Company believes that the principal competitive factors in the wireless carrier services industry include the ability to identify and respond to customer needs, quality and breadth of service offerings, price and technical expertise. The Company's ability to compete also depends in part on a number of competitive factors outside its control, including the ability to hire and retain employees, the development by others of products and services that are competitive with the Company's products and services, the price at which others offer comparable products and services and the extent of its competitors' responsiveness to customer needs. There can be no assurance that the Company will be able to continue to compete successfully with its existing competitors or with new competitors.

Government Regulation

The Federal Communications Commission ("FCC"), under the terms of the Communications Act of 1934, as amended, including the Telecommunications Act of 1996, regulates interstate communications and use of radio spectrum, including entry, exit, rates and terms of operation. BCGI presently neither operates any facilities utilizing radio spectrum nor has any facilities-based services involving interstate communications. Consequently, it is not required to and does not hold any licenses or other authorizations issued by the FCC. However, the wireless carriers that constitute the Company's customers are regulated at both the federal and state levels. Such regulation may decrease the growth of the wireless telephone industry, affect the development of the PCS market, limit the number of potential customers for the Company's services or impede the Company's ability to offer competitive services to the wireless market or otherwise have a material adverse effect on the Company's business and results of operations. At the same time, the Telecommunications Act of 1996, a deregulatory measure, may cause changes in the industry, including entrance of new competitors and industry consolidation, which could in turn affect the Company's cost of doing business or otherwise have a material effect on the Company's business, financial condition and results of operations.

Employees

As of December 31, 1998, the Company had a total of 1,135 full-time and part-time employees. Of these employees, 830 serve in teleservices and roaming call center and related functions, 174 serve in technical support and technology and software development, 51 serve in sales, marketing, product and account management and 80 serve in administration and management. In addition, 146 students of the University of Massachusetts - Lowell serve as representatives for the Teleservices Division. None of the Company's employees are represented by a labor union. The Company believes that its employee relations are good.

Backlog

As of December 31, 1998, there was no backlog of firm orders of the Systems Division. The Company includes in backlog only those orders for which it has received completed purchase orders and for which delivery has been specified within 12 months. Most orders are subject to cancellation by the customer. Because of the possibility of customer changes in delivery schedules, cancellation of orders and potential delays in product shipments, the Company's backlog as of any particular date may not be representative of actual sales for any succeeding period.

Item 2. PROPERTIES

The Company leases space at five of its six principal locations: Burlington, Woburn and Lowell, Massachusetts, Deland, Florida and Mexico City, Mexico. In March 1999 the Company purchased the property at its Tulsa, Oklahoma location which was previously under lease. The Woburn location serves as one of the call centers for teleservices and also has separate facilities that house the Company's network operations center as well as the Company's executive headquarters, engineering, sales, human resources and finance personnel. The Burlington site is currently utilized for service center operations for ROAMER*plus* and houses training facilities and certain engineering personnel. Its operations are expected to be fully consolidated into the Woburn facility during 1999 upon the expiration of the lease in October 1999. The Tulsa facility is used for the manufacturing and assembly of systems and houses other Systems Division support functions such as engineering, product management, sales support and finance. The Mexico City office serves as the headquarters of the technical service operation in Mexico. The Company has 33 other leased facilities throughout the United States that are used to house the Company's voice nodes and certain equipment for the C_2C network.

The following is a listing of the Company's significant leased facilities:

Location	Square Footage	Expiration Date
Woburn, Ma	58,415	February 2001-October 2003
Burlington, Ma	19,975	October 1999
Lowell, Ma	9,000	February 2002

Item 3. LEGAL PROCEEDINGS

On November 20, 1997, AWS sent a letter to the Company stating that it believes that it is entitled to indemnification from the Company in respect to a certain claim presently pending in a case brought by Ronald A. Katz Technology Licensing, L.P. and MCI Telecommunications Corporation against AT&T Corp. in the United States District Court for the Eastern District of Pennsylvania. The letter asserts that Count 13 of the complaint, which relates in part to prepaid wireless service, gives rise to an obligation on the part of the Company to indemnify AWS with respect to that count. The amount in question is undetermined. The suit against AT&T Corp. was filed on July 8, 1997. The contract between the Company and AWS pursuant to which the Company presently provides prepaid services to AWS, and upon which AWS's claim for indemnification is based, was not executed until October 15, 1997. The Company believes that the claim is without merit. To date, no legal action has been brought against the Company.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders of the Company, through solicitation of proxies or otherwise, during the last quarter of the year ended December 31, 1998.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Company and their ages and positions are as follows:

Name	Age	Position
Paul J. Tobin	55	Chairman of the Board
Brian E. Boyle	50	Vice Chairman
E.Y. Snowden	44	President & Chief Executive Officer, Director
Frederick E. von Mering	45	Vice President, Finance and Administration, Director

Mr. Tobin has served as Chairman of the Board of Directors of the Company since February 1996. He also served as the Company's President and Chief Executive Officer from March, 1997 to February, 1998 and from 1990 until February 1996. Prior to joining the Company, Mr. Tobin served as President of Cellular One Boston/Worcester from July 1984 to January 1990 and as a Regional Marketing Manager for Satellite Business Systems, a joint venture of IBM, Comsat Corp. and Aetna Life & Casualty from April 1980 to June 1984. Mr. Tobin received his undergraduate degree in economics from Stonehill College and his M.B.A. in marketing and finance from Northeastern University. Mr. Tobin also serves as a member of the Board of Trustees at Stonehill College.

Mr. Boyle has served as Vice Chairman of the Company since February 1996 and as Chairman, New Wireless Services of the Company from January 1994 to February 1996. From July 1990 to September 1993, Mr. Boyle served as Chief Executive Officer of Credit Technologies, Inc., a supplier of customer application software for the wireless telephone industry. Prior to 1990, Mr. Boyle founded and operated a number of ventures servicing the telecommunications industry, including APPEX Corp. (now EDS Personal Communications Division of EDS Corporation, a global telecommunications service company) and Leasecomm Corporation (now MicroFinancial Corporation (MFC)), a micro-ticket leasing company. Mr. Boyle earned his B.A. in mathematics from Amherst College and his B.S., M.S. and Ph.D. in electrical engineering and operations research from M.I.T. Mr. Boyle is also a Director of Saville Systems PLC, a provider of customized billing solutions to telecommunications providers, and MFC, as well as of several private companies.

Mr. Snowden has served as the Company's President and Chief Executive Officer since February, 1998. Prior to joining the Company, Mr. Snowden served as President and Chief Operating Officer of American Personal Communications, L.P. d/b/a Sprint Spectrum where he oversaw the launch of the Nation's first PCS network. From 1991 to 1994, Mr. Snowden was Area Vice President, Personal Communication & Intelligent Network Services at Pacific Bell, Inc. From 1988 to 1990, Mr. Snowden was a Principal at Mehta Burkett & Company, Inc. a merchant banking firm. From 1986 to 1988, Mr. Snowden was an executive at Universal Optical Company, Inc. where he held the positions of Chief Executive Officer and President & Chief Operating Officer. Prior to 1986, Mr. Snowden was employed by various organizations including The Beta Group, Boston Consulting Group, Inc. and Price Waterhouse LLP. Mr. Snowden earned his B.S. in Mathematical Sciences from Stanford University and his M.B.A. from Harvard Graduate School of Business Administration.

Mr. von Mering has served as the Company's Vice President, Finance and Administration since 1989. Prior to joining the Company, Mr. von Mering served as Regional Vice President and General Manager for the paging division of Metromedia, Inc., a communications company, from 1980 to 1986. From 1975 to 1979, Mr. von Mering was employed at Coopers & Lybrand LLP. Mr. von Mering earned his B.A. degree in accounting from Boston College and his M.B.A. from Babson College.

Each officer serves at the discretion of the Board of Directors. There are no family relationships among any of the Directors and executive officers of the Company.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Market Information for Common Stock

Boston Communications Group, Inc.'s Common Stock is traded on the Nasdaq National Market, under the symbol BCGI. The following table reflects the range of high and low selling prices of the Company's common stock for the periods indicated.

	1997		1998	
	High	Low	High	Low
First Quarter	$ 7 1/8	$ 3 7/8	$11 11/16	$6 1/8
Second Quarter	15 1/16	4 1/8	11 1/4	6 1/2
Third Quarter	17 1/4	12 1/4	9 1/8	3 7/8
Fourth Quarter	19	8 1/2	13	6 3/4

Holders

At February 23, 1999, there were approximately 5,000 holders of Common Stock.

Dividends

The Company has never paid a cash dividend on its Common Stock. The Company currently intends to retain all of its earnings to finance future growth and, accordingly, does not anticipate paying any cash dividends in the foreseeable future.

Item 6. SELECTED FINANCIAL DATA

The following tables should be read in conjunction with the Consolidated Financial Statements of the Company and the notes thereto and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this report.

	Year ended December 31,				
	1994	1995	1996[1]	1997	1998
	(in thousands, except per share data)				
Consolidated Statements of Operations Data:					
Total revenues	$ 18,334	$34,220	$50,651	$68,099	$86,482
Operating income (loss)	405	2,129	610	(2,389)	(3,149)
Income (loss) from continuing operations[2]	288	3,008	599	(1,116)	(1,800)
Income (loss) from discontinued operations	1,507	(165)	—	—	—
Net income (loss)	1,795	2,843	599	(1,116)	(1,800)
Net income (loss) available to common shareholders	779	1,893	148	(1,116)	(1,800)
Basic net income (loss) per common share[3]:	0.24	0.57	0.02	(0.08)	(0.11)
Diluted net income (loss) per common share[3]:	0.22	0.22	0.01	(0.08)	(0.11)
Consolidated Balance Sheet Data:					
Cash and short-term investments	204	253	21,421	33,704	25,609
Working capital	1,098	2,082	26,433	38,210	37,397
Property and equipment, net	2,699	4,884	12,906	38,087	38,055
Total assets	8,867	13,614	51,959	93,385	91,760
Redeemable preferred stock	14,947	15,896	—	—	—
Shareholders' equity (deficit)	$(10,591)	$(8,698)	$42,893	$80,104	$78,658
Dividends per common share	—	—	—	—	—

(1) In February 1996, the Company acquired VST for Common Stock and cash with an aggregate value of approximately $2.5 million.

(2) In 1995, the Company reversed the deferred tax asset valuation allowance, resulting in a tax benefit of $1.8 million. In addition, in 1994 and 1995, the Company realized benefits from net operating loss carryforwards of $382,000 and $840,000, respectively.

(3) See Note 8 of Notes to Consolidated Financial Statements.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Consolidated Results of Operations

The Company's total revenues increased 27% from $68.1 million in 1997 to $86.5 million in 1998. The growth was primarily attributable to a 147% increase in the Company's principal business, prepaid wireless, and to a 53% increase in teleservices revenues, primarily arising from increased customer service for carriers's C_2C customers. A 13% decline in roaming service revenues slightly offset the growth in prepaid wireless and teleservices. In 1997, total revenues increased 34% compared to 1996 primarily due to increases in prepaid wireless and systems revenues.

The Company incurred operating losses for the years ended December 31, 1998 and 1997 totaling $3.1 million and $2.4 million, respectively, compared to operating income of $610,000 in 1996. Excluding the effects of the loss on impairment of long-lived assets, the operating losses for the years ended December 31, 1998 and 1997 would have been $2.5 million and $1.8 million, respectively. The increase in operating losses reflects the increased depreciation, telecommunication and personnel costs associated with the deployment and operation of the C_2C network. The specifics of each division's revenues and net operating income (loss) are discussed in greater detail below.

The Company's reportable operating segments consist of Prepaid Wireless Services, Teleservices, Roaming Services and Systems Divisions. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies in Note 2 of the Company's Consolidated Financial Statements, except that the financial results for the Company's operating segments have been prepared using a management approach. This approach is consistent with the basis and manner in which the Company's management internally analyzes financial information for the purposes of assisting in making internal operating decisions. The Company evaluates performance based on stand-alone divisions operating income (loss) before interest and taxes and allocates corporate level operating expenses to the operating divisions. Segment disclosure information is included in Note 5 of the Company's Consolidated Financial Statements.

The Company's chief operating decision-maker is its President. The Company's Divisions, or operating segments, are managed separately because each represents a strategic business unit that offers different products and serves unique markets within the wireless industry. However, the divisions do complement each other in order to provide the Company with a strong suite of products and services to meet the needs of wireless carriers. The Company's customers include eight of the ten largest domestic wireless carriers, six of whom use two or more of the Company's products.

Divisional Data
(in thousands except for percentages)

	Prepaid Wireless Services	Teleservices	Roaming Services	Systems	Total
1998					
Revenues	$18,624	$26,001	$28,235	$13,622	$86,482
Gross margin	8,659	5,918	6,364	5,174	26,115
Gross margin percentage	46%	23%	23%	38%	30%
Operating income (loss)	(7,236)	393	2,962	732	(3,149)
Percentage of revenues	(39%)	2%	10%	5%	(4%)
1997					
Revenues	7,539	17,009	32,461	11,090	68,099
Gross margin	1,260	4,815	6,754	4,889	17,718
Gross margin percentage	17%	28%	21%	44%	26%
Operating income (loss)	(7,976)	562	4,547	478	(2,389)
Percentage of revenues	(106%)	3%	14%	4%	(4%)
1996					
Revenues	312	13,413	32,234	4,692	50,651
Gross margin	(537)	3,331	6,559	2,116	11,469
Gross margin percentage	(172%)	25%	20%	45%	23%
Operating income (loss)	(5,792)	674	4,757	971	610
Percentage of revenues	(1856%)	5%	15%	21%	1%

Prepaid Wireless Services Division

Prepaid Wireless Services Division revenues increased from $312,000 in 1996 to $7.5 million in 1997 and increased 148% to $18.6 million in 1998. Both increases were the result of new carrier contracts secured in 1997 and 1998, as well as existing carrier customers adding new markets to the C_2C network during both periods. At the end of 1998 there were approximately 890,000 paid subscribers on the C_2C network, as compared to 290,000 subscribers at the end of 1997, an increase of over 200%.

Gross margins for the Prepaid Wireless Services Division improved from a negative margin in 1996 to 17% of revenues in 1997 and 46% of prepaid wireless services revenues in 1998. The improvement in both years resulted from the significant increase in prepaid wireless services revenues in each of 1997 and 1998. This increase in gross margins was partially offset by increased personnel and related costs incurred to support the growth of the C_2C network.

Operating losses for the Prepaid Wireless Services Division increased 38% from $5.8 million in 1996 to $8.0 million in 1997, and decreased 10% to $7.2 million in 1998. These operating losses have been due to costs associated with the C_2C network, including costs for personnel and for telecommunications equipment and software. While the Company expects to continue to incur significant capital and personnel costs to support the expansion and development of the C_2C network, the Company also anticipates that increases in prepaid wireless services revenues will improve the gross margins and operating results of the Prepaid Wireless Services Division in 1999.

Teleservices Division

Teleservices Division revenues increased 27% from $13.4 million in 1996 to $17.0 million in 1997 and increased 53% to $26.0 million in 1998. The increases in teleservices revenues were primarily due to new and additional services provided to existing customers and the addition of new carrier customers in 1997 and 1998. A significant component of these increases was the increase in teleservices revenues from billing inquiry services provided to the Prepaid Division's carriers. Teleservices revenues from those services were negligible in 1996, increased 11% to $1.9 million in 1997 and increased 31% to $8.2 million in 1998.

Gross margins for the Teleservices Division increased from 25% of teleservices revenues in 1996 to 28% of teleservices revenues in 1997, but declined to 23% of teleservices revenues in 1998. The increase from 1996 to 1997 resulted primarily from labor efficiencies and other economies of scale as higher teleservices revenues absorbed more fixed operating costs. The decrease in gross margins in 1998 was primarily due to incremental costs in connection with opening three additional call centers in 1998, including training and travel costs. Although the Company anticipates teleservices revenues to increase in 1999, it expects the gross margin from that division to decline compared to the levels achieved in 1998. A significant reason for the gross margin decline is increased costs resulting from the Company's plan to support new business in the Teleservices Division by leasing call center facilities, equipment and personnel from third parties that will be classified entirely in cost of services. In 1998 and prior years, a portion of these costs were classified in depreciation or general and administrative expenses.

Operating income for the Teleservices Division decreased slightly from $674,000 in 1996 to $562,000 in 1997 and $393,000 in 1998. Operating income for the Teleservices Division represented 5% of teleservices revenues in 1996, 3% in 1997 and 2% in 1998. The decreases in each of 1997 and 1998 were primarily due to the Company's significant investment in call center technology during 1997 designed to enhance service offerings as well as improve operational efficiency.

Roaming Services Division

Roaming services revenues remained relatively flat at $32.2 million in 1996 and $32.5 million in 1997 and decreased 13% to $28.2 million in 1998. Roaming services revenues remained relatively constant from 1996 to 1997, even though there were fewer suspensions of inter-carrier automatic roaming agreements by the carriers in 1997 as compared to 1996, because the Company expanded the billing options that it offered to carriers and maintained its market presence. The decrease in roaming services revenues in 1998 was primarily attributable to greater suspensions of inter-carrier automatic roaming agreements and some cannibalization of unregistered roaming use by prepaid wireless growth. In addition, a consumer's decision to use the Company's premium priced roaming service has been adversely affected by an increase in one-rate registered roaming plans offered by some national carriers. The Company anticipates that these trends will continue and, therefore, roaming services revenues will continue to decrease over time.

Gross margins for the Roaming Services Division improved from 20% of revenues in 1996 to 21% in 1997 and 23% in 1998. The improvement in both years resulted primarily from enhancement and expansion of automated features of the service that reduced labor costs.

Operating income for the Roaming Services Division was relatively flat at $4.8 million in 1996 and $4.5 million in 1997 and decreased 33% to $3.0 million in 1998. The decrease in 1998 was primarily a result of lower absorption of fixed costs as roaming services revenues declined. The decrease was offset to some extent by reduced labor costs. The Company anticipates that operating income for the Roaming Services Division will continue to decline slightly due to the anticipated decrease in roaming services revenues.

Systems Division

Systems revenues increased 136% from $4.7 million in 1996 to $11.1 million in 1997 and increased 23% to $13.6 million in 1998. The increase in 1997 systems revenues was attributable to the sale of prepaid systems to an existing customer in Mexico and to new customers in South America. The increase in 1998 was due to further system sales to new and existing customers in South America.

Gross margins for the Systems Division decreased slightly from 45% of systems revenues in 1996 to 44% in 1997 and further decreased to 38% in 1998. The reduction in the gross margin from 1996 to 1997 was primarily due to a change in the mix of the types of systems sold to more sales of prepaid systems in proportion to total sales. Prepaid systems have a lower margin than voice systems. The decrease in 1998 was primarily a result of increased competition in the market for such systems that resulted in reduced prices for the systems, as well as higher costs associated with installing systems abroad. The trend of selling more prepaid systems in proportion to total systems sales also continued and, therefore, was an additional factor in the decrease in gross margin.

Operating income for the Systems Division decreased 51% from $971,000 in 1996 to $478,000 in 1997 and increased 53% to $732,000 in 1998. Operating income for the Systems Division represented 21% of systems revenues in 1996, 4% of systems revenues in 1997 and 5% of systems revenues in 1998. The decrease in operating income in 1997 resulted primarily from costs incurred to expand into Mexico and South America, including costs for sales, development and administrative personnel, international travel expenses, additional development and test equipment and increased amortization costs related to goodwill acquired in connection with the purchase of a subsidiary. Operating income remained consistent as a percentage of systems revenues from 1997 to 1998, notwithstanding the decrease in gross margin, because sales and marketing expenses of the Systems Division were reduced with the consolidation of one of the division's satellite sales offices into its Tulsa headquarters.

The Company currently prices and sells all of its systems to international customers in U.S. dollars. In addition, many Systems Division customers are multinational corporations that are publicly traded in the U.S. All payments are received in U.S. dollars which helps to protect the Company from the need to hedge against foreign currency risk.

Operating Data

($ in thousands)

	1998		1997		1996	
	Total	% of Revenue	Total	% of Revenue	Total	% of Revenue
Total revenues	$86,482	100%	$68,099	100%	$50,651	100%
Engineering, research and development	5,523	6%	5,433	8%	3,221	6%
Sales and marketing	5,590	6%	5,089	7%	2,949	6%
General and administrative	6,208	7%	3,470	5%	2,580	5%
Depreciation and amortization	11,245	13%	5,546	8%	2,109	4%
Impairment of long-lived assets	698	1%	569	1%	—	—

Engineering, research and development expenses

Engineering, research and development expenses primarily include the salaries and benefits for software development and engineering personnel associated with the development, implementation and maintenance of existing and new services. Engineering, research and development expenses decreased as a percentage of total revenues from 8% to 6% for the years ended December 31, 1997 and 1998, respectively. This decrease primarily resulted from engineers devoting less time to developing and building out the C_2C network infrastructure than they had in the prior year and, to a lesser extent, to the changes associated with organizing the Company into its four operating divisions. As a result of the divisional structure, certain senior management personnel changed their functional responsibilities from engineering to general management and oversight of the divisions. The Company intends to continue to increase its engineering, research and development expenditures to support future development and enhancements of its prepaid and other wireless services and systems.

Engineering, research and development expenses increased as a percentage of total revenues from 6% to 8% in the years ended December 31, 1996 and 1997, respectively. This increase was principally due to costs, including recruiting fees and other personnel costs, associated with the Company's hiring of new personnel to support ongoing development and enhancements, implementation and deployment of the C_2C network, and to a lesser extent, additional personnel and related costs to support the expansion of teleservices and system sales.

Sales and marketing expenses

Sales and marketing expenses include direct sales and product management salaries, commissions, travel and entertainment expenses, in addition to the cost of trade shows, advertising and other promotional expenses. As a percentage of total revenues, sales and marketing expenses decreased from 7% in 1997 to 6% in 1998. This decrease resulted primarily from revenues absorbing fixed sales and marketing costs that did not increase as rapidly as revenue growth. In addition, the decrease resulted from the consolidation of the Systems Division satellite sales offices to the Tulsa headquarters in 1997 and, to a lesser extent, to the changes associated with organizing the Company into its four operating divisions. As a result of the divisional structure, certain senior management personnel changed their functional responsibilities from sales and marketing to general management and oversight of the divisions.

Sales and marketing expenses increased as a percentage of total revenues from 6% to 7% in 1996 and 1997, respectively. The increase in sales and marketing expenses was principally due to additional expenditures to support the concentrated efforts of the Systems Division to expand internationally and the overall growth in system sales. Additional personnel, recruiting, commissions and other costs were also incurred in 1997 to support sales and marketing efforts in the Prepaid Wireless Services and Teleservices Divisions. The Company expects to increase expenditures for sales, marketing and product management in the future to assist carriers with more prepaid marketing and distribution efforts as well as expanding systems sales into new geographical markets. Such expenditures are expected to vary as a percentage of total revenues.

General and administrative expenses

General and administrative expenses include salaries and benefits of employees and other expenses that provide administrative support to the Company. General and administrative expenses increased as a percentage of total revenues from 5% in 1997 to 7% in 1998. The increase resulted principally from the addition of staff to support the Company's growth and changes associated with organizing of the Company into its four operating divisions. As a result of the divisional structure, certain senior management personnel changed their functional responsibilities from marketing and engineering to general management and oversight of the divisions.

Total general and administrative expenses were consistent as a percentage of total revenues for 1996 and 1997, respectively, but increased in absolute dollars from $2.6 million in 1996 to $3.5 million in 1997. The increase in in the dollar amount of general and administrative expenses in 1997 was primarily attributable to additional employees and related recruiting expenses to support the Company's growth, along with a full year of costs associated with being a publicly traded company.

Depreciation and amortization expense

Depreciation and amortization expense includes depreciation of telecommunications systems, furniture and equipment and leasehold improvements. The Company provides for depreciation using the straight-line method over the estimated useful lives of the assets, which range from three to seven years. Goodwill related to acquisitions is amortized over eight years. Depreciation and amortization expense increased more than 100% in 1998 compared to 1997 and 163% from 1996 to 1997. The increase in 1998 was due primarily to the depreciation of additional technical equipment and software to support the rapid expansion and enhancement of the Company's prepaid wireless network. These same factors contributed to greater depreciation and amortization in 1997 compared to 1996. In addition, the increase in 1997 was attributable to the amortization of goodwill from the Company's acquisitions and depreciation of technical equipment and software purchased for the teleservices business. Depreciation and amortization expense are expected to increase in 1999 due to increased capital expenditures for telecommunications systems, primarily related to new features and functionality and the continued expansion of the C_2C network.

Impairment of long-lived assets

The Company recognized a pre-tax charge of $698,000 and $569,000 in the years ended December 31, 1998 and 1997, respectively, for a write-down of assets that are no longer being used to support the Company's operations.

Interest income

Interest income increased from $589,000 in the year ended December 31, 1996 to $1.1 million in 1997 and $1.3 million in 1998. Interest income was earned from investments of the proceeds of the Company's public offerings and was offset slightly by interest expense from the Company's capital leases.

Provision (benefit) for income taxes

The income tax benefit of $188,000 for the year ended December 31, 1997 yielded a 14% income tax benefit. The income tax expense of $600,000 for the year ended December 31, 1996 yielded a 50% income tax rate, as compared to the statutory rate of 40%. The lack of an income tax benefit in 1998, the lower benefit in 1997 and the higher rate in 1996 resulted primarily from the nondeductibility of goodwill from the Company's acquisitions. In addition, the Company did not provide any additional benefit for net operating losses generated in 1998. The Company's effective income tax rate may be greater than 40% in future years due to the continued impact of nondeductible goodwill.

The Company has recorded a net deferred tax asset for net operating loss carryforwards and other temporary differences based on management's assessment that it is more likely than not that future results of operations will be sufficient to realize this asset.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Selected Quarterly Operating Results

The following table sets forth certain unaudited quarterly results of operations of the Company for the eight quarters in the two year period ended December 31, 1998, including such amounts expressed as a percentage of revenues. This quarterly information is unaudited, has been prepared on the same basis as the audited Consolidated Financial Statements and, in the opinion of the Company's management, reflects all necessary adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information for the periods presented. The quarterly operating results are not necessarily indicative of future results of operations when read in conjunction with the audited Consolidated Financial Statements and Notes thereto included elsewhere in this Annual Report on Form 10-K.

	Three months ended							
(In thousands)	March 31, 1997	June 30, 1997	Sept. 30, 1997	Dec. 31, 1997	March 31, 1998	June 30, 1998	Sept. 30, 1998 (1)	Dec. 31, 1998
Revenues:								
Prepaid wireless services	$ 790	$ 1,513	$ 2,571	$ 2,665	$ 2,934	$ 4,043	$ 5,010	$ 6,637
Teleservices	3,789	4,375	4,369	4,476	4,589	6,226	7,514	7,672
Roaming services	7,012	8,048	9,241	8,160	7,796	7,059	7,097	6,283
System sales	4,028	2,417	1,852	2,793	5,064	3,932	1,547	3,079
Total revenues	15,619	16,353	18,033	18,094	20,383	21,260	21,168	23,671
Expenses:								
Cost of service revenues	9,419	10,882	11,954	11,925	12,041	12,899	13,684	13,295
Cost of system revenues	2,640	1,095	814	1,652	2,673	2,180	1,363	2,232
Engineering, research and development	1,029	1,168	1,593	1,643	1,403	1,176	1,426	1,518
Sales and marketing	1,063	1,230	1,358	1,438	1,333	1,308	1,387	1,562
General and administration	649	824	833	1,164	1,414	1,469	1,572	1,753
Depreciation and amortization	890	1,203	1,534	1,919	2,452	2,695	2,908	3,190
Impairment of long-lived assets	—	—	—	569	—	698	—	—
Total expenses	15,690	16,402	18,086	20,310	21,316	22,425	22,340	23,550
Operating income (loss)	(71)	(49)	(53)	(2,216)	(933)	(1,165)	(1,172)	121
Interest income	262	135	254	434	386	326	331	306
Income (loss) before income taxes	191	86	201	(1,782)	(547)	(839)	(841)	427
Provision (benefit) for income taxes	98	43	100	(429)	(208)	—	208	—
Net income (loss)	93	43	101	(1,353)	(339)	(839)	(1,049)	427
Basic and diluted earnings per share	$0.01	$0.00	$0.01	$ (0.08)	$(0.02)	$(0.05)	$(0.06)	$0.03

(1) In January 1999, the Company restated its results for the quarter ended September 30, 1998 for a system sale that should not have been included in the 1998 results. Total revenues and net loss, as previously reported, for the quarter ended September 30, 1998 were $22.8 million and $141,000, respectively.

	As a Percentage of Total Revenues							
(In thousands)	March 31, 1997	June 30, 1997	Sept. 30, 1997	Dec. 31, 1997	March 31, 1998	June 30, 1998	Sept. 30, 1998	Dec. 31, 1998
Revenues:								
Prepaid wireless services	5%	9%	14%	15%	14%	19%	24%	28%
Teleservices	24	27	24	25	23	29	36	32
Roaming services	45	49	52	45	38	33	33	27
System sales	26	15	10	15	25	19	7	13
Total revenues	100	100	100	100	100	100	100	100
Expenses:								
Cost of service revenues	60	67	66	66	59	61	64	56
Cost of system revenues	17	7	5	9	13	10	6	9
Engineering, research and development	7	7	9	9	7	6	7	6
Sales and marketing	7	7	7	8	7	6	7	7
General and administration	4	5	5	6	7	7	7	7
Depreciation and amortization	6	7	8	11	12	13	14	14
Impairment of long-lived assets	—	—	—	3	—	3	—	—
Total expenses	101	100	100	112	105	106	105	99
Operating income (loss)	(1)	0	0	(12)	(5)	(6)	(5)	1
Interest income	2	1	1	2	2	2	1	1
Income (loss) before income taxes	1	1	1	(10)	(3)	(4)	(4)	2
Provision (benefit) for income taxes	0	0	0	(2)	(1)	—	1	0
Net income (loss)	1%	1%	1%	(8)%	(2)%	(4)%	(5)%	2%

The Company has experienced fluctuations in its quarterly operating results and anticipates that such fluctuations will continue and could intensify. The Company's quarterly operating results may vary significantly depending on a number of factors, including the timing of the introduction or acceptance of new services offered by the Company or its competitors, changes in the mix of services provided by the Company, changes in regulations affecting the wireless industry, changes in the Company's operating expenses, personnel changes, and general economic conditions. In particular, the Company's roaming services revenues are affected by the frequency and volume of use of the Company's services, which may be influenced by seasonal trends, as well as changes in demand during particular periods due to a higher or lower incidence of temporary suspension of intercarrier roaming agreements in certain markets. Teleservices revenues may be influenced by the requirements of one of more of the Company's significant teleservices customers, including engagement of the Company to implement or assist in implementing special projects of limited duration. The timing of orders and the number of large prepaid systems shipped during a particular quarter may fluctuate based upon the needs of prepaid systems customers and can have a significant impact on the level of Systems Division revenues.

Because a significant portion of the Company's operating expenses are committed in advance, the Company may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. Accordingly, unexpected revenue shortfalls could cause significant variations in operating results from quarter to quarter and could have a material adverse effect on the Company's results of operations. As a result, the Company believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as an indication of likely future performance.

During 1998, the Company made significant investments in personnel and infrastructure to support the ongoing development, expansion and upgrading of the C_2C network. These strategic investments have impacted earnings and the Company expects that these strategic investments will continue to impact earnings in the short-term.

Liquidity and Capital Resources

Cash, cash equivalents and short-term investments decreased from $33.7 million in 1997 to $25.6 million in 1998. The decrease was due primarily to additional capital expenditures to support expanded features and growth of the Company's C_2C network. Net cash provided by operations of $3.2 million in 1998 was primarily generated from $11.2 million in depreciation and amortization expense, which resulted from the significant investment in telecommunications systems and equipment in 1998. Depreciation and amortization was offset mostly by increased accounts receivable and inventory balances due to the increased sales volume in 1998.

The Company's investing activities utilized $7.5 million of net cash in 1998. The Company expended $10.5 million in 1998, including almost $7 million for telecommunications systems equipment and software for expansion of the Company's C_2C network. These expenditures were offset by $3.0 million in net sales of short-term investments. The Company anticipates that over the next 12 months it will continue to make significant capital investments for additional equipment and enhanced feature capabilities to strengthen prepaid wireless services.

The Company's financing activities utilized $773,000 in 1998, mainly due to payments of capital lease obligations, offset by proceeds from exercise of stock options. In addition, the Company repurchased 55,000 shares for $301,000 in accordance with a plan approved by the Board of Directors. These shares are being held by the Company as treasury shares.

The Company believes that its short-term investments and the funds anticipated to be generated from operations would be sufficient to finance the Company's operations for at least the next 18 months.

Year 2000

The Company is currently implementing enterprise-wide project and test plans to ensure that all products, services and support systems can fully process date/time data before, during, and after midnight, December 31, 1999, recognize the year 2000 as a Leap Year and maintain existing interoperability and interfaces with other devices already in use without any modifications or changes in operations. The Company is assessing its readiness by:

1) Conducting comprehensive inventories of all hardware, software, telecommunications providers, and material third party relationships. This stage is nearly complete and the process will continue to be updated during 1999.

2) Seeking compliance certification from each vendor through direct communication. The Company is conducting unit, regression, interoperability, and call flow tests wherever possible. Dedicated resources, including senior level management and paid consultants, manage this comprehensive effort.

3) Implementing test plans that are supported by doctorate level technical consultants and dedicated QA equipment and personnel that are examining multiple static and rollover date scenarios. Testing is projected to be completed by June 30, 1999.

The assessment process follows a method to focus on vendors/products that are most significant to the Company's operations with the intent to maximize the lead-time should any issues arise. For any systems that may need replacement, the Company will take the necessary steps to obtain, test and install qualified systems to ensure timely Year 2000 compliance.

In June 1998, the Company completed the re-write, redesign and implementation of its C_2C prepaid system. The Company's development team devoted nearly one year to produce the necessary changes and included Year 2000 readiness as part of this process. Additionally, desktop hardware and software, call distribution systems and customer service handling software are 90% Year 2000 ready today. To ensure Year 2000 readiness, the Company intends to upgrade these systems through vendor provided Year 2000 patches or purchases of new systems in the normal course of business during 1999. Core business teams for all divisions expect to examine all internal and external support systems including facilities, finance and human resource components. The Company has completed a comprehensive on-site physical inventory and upgrade of all of its C_2C nodes, of which Year 2000 readiness was a component. The remedial action required as a result of this inventory is minimal and expected to be implemented by September 30, 1999. In addition, BCGI has identified 40 UNIX servers that require upgrades to be ready for Year 2000. All necessary software has been obtained and the project is expected to be completed by June 30, 1999.

The Company licenses some of the software used to support the Company's services from only one source and these sources are small corporations. The Company is testing the software of such sources and expects to receive updates from these sources to achieve Year 2000 readiness. In the event that any of these sources are not ready by June 30, 1999, the Company will establish contingency plans to ensure there will be no adverse impact on operations. The Company has licensed the source code from one such vendor to aid the Company in Year 2000 readiness testing efforts for the ROAMER*plus* service.

In March 1999 the Company's Systems Division completed testing of its prepaid platform in use in several international markets and found that it was Year 2000 ready with no failures.

The Company is fully dependent on the services of multiple telecommunications providers. If these providers fail to deliver these services, the Company would be vulnerable to serious service failures and be exposed to liability to customers and third parties, including the potential for significant lost revenue. The Company is communicating with all providers in order to assess this risk. Additionally, the Company will evaluate contingency options in the event of a failure by such providers. The Company has not currently developed any contingency plans for the services of these providers. In the event that tests reveal failures that cannot be remedied within the Company's timetable for readiness, contingency plans will be established.

The Company has spent significant amounts in research and development of its C_2C prepaid service system to ensure it is Year 2000 ready. In addition, through December 31, 1998 the Company has incurred and expensed approximately $230,000 in payroll, benefit and consulting costs for dedicated resources related to Year 2000 issues. The Company currently estimates additional costs of approximately $660,000 will be incurred in 1999 to resolve Year 2000 issues. The Company anticipates that the amounts and resources utilized to achieve Year 2000 readiness will not delay or reduce the resources available to complete other projects.

The costs to complete Year 2000 analysis and remediation are based on management's best estimates, which have been determined through numerous assumptions about future events including the availability of resources and other factors. However, there can be no assurances that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that could generate significant negative consequences include undetected errors or defects of third party hardware and software utilized in the Company's operations, noncompliance of other providers (phone service, electricity, other utilities, etc.) and other uncertainties. Although management does not expect Year 2000 issues to have a material impact on its business or results of operations, there can be no assurance that there will not be interruptions or other limitations of system functionality.

Certain Factors That May Affect Future Results

This Annual Report contains forward-looking statements that involve risks and uncertainties, including without limitation, statements regarding improvement of Prepaid Division gross margin and operating results, Teleservices revenue and gross margin, trend of decreased suspensions of inter-carrier automatic roaming agreements, prepaid cannibalization of unregistered roaming and carrier marketing of one-rate registered roaming plans to reduce roaming service revenues, Roaming Division profitability declining due to decreasing revenue, increased expenditures for engineering, research and development, increased expenditures for sales, marketing and product management, greater costs of depreciation and amortization and an effective income tax rate greater than 40%. The Company's actual results may differ significantly from the results discussed in the forward-looking statements. A number of important factors exist that could affect the Company's future operating results, including, without limitation, technological changes in the Company's industry, the ability of the Company to continue to successfully support its C_2C network, the ability of the Company's carrier customers to successfully continue to market and sell C_2C prepaid wireless services, the Company's ability to retain existing customers and attract new customers, increased competition and general economic factors.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Historically, a significant portion of the Company's revenues in any particular period have been attributable to a limited number of customers. This concentration of customers can cause the Company's revenues and earnings to fluctuate from quarter to quarter, based on the volume of call traffic generated through these customers, the services being performed for the teleservices programs and the level of system sales. A significant decrease in business from any of the Company's major customers, including a decrease in business due to factors outside of the Company's control, would have a material adverse effect on the Company's business, financial condition and results of operations.

A number of the Company's Prepaid, Teleservices and Systems Division contracts have been extended beyond their expiration dates or will expire in 1999 and beyond. There can be no assurances that the Company will be successful in renewing any of these contracts. If these contracts are not renewed the Company's business, financial condition and results of operations could be materially adversely affected.

The Company has experienced fluctuations in its quarterly operating results and anticipates that such fluctuations will continue and could intensify. The Company experienced an operating loss in 1997 and the first three quarters of 1998, primarily due to expenses associated with the development and expansion of its C_2C network. The Company's quarterly operating results may vary significantly depending on a number of factors including, the timing of the introduction or acceptance of new services offered by the Company or its competitors, changes in the mix of services provided by the Company, variations in the level of system sales, changes in regulations affecting the wireless industry, changes in the Company's operating expenses, the ability to identify, hire and retain qualified personnel and general economic conditions. Due to all of the foregoing factors, it is possible that in some future quarter the Company's results of operations will be below prior results or the expectations of public market analysts and investors. In such event, the price of the Company's Common Stock would likely be materially and adversely affected.

The Company historically has provided its services almost exclusively to wireless carriers. Although the wireless telecommunications market has experienced significant growth in recent years, there can be no assurance that such growth will continue at similar rates, or at all, or that wireless carriers will continue to use the Company's services. The Company expects that demand for its roaming services will continue to decline as fewer inter-carrier roaming agreements are suspended, prepaid cannibalization of unregistered roaming use increases and carriers more frequently offer one-rate roaming plans. In addition, prepaid wireless and PCS services are relatively new services in new markets, and if these markets do not grow as expected or if the carriers in these markets do not use the Company's services, the Company's business, financial condition and results of operations would be materially and adversely affected.

The Company's future success depends, in large part, on the continued use of its existing services and systems, the acceptance of new services in the wireless industry and the Company's ability to develop new services and systems or adapt existing services or systems to keep pace with changes in the wireless telephone industry. Further, a rapid shift away from the use of wireless in favor of other services, could affect demand for the Company's service offerings and could require the Company to develop modified or alternative service offerings to address the particular needs of the providers of such new services. There can be no assurance that the Company will be successful in developing or marketing its existing or future service offerings or systems in a timely manner, or at all.

The Company is currently devoting significant resources toward the support and enhancement of its prepaid wireless services and systems to maintain system reliability and expand the C_2C network. Several of the Company's carrier customer contracts contain penalty clauses that provide for reductions in revenue for certain network outages. There can be no assurance that the Company will successfully support and enhance the C_2C network effectively to avoid system outages and any associated loss in revenue, that the market for the Company's prepaid service will continue to develop, or that the Company's C_2C network will successfully support current and future growth. Furthermore, the Company has expended significant amounts of capital to support the C_2C agreements it has secured with its carrier customers. Because C_2C revenues are principally generated by prepaid subscriber minutes of use, the Company's C_2C revenues can be impacted by the carrier's ability to successfully market and sell prepaid services. In addition, teleservices revenues associated with billing inquiry support for C_2C carrier customers are becoming a more significant portion of teleservices revenues and therefore these revenues are dependent upon the size and growth of the C_2C subscriber base.

The Company has expanded its operations rapidly, creating significant demands on the Company's administrative, operational, development and financial personnel and other resources. In addition, the growth of the Company's Teleservices Division is dependent on recruiting, training and retaining employees to perform customer services responsibilities. Teleservices has also recently outsourced a small portion of its call center operations to a third party vendor who is responsible for certain operational functions, including hiring, training and retaining employees. There can be no assurance that the vendor will continue to be able to meet the Company's existing and future needs effectively. Additional expansion by the Company may further strain the Company's management, financial and other resources. There can be no assurance that the Company's systems, procedures, controls and existing space will be adequate to support expansion of the Company's operations. If the Company's management is unable to manage growth effectively, the quality of the Company's services, its ability to retain key personnel and its business, financial condition and results of operations could be materially and adversely affected.

The Company currently prices and sells all of its systems to international customers in U.S. dollars. In addition, many Systems Division customers are multinational corporations that are publicly traded in the U.S. All payments are received in U.S. dollars which helps to protect the Company from the need to hedge against foreign currency risk. While these provisions serve to protect the Company from accounts receivable losses, there can be no assurances that systems sales to foreign countries will not result in losses due to devaluation of foreign currencies or other international business conditions outside of the Company's control.

The market for services to wireless carriers is highly competitive and subject to rapid change. A number of companies currently offer one or more of the services offered by the Company. In addition, many wireless carriers are providing or can provide, in-house, the services that the Company offers. In addition, the Company anticipates continued growth and competition in the wireless carrier services industry and consequently, the entrance of new competitors in the future. An increase in competition could result in price reductions and loss of market share and could have a material adverse effect on the Company's business, financial condition or results of operations.

The Company's success and ability to compete is dependent in part upon its proprietary technology. If unauthorized copying or misuse of the Company's technology were to occur to any substantial degree, the Company's business, financial condition and results of operations could be materially adversely affected. In addition, some of the software used to support the Company's services is licensed by the Company from single vendors, which are small corporations. There can be no assurance that these suppliers will continue to license this software to the Company or, if any supplier terminates its agreement with the Company, that the Company will be able to develop or otherwise procure software from another supplier on a timely basis and at commercially acceptable prices.

The Company's operations are dependent on its ability to maintain its computer, switching and other telecommunications equipment and systems in effective working order and to protect its systems against damage from fire, natural disaster, power loss, telecommunications failure or similar events. Any damage, failure or delay that causes interruptions in the Company's operations could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company is actively addressing the concerns of its operations with respect to Year 2000 issues. Company management, with the assistance of consultants, is implementing an enterprise-wide project to identify systems, equipment, vendors and customers that may be affected by the Year 2000 issues and to develop a comprehensive plan to be in compliance with the Year 2000 issues prior December 31, 1999. The Company expects to make the necessary changes to be Year 2000 compliant, but there can be no assurances that the Company will adequately identify all Year 2000 issues and the associated costs and expenses in a timely manner. Also, there can be no assurance that such costs and expenses will not have a material adverse effect on the Company's business, financial condition and results of operations.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company currently prices and sells all of its systems to international customers in U.S. dollars. In addition, many Systems Division customers are multinational corporations that are publicly traded in the U.S. All payments are received in U.S. dollars which helps to protect the Company from the need to hedge against foreign currency risk. While these provisions serve to protect the Company from accounts receivable losses, there can be no assurances that systems sales to foreign countries will not result in losses due to devaluation of foreign currencies or other international business conditions outside of the Company's control.

The Company does not believe that there is any material market risk exposure with respect to derivative or other financial instruments which would require disclosure under this item.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following Consolidated Financial Statements and supplementary data are included as part of this Annual Report on Form 10-K:

Consolidated Balance Sheets
(In thousands, except share and per share amounts)

	December 31, 1998	1997
ASSETS		
Current assets:		
Cash and cash equivalents	**$18,523**	$23,601
Short-term investments	**7,086**	10,103
Accounts receivable, net of allowance for billing adjustments and doubtful accounts of $1,508 in 1998 and $1,304 in 1997	**18,432**	12,445
Inventory	**3,525**	1,550
Deferred income taxes	**1,564**	1,564
Prepaid expenses	**823**	630
Total current assets	**49,953**	49,893
Property and equipment:		
Telecommunications systems & software	**47,801**	36,346
Furniture and fixtures	**2,264**	1,984
Leasehold improvements	**2,127**	1,725
Systems in development	**4,305**	5,955
	56,497	46,010
Less allowance for depreciation and amortization	**18,442**	7,923
	38,055	38,087
Goodwill, net	**3,460**	4,067
Other assets	**292**	1,338
Total assets	**$91,760**	$93,385
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 884**	$ 2,786
Accrued expenses	**10,124**	7,304
Income taxes payable	**496**	466
Current maturities of capital lease obligations	**1,052**	1,127
Total current liabilities	**12,556**	11,683
Capital lease obligations, net of current maturities	**546**	1,598
Commitments and contingencies		
Shareholders' equity:		
Preferred Stock, $.01 par value, 2,000,000 shares authorized, none issued and outstanding	**—**	—
Common Stock, voting, par value $.01 per share, 35,000,000 shares authorized, 16,436,028 shares in 1998 and 16,273,947 shares in 1997 issued	**164**	163
Additional paid-in capital	**91,683**	91,029
Treasury Stock (101,420 shares in 1998 and 46,420 shares in 1997 at cost)	**(673)**	(372)
Accumulated deficit	**(12,516)**	(10,716)
Total shareholders' equity	**78,658**	80,104
Total liabilities and shareholders' equity	**$91,760**	$93,385

See accompanying notes.

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

	Year Ended December 31,		
	1998	**1997**	**1996**
REVENUES:			
Prepaid wireless services	**$ 18,624**	$ 7,539	$ 312
Teleservices	**26,001**	17,009	13,413
Roaming services	**28,235**	32,461	32,234
System sales	**13,622**	11,090	4,692
	86,482	68,099	50,651
EXPENSES:			
Cost of services revenues	**51,919**	44,180	36,606
Cost of system revenues	**8,448**	6,201	2,576
Engineering, research and development	**5,523**	5,433	3,221
Sales and marketing	**5,590**	5,089	2,949
General and administrative	**6,208**	3,470	2,580
Depreciation and amortization	**11,245**	5,546	2,109
Impairment of long-lived assets	**698**	569	—
	89,631	70,488	50,041
Operating income (loss)	**(3,149)**	(2,389)	610
Interest income	**1,349**	1,085	589
Income (loss) before income taxes	**(1,800)**	(1,304)	1,199
Provision (benefit) for income taxes	**-**	(188)	600
Net income (loss)	**(1,800)**	(1,116)	599
Accretion of dividends on redeemable preferred stock	**—**	—	(451)
Net income (loss) available to common shareholders	**$ (1,800)**	$ (1,116)	$ 148
Basic net income (loss) available to common shareholders:			
Net income (loss)	**$ (0.11)**	$ (0.08)	$ 0.02
Shares used in computing basic net income (loss) per share	**16,274**	14,007	8,352
Diluted net income (loss) available to common shareholders:			
Net income (loss)	**$ (0.11)**	$ (0.08)	$ 0.01
Shares used in computing diluted net income (loss) per share	**16,274**	14,007	10,884

See accompanying notes.

Consolidated Statements of Redeemable Preferred Stock and Shareholders' Equity
(In thousands, except share amounts)

	Redeemable Preferred Stock		Shareholders' Equity: Treasury Stock		Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accretion of Dividends on Redeemable Preferred Stock	Accumulated Deficit	Total Shareholders' Equity (Deficit)
	Shares	Dollars	Shares	Dollars	Shares	Dollars	Shares	Dollars				
Balance at January 1, 1996	11,871	$15,896	—	—	850	$ 1	3,335,985	$ 33	$ 1,016	$(4,025)	$ (5,723)	$ (8,698)
Conversion of Convertible Preferred Stock	—	—	—	—	(850)	(1)	5,004,608	50	(49)	—	—	—
Accretion of dividends on Redeemable Preferred Stock	—	451	—	—	—	—	—	—	—	(451)	—	(451)
Redemption of Redeemable Preferred Stock and Accreted Dividends	(11,871)	(16,347)	—	—	—	—	—	—	—	4,476	(4,476)	—
Issuance of Common Stock	—	—	—	—	—	—	4,183,928	42	51,745	—	—	51,787
Exercise of Common Stock Options	—	—	—	—	—	—	201,228	2	26	—	—	28
Treasury Stock Purchase	—	—	46,420	(372)	—	—	—	—	—	—	—	(372)
Net income	—	—	—	—	—	—	—	—	—	—	599	599
Balance at December 31, 1996	—	—	46,420	(372)	—	—	12,725,749	127	52,738	—	(9,600)	42,893
Issuance of Common Stock	—	—	—	—	—	—	3,000,000	30	35,769	—	—	35,799
Exercise of Common Stock Options	—	—	—	—	—	—	538,630	6	2,482	—	—	2,488
Issuance of Common Stock Under Employee Stock Purchase Plan	—	—	—	—	—	—	9,568	—	40	—	—	40
Net loss	—	—	—	—	—	—	—	—	—	—	(1,116)	(1,116)
Balance at December 31, 1997	—	—	46,420	(372)	—	—	16,273,947	163	91,029	—	(10,716)	80,104
Exercise of Common Stock Options	—	—	—	—	—	—	143,488	1	572	—	—	573
Issuance of Common Stock Under Employee Stock Purchase Plan	—	—	—	—	—	—	18,593	—	82	—	—	82
Treasury Stock Purchase	—	—	55,000	(301)	—	—	—	—	—	—	—	(301)
Net loss	—	—	—	—	—	—	—	—	—	—	(1,800)	(1,800)
Balance at December 31, 1998	—	$ —	101,420	$(673)	—	$—	16,436,028	$164	$91,683	$ —	$(12,516)	$78,658

See accompanying notes

Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31,		
	1998	1997	1996
OPERATING ACTIVITIES			
Net income (loss)	**$ (1,800)**	$ (1,116)	$ 599
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	**11,245**	5,546	2,109
Deferred income taxes	**—**	(230)	466
Impairment of long-lived assets	**698**	569	—
Changes in operating assets and liabilities, excluding effects of business acquisitions:			
Accounts receivable	**(5,987)**	(1,385)	(3,208)
Inventory	**(1,975)**	(361)	(1,128)
Prepaid expenses and other assets	**65**	(151)	(547)
Accounts payable and accrued expenses	**918**	1,514	524
Income taxes payable	**30**	(24)	(297)
Net cash provided by (used in) operations	**3,194**	4,362	(1,482)
INVESTING ACTIVITIES			
Acquisition of businesses, net of cash acquired	**—**	(1,398)	(846)
Purchase of short-term investments	**(14,095)**	(12,976)	(26,937)
Sale of short-term investments	**17,112**	23,371	6,439
Purchase of property and equipment	**(10,516)**	(28,552)	(8,093)
Net cash used in investing activities	**(7,499)**	(19,555)	(29,437
FINANCING ACTIVITIES			
Proceeds from exercise of stock options	**573**	2,488	28
Proceeds from issuance of stock	**82**	35,839	49,787
Repurchase of redeemable preferred stock	**—**	—	(16,347)
Purchase of treasury stock	**(301)**	—	(372)
Repayment of capital lease obligations	**(1,127)**	(456)	(1,507)
Net cash provided by (used in) financing activities	**(773)**	37,871	31,589
Increase (decrease) in cash and cash equivalents	**(5,078)**	22,678	670
Cash and cash equivalents at beginning of year	**23,601**	923	253
Cash and cash equivalents at end of year	**$ 18,523**	$ 23,601	$ 923

See accompanying notes.

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTATION

The Company

Boston Communications Group, Inc. (the Company) develops, markets and provides specialized prepaid wireless services, teleservices, and roaming services to the wireless telephone industry. The Company also manufactures prepaid and voice system equipment.

2. SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

The Company earns revenues by providing teleservices customer care support, processing prepaid wireless calls and processing wireless calls for unregistered wireless subscribers who have roamed outside of their service area. Revenue is recognized when the service is provided and is recorded net of estimated billing adjustments. The Company recognizes revenue from the sale of systems at the time the systems are shipped.

Principles of Consolidation

The financial statements include 100% of the accounts and operations of the Company and all of its majority-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents.

Investments

The Company accounts for its marketable securities under the Statement of Financial Accounting Standards No. 115, "Accounting for Certain Instruments in Debt and Equity Securities." The Company has classified all of its securities as available-for-sale, and are thus reported at fair market value.

Investments with maturities between three and twelve months are considered short-term investments. The Company's short-term investments are invested in corporate notes.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

Concentrations of Credit Risk

The Company's prepaid wireless services allows carriers, throughout the United States and Canada, to access the Company's prepaid C_2C platform, enabling the carriers to offer prepaid wireless calling to their subscribers. Accounts are not activated until payment is received by the carrier. Teleservices are provided to wireless carriers located throughout the United States and Canada. The Company's roaming customers are individuals who place wireless calls from service areas, which are not covered by traditional roaming agreements. These calls are forwarded by wireless carriers to the Company for processing. Each transaction is small in size and the Company minimizes credit risk by validating appropriate billing information. The Company sells its voice systems in North America and its prepaid systems in North and South America.

The Company has roaming, teleservice and prepaid wireless service agreements with, and sells its systems to numerous carriers. During the years ended December 31, 1998, 1997 and 1996, the Company's top 10 customers accounted for 79%, 75% and 82% of the Company's total revenues, respectively. The following table summarizes sales in excess of 10% of total revenues only, as a percentage of total revenues, to major customers:

	December 31, 1998	1997	1996
Ameritech Cellular (T,R)	**15%**	12%	15%
BellSouth Cellular Corp. (P,T,R,S)	**13**	—	11
AirTouch (P,T,R)	**13**	—	—
Bell Atlantic Mobile (P,T,R)	**11**	12	12
Southwestern Bell Mobile Systems (P,T,R)	**—**	11	—

Revenue from these customers was generated from the following divisions:
P — Prepaid wireless services
T — Teleservices
R — Roaming services
S — Systems

Inventory

Inventory, which consists of computer hardware and electronic components, is recorded at the lower of cost (first-in, first-out method) or market. Inventory is categorized as follows (in thousands):

	December 31, 1998	1997
Raw materials	**$2,690**	$1,114
Work in process	**835**	127
Finished goods	**—**	309
	$3,525	$1,550

Property and Equipment

Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 7 years. Systems in development represent the cost of purchased hardware and software to be used in switching equipment not yet placed into service and will be depreciated between 3 and 5 years.

In accordance with Financial Accounting Standards Board Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," the Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined that the carrying amount of an asset cannot be fully recovered, an impairment loss is recognized. During 1998 and 1997, the Company recorded impairment losses of $698,000 and $569,000, respectively, for the writedown of equipment which could no longer be used in its business to its fair market value. These assets were sold during 1998 at their impaired carrying value of $265,000.

Goodwill

Goodwill represents the excess of cost of acquired businesses over the fair market value of all net assets acquired. Goodwill is being amortized on a straight-line basis over an eight-year period. Accumulated amortization totaled approximately $1.4 million and $786,000 as of December 31, 1998 and 1997, respectively.

Engineering, Research and Development

Costs associated with engineering, research and development are expensed as incurred.

Reclassifications

Certain items on the financial statements have been reclassified from the prior year to be comparable with the current year presentation.

Stock-Based Compensation

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) in accounting for its stock-based compensation plans, rather than the alternative fair value accounting method provided for under Financial Accounting Standards Board Statement (SFAS) No. 123, "Accounting for Stock-Based Compensation," as this alternative requires the use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, since the exercise price of options granted under these plans equals the market price of the underlying stock on the date of grant, no compensation expense is required.

Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes standards for the recognition, measurement, and reporting of derivatives and hedging activities and is effective for the Company's year ended December 31, 2000. The Company anticipates that the adoption of this new accounting standard will not have a material impact on the Company's consolidated financial statements.

3. ACQUISITIONS

In February 1996, the Company acquired the net assets of Voice Systems Technology Inc. (VST), now the Systems Division, a company which develops and markets prepaid and voice processing systems, for approximately $2.5 million ($500,000 cash and 265,373 shares of common stock). VST had revenues and net income for the 11 months ended February 29, 1996 of $2.1 million and $9,000, respectively. The allocation of the purchase price was based on the fair market value of assets and liabilities acquired and the excess over those amounts is accounted for as goodwill. On January 31, 1996, the Company acquired 17.5% of the stock in Wireless America Corp. (WAC) for $35,000. WAC marketed and sold prepaid equipment in Latin America. On October 23, 1996, the Company acquired an additional 62.5% of the stock of WAC for $916,500. In August 1997, the Company paid $1.4 million to purchase the final 20% interest in WAC and recorded this amount as goodwill, which is being amortized over eight years. WAC was subsequently merged into VST. The acquisitions have been accounted for under the purchase method of accounting and the results of operations have been included in the Company's results of operations from the date of acquisition.

The following unaudited pro forma information has been prepared assuming that these acquisitions had taken place at the beginning of 1996. The unaudited pro forma information includes adjustments for interest expense that would have been incurred to finance the purchase, amortization of goodwill resulting from the purchase, elimination of the effect of transactions between the Company and acquired companies and income taxes. The unaudited pro forma financial information is not necessarily indicative of the results of operations as if the transactions had been effected on December 31, 1996 (unaudited and in thousands, except per share data):

Net revenues	$51,873
Net income available to common stockholders	$ 1
Net income per basic and diluted common share	$ 0.00

4. ACCRUED EXPENSES

Accrued expenses consist of the following:

	December 31,	
(In thousands)	1998	1997
Billing adjustments	**$ 1,177**	$1,216
Cellular airtime	**1,178**	1,544
Payroll	**2,052**	1,183
Telecommunication costs	**1,596**	779
Deferred revenue	**700**	426
Other	**3,421**	2,156
	$10,124	$7,304

5. SEGMENT REPORTING

The Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" in 1998. SFAS No. 131 established standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to stockholders. It also established standards for related disclosures about products and services, and geographic areas. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision-maker is the Chief Executive Officer. The operating segments are managed separately because each operating segment represents a strategic business unit that offers different products and serves different niches in the wireless industry.

The Company's reportable operating segments consist of the Prepaid Wireless Services, Teleservices, Roaming Services and Systems Divisions. The Company's Prepaid Wireless Services Division offers prepaid wireless service that allows carriers to access the Company's prepaid C_2C platform, enabling the carriers to offer prepaid wireless calling to their subscribers. The Company's Teleservices Division provides customer support teleservices to wireless carrier's customers, which allows carriers to outsource all or a portion of their customer service activities. The Company's Roaming Services Division provides carriers with ROAMER*plus* call processing services which provides carriers the ability to generate revenues from subscribers who are not covered under traditional roaming agreements by arranging payment for roaming calls. The Company's Systems Division manufactures and markets voice processing platforms to wireless and wireline carriers throughout North and South America with enhanced features including prepaid wireless, voice messaging and fax mail services. The Systems Division also sells prepaid systems to international carriers and manufactures the voice nodes used to support the Company's C_2C network. The other segment assets include cash equivalents and short-term investments and other assets not allocated to the reportable operating segments.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies except that the financial results for the Company's operating segments have been prepared using a management approach. This is consistent with the basis and manner in which the Company's management internally analyzes financial information for the purposes of assisting in making internal operating decisions. The Company evaluates performance based on stand-alone operating segment income (loss) before interest and taxes and allocates corporate level operating expenses to the operating segments. All revenues are generated from external customers and there are no intersegment revenues. Revenues are attributed to geographic areas based on the location of the customers to whom the services were provided or the location where the systems were shipped. Capital expenditures include equipment purchased directly from vendors or acquired through a capital lease. The summary of operating segment information is as follows at December 31, (in thousands):

Notes to Consolidated Financial Statements
(continued)

	Prepaid Wireless Services	Teleservices	Services	Systems	Other	Total
1998						
Net revenues	**$18,624**	**$26,001**	**$28,235**	**$13,622**	**$ —**	**$86,482**
Depreciation and amortization	**6,782**	**2,473**	**808**	**1,182**	**—**	**11,245**
Operating income (loss)	**(7,236)**	**393**	**2,962**	**732**	**—**	**(3,149)**
Assets, net	**31,501**	**10,493**	**5,518**	**12,855**	**31,393**	**91,760**
Capital expenditures	**6,603**	**1,311**	**199**	**1,184**	**1,219**	**10,516**
1997						
Net revenues	7,539	17,009	32,461	11,090	—	68,099
Depreciation and amortization	2,359	1,745	600	842	—	5,546
Operating income (loss)	(7,976)	562	4,547	478	—	(2,389)
Assets, net	29,314	8,126	7,110	9,701	39,134	93,385
Capital expenditures	24,742	4,154	798	1,006	1,034	31,734
1996						
Net revenues	312	13,413	32,234	4,692	—	50,651
Depreciation and amortization	789	701	263	356	—	2,109
Operating income (loss)	(5,792)	674	4,757	971	—	610
Assets, net	5,630	5,435	6,966	7,934	25,994	51,959
Capital expenditures	5,165	1,305	611	945	1,567	9,593

Information concerning principal geographic areas is as follows (in thousands):

	Year ended December 31,		
Net Revenues	**1998**	**1997**	**1996**
North America			
United States	**$78,044**	$59,760	$47,786
Other	**3,565**	5,296	2,865
Total North America	**81,609**	65,056	50,651
South America			
Total South America	**4,873**	3,043	—
Total	**$86,482**	$68,099	$50,651

6. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31,	
	1998	**1997**
Deferred tax assets:		
Net operating loss carryforwards	**$ 1,724**	$ 884
Allowance for doubtful accounts and billing adjustments	**521**	747
Minimum tax credit carryforwards	**111**	128
Accrued expenses and other	**1,222**	665
Asset impairment	**478**	200
Total deferred tax assets	**4,056**	2,624
Deferred tax liabilities:		
Tax over book depreciation and amortization expense	**(2,492)**	(1,060)
Total deferred tax liabilities	**(2,492)**	(1,060)
Net deferred tax assets	**$1,564**	$ 1,564

The provision (benefit) for income taxes consists of the following (in thousands):

	Year Ended December 31,		
	1998	**1997**	**1996**
Current:			
Federal	**$ —**	$ —	$ 51
State	**—**	42	83
	—	42	134
Deferred:			
Federal	**—**	(209)	423
State	**—**	(21)	43
	—	(230)	466
Income tax provision (benefit)	**$ —**	$(188)	$600

The Company utilized $2.0 million in 1996 of federal net operating loss carryforwards to offset taxable income. The valuation allowance decreased $162,000 during 1996 due primarily to the utilization of net operating loss carryforwards. At December 31, 1998, the Company has approximately $4.7 million of net operating loss carryforwards for federal income tax return purposes available for use in future years that expire beginning in 2006.

A reconciliation of the statutory rate to the effective rate is as follows:

	Year Ended December 31,		
	1998	**1997**	**1996**
Federal provision (benefit) at statutory rate	**(34)%**	(34)%	34%
State income provision (benefit), net of federal	**(6)**	(6)	6
Permanent differences	**16**	26	12
Net operating losses not recognized	**24**	—	—
Benefit of net operating loss	**—**	—	(2)
	0%	(14)%	50%

Income taxes paid were $352,000 in 1996, $83,000 in 1997 and $61,000 in 1998.

7. CAPITAL STOCK

Common Stock

On April 26. 1996, the Company authorized 35,000,000 shares of a new class of common stock and effected a recapitalization of the Company (the "1996 Recapitalization"). All outstanding shares of the Company's class A, B, C and D common stock were exchanged for an aggregate of 3,335,985 shares of Common Stock. In addition, the terms and conditions of the Company's three classes of convertible preferred stock were modified, without changing the total number of shares of Common Stock into which the preferred stock can be converted. The convertible preferred shares were converted to 5,004,608 shares of Common Stock upon the closing of the initial public offering.

Public Offerings

In 1996, the Company sold in its initial public offering (IPO) 3,918,555 shares of its common stock yielding net proceeds to the Company of $49.8 million. The proceeds were used to redeem preferred stock and to repay an existing line of credit and capital leases. Upon the closing of the IPO, the Company redeemed all 11,871 outstanding shares of redeemable preferred stock at a redemption price of $1,000 per share. In addition, the Company paid approximately $4.5 million in accreted dividends on the redeemable preferred stock.

In 1997, the Company sold in a public offering 3,000,000 shares of its common stock yielding net proceeds to the Company of $35.8 million. The proceeds are being used for capital and other expenditures in connection with the expansion of the C_2C network.

Preferred Stock

The Board of Directors are authorized, subject to certain limitations prescribed by law, without further shareholder approval, to issue from time to time up to an aggregate of 2,000,000 shares of Preferred Stock in one or more series and to fix or alter the designations, preferences, rights and any qualifications, limitations or restrictions of the shares of each such series thereof, including the dividend rights, dividend rates, conversion rights, voting rights, terms of redemption (including sinking fund provisions), redemption price or prices, liquidation preferences and the number of shares constituting any series or designations of such series. The issuance of Preferred Stock may have the effect of delaying, deferring or preventing a change of control of the Company. The Company has no present plans to issue any shares of Preferred Stock.

Stock Option Plans

The Company's 1996 and 1998 Stock Option Plans (the Plans) were adopted by the Board of Directors and approved by the stockholders of the Company in 1996 and 1998, respectively. The Plans provide for the grant of stock options to employees, officers and directors, consultants and advisors to, the Company and its subsidiaries. Under the Plans, the Company may grant options that are intended to qualify as incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code") ("incentive stock options"), or options not intended to qualify as incentive stock options ("nonstatutory options"). Incentive stock options may only be granted to employees of the Company. A total of 1,264,792 and 600,000 shares of Common Stock may be issued upon the exercise of options granted under the 1996 and 1998 Stock Option Plans, respectively. The maximum number of shares with respect to which options may be granted to any employee under the 1996 and 1998 Stock Option Plans shall not exceed 200,000 and 60,000 shares of Common Stock, respectively, during any calendar year. All options granted have 10 year terms and generally vest and become exercisable over five years.

In 1996, the Company granted nonqualified options to purchase 653,278 and 93,551 shares of common stock at exercise prices of $5.75 and $10.00, respectively. In 1998, the Company granted 400,000 non-qualified options to purchase shares of common stock at an exercise price of $7.06. The exercise prices of all non-qualified options were equal to the fair market value as determined by the Company on the date of grant.

Pro forma information regarding net income and earnings per share is required by Statement 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 1997 and 1998: risk-free interest rates of 6.4% and 5.4% respectively, no dividend yield, the volatility factor of the expected market price of the Company's common stock of 0.5 and a weighted-average expected life of the option of 4 to 5 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows (in thousands, except for per share information):

	December 31,		
	1998	**1997**	**1996**
Pro forma net loss	**$(4,034)**	$(2,859)	$(1,980)
Pro forma basic net loss per share	**$ (0.25)**	$ (0.20)	$ (0.24)
Pro forma diluted net loss per share	**$ (0.25)**	$ (0.20)	$ (0.18)

Stock option information is as follows:

	1998		1997		1996	
	Options	**Weighted Average Exercise Price**	**Options**	**Weighted Average Exercise Price**	**Options**	**Weighted Average Exercise Price**
Outstanding — beginning of year	**1,417,654**	**$6.74**	1,666,359	$8.86	355,758	$0.14
Granted	**966,500**	**7.33**	1,124,342	5.87	1,548,329	9.76
Exercised	**(143,888)**	**4.00**	(538,630)	4.62	(201,228)	0.14
Canceled	**(304,290)**	**9.00**	(834,417)	11.18	(36,500)	13.61
Outstanding — end of year	**1,935,976**	**$6.90**	1,417,654	$6.74	1,666,359	$8.86

The following table summarizes the stock options outstanding and exercisable as of December 31, 1998:

Options Exercisable	Options Outstanding	Exercise Price
—	5,555	$ 0.14
190,476	621,410	4.75 – 4.88
316,928	752,278	5.00 – 7.06
121,033	556,733	$7.25 – 14.00
628,437	1,935,976	

There were 417,915 options exercisable at December 31, 1997 at a weighted average exercise price of $6.44. The weighted-average fair value of options granted during 1997 and 1998 was $3.44 and $3.24, respectively. The weighted-average contractual life of options outstanding at December 31, 1997 and 1998 was 9.2 and 8.6 years, respectively.

Employee Stock Purchase Plan

The Company's 1996 Employee Stock Purchase Plan (the "Purchase Plan") was adopted by the Board of Directors and approved by the shareholders of the Company in April 1996. The Purchase Plan authorizes the issuance of up to a total of 225,000 shares of Common Stock to participating employees.

All full-time employees of the Company who have been employed by the Company for a minimum of twelve months, including directors of the Company who are employees, are eligible to participate in the Purchase Plan. On the first day of a designated payroll deduction period (the "Offering Period"), the Company will grant to each eligible employee who has elected to participate in the Purchase Plan an option to purchase shares of Common Stock as follows: the employee may authorize an amount (up to a maximum of 10% of such employee's regular pay) to be deducted by the Company from such pay during the Offering Period. On the last day of the Offering Period, the employee is deemed to have exercised the option, at the option exercise price, to the extent of accumulated payroll deductions. Under the terms of the Purchase Plan, the option price is an amount equal to 90% of the fair market value per share of the Common Stock on either the first day or the last day of the Offering Period, whichever is lower. In no event may an employee purchase in any one Offering Period a number of shares which has an aggregate market value (determined on the last day of the Offering Period) in excess of $25,000. The Compensation Committee may, in its discretion, choose an Offering Period of 12 months or less for each of the Offerings and choose a different Offering Period for each Offering.

8. NET INCOME (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted net income (loss) per share:

(In thousands)	Year Ended December 31, 1998	1997	1996
Numerator for basic and fully diluted earnings per share:			
Net income (loss) available to common shareholder	**$(1,800)**	$(1,116)	$ 148
Denominator:			
Denominator for basic earnings per share — weighted average shares	**16,274**	14,007	8,352
Effect of dilutive securities:			
Employee stock options	**—**	—	238
Conversion of preferred stock	**—**	—	2,294
Dilutive potential common shares	**—**	—	2,532
Denominator for diluted earnings per share — adjusted weighted average shares and assumed Conversion	**16,274**	14,007	10,884
Basic net income (loss) available to common shareholder per common share	**$ (0.11)**	$ (0.08)	$ 0.02
Diluted net income (loss) available to common shareholder per common share	**$ (0.11)**	$ (0.08)	$ 0.01

Options to purchase 1,935,976 shares of common stock were outstanding as of December 31, 1998 and were not included in the computation of diluted earnings per share because of the Company's net losses for those years.

9. COMMITMENTS

Leases

The Company entered into a capital lease for $1.5 million in 1996 which was fully repaid in 1996 and entered into a capital lease for $3.2 million in 1997. The accumulated amortization of the assets under capital lease was $271,000 and $886,000 at December 31, 1997 and 1998, respectively. The Company also has non-cancelable operating lease commitments for office space, call center facilities, equipment and personnel. Rent and call center facility and equipment expense approximated 0$881,000 in 1996, $1.2 million in 1997, and $2.2 million in 1998.

Future minimum payments under non-cancelable capital leases and operating leases are as follows (in thousands):

Year ending December 31,	Capital Leases	Operating Leases
1999	$1,145	$ 5,165
2000	562	3,446
2001	—	2,814
2002	—	2,641
2003	—	1,543
Total minimum lease payments	1,707	$15,609
Amounts representing interest	109	
Present value of net minimum payments	1,598	
Current portion	1,052	
	$ 546	

The operating leases include $2.4 million per year payable through May 2003 for a call center facility and equipment. The Company has the option to buyout the lease for the call center facility and equipment beginning in May 1999 for $5.9 million.

Significant Contracts

In 1998, the Company entered into an agreement with a vendor to jointly develop two products for the Company. The Company will pay this vendor $1.7 million for the development effort and the exclusive license of the first product. In addition, the Company is required to pay $9 million for the second product during the next three years.

10. RELATED-PARTY TRANSACTIONS

Pursuant to a management agreement, the Company paid annual fees of $252,000 in 1996 to a management company affiliated with certain shareholders of the Company. This amount represents the payroll and certain benefit costs of six senior management personnel responsible for the operations of the Company.

The management agreement was terminated in March 1996 and the employees of the management company became employees of the Company. The management fees previously incurred by the Company under the management agreement closely approximate the actual payroll and related benefits currently being directly incurred by the Company, and the Company believes that these amounts are reasonable and comparable to those that would have been incurred with an unrelated third party. Additionally, the Company leased office space from another company affiliated with certain shareholders of the Company under a leasing arrangement which was terminated in August 1996. The Company recorded rent expense of $40,000 in 1996 in connection with this lease. Another company, affiliated with certain shareholders of the Company, received $462,000 in 1996 in connection with the repurchase of redeemable preferred stock of the affiliated company's investment and its accreted dividends.

Report of Ernst & Young LLP, Independent Auditors

Board of Directors and Shareholders
Boston Communications Group, Inc.

We have audited the accompanying consolidated balance sheets of Boston Communications Group, Inc. and subsidiaries as of December 31, 1998 and 1997 and the related consolidated statements of operations, redeemable preferred stock and shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. Our audits also included the financial statements schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as 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 Boston Communications Group, Inc. and subsidiaries at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Boston, Massachusetts
January 29, 1999

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The sections entitled "Election of Directors" and Reports Under Section 16(a) of the Exchange Act appearing in the Company's proxy statement for the annual meeting of stockholders to be held on May 20, 1999, set forth certain information with respect to the directors of the Company and reports filed by certain persons under Section 16(a) of the Exchange Act and are incorporated herein by reference. Certain information with respect to persons who are or may be deemed to be executive officers of the Company is set forth under the caption "Executive Officers of the Company" in Part I of this report.

Item 11. EXECUTIVE COMPENSATION

The sections entitled "Executive Compensation", "Employment Agreements with Named Executive Officers" and "Report of the Compensation Committee" appearing in the Company's proxy statement for the annual meeting of stockholders to be held on May 20, 1999, set forth certain information with respect to the compensation of management of the Company and are incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The section entitled "Security Ownership of Certain Beneficial Owners and Management" appearing in the Company's proxy statement for the annual meeting of stockholders to be held on May 20, 1999, sets forth certain information with respect to the ownership of the Company's Common Stock and is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The sections entitled "Executive Compensation", "Employment Agreements with Named Executive Officers," and "Certain Transactions" appearing in the Company's proxy statement for the annual meeting of stockholders to be held on May 20, 1999, set forth certain information with respect to certain business relationships and transactions between the Company and its directors and officers and are incorporated herein by reference.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES & REPORTS ON FORM 8-K

(a)(1) Financial Statements

The following consolidated financial statements of Boston Communications Group, Inc. are included as Item 8:

(2) Financial Statement Schedules

Index to Consolidated Financial Statement Schedules

For the years ended December 31, 1998, 1997 and 1996:

Schedule II - Valuation and Qualifying Accounts

All other Schedules have been omitted because the required information is shown in the consolidated financial statements or notes thereto or they are not applicable.

(3) The Exhibits listed in the Exhibit Index immediately preceding the Exhibits are filed as part of this Annual Report on Form 10-K.

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 29th day of March 1999.

BOSTON COMMUNICATIONS GROUP, INC.

By: /s/ E.Y. Snowden
E. Y. Snowden
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ E.Y. Snowden E.Y. Snowden	President, Chief Executive Officer and Director	March 29, 1999
/s/ Fritz E. von Mering Fritz E. von Mering	Vice President, Finance and Administration, Director (Principal Financial Financial and Accounting Officer	March 29, 1999
/s/ Paul J. Tobin Paul J. Tobin	Chairman of the Board of Directors	March 29, 1999
/s/ Brian E. Boyle Brian E. Boyle	Vice Chairman of the Board of Directors	March 29, 1999
/s/ Jerrold D. Adams Jerrold D. Adams	Director	March 29, 1999
/s/ Craig L. Burr Craig L. Burr	Director	March 29, 1999
/s/ Paul R. Gudonis Paul R. Gudonis	Director	March 29, 1999
/s/ Gerald Segel Gerald Segel	Director	March 29, 1999
/s/ Mark J. Kington Mark J. Kington	Director	March 29, 1999

EXHIBIT INDEX

Exhibit No.	Description
3.1	Restated Articles of Organization of the Company, as amended.[1]
3.3	Amended and Restated By-Laws of the Company.[1]
10.2	+1996 Stock Option Plan.[1]
10.3	+1996 Employee Stock Purchase Plan.[1]
10.3.1	+Amendment Number 1, dated August 30, 1996, to 1996 Employee Stock Purchase Plan[2]
10.5	Billing and Related Services Agreement dated April 19, 1995 between the Company and OAN Services, Inc. ("OAN").[1]
10.10	License Agreement dated April 23, 1996 between the Company and MicroDimensions, Inc.[1]
10.11	Gateway Service Agreement dated June 5, 1995 between the Company and SNET Diversified Group, Inc.[1]
10.12^^	Frontier Service Agreement dated June 6, 1996 between the Company and Frontier Communications of the West, Inc. [2]
10.15	Commercial Lease dated January 24, 1996 between the Company and Cummings Properties Management, Inc.[1]
10.15.1	Commercial Lease dated February 26, 1996 between the Company and Cummings Property Management, Inc. (Amendment No. 1).[2]
10.15.2	Amendment No. 2, dated August 8, 1996, to the commercial lease between the Company and Cummings Property Management, Inc.[2]
10.15.3	Amendment No. 3, dated February 5, 1997, to the commercial lease between the Company and Cummings Property Management, Inc.[2]
10.16	Lease dated November 30, 1994, as amended, between the Company and Teachers Realty Corporation.[1]
10.17	Commercial/Industrial Lease dated September 27, 1995 between the Voice Systems Technology Inc. ("VST") and Schleuter Properties.[1]
10.26	End-User Purchase and License Agreement between the Company and Teloquent Communications Corporation.[1]
10.27	Software License and Services Agreement dated October 30, 1996 between the Company and Oracle Corporation.[2]
10.28	Software License and Services Agreement dated September 24, 1996 between the Company and Oracle Corporation.[2]
10.30	Registration Rights Agreement dated February 29, 1996 between the Company and Michael J. Buchel, Zuyus Investment Company, Peter T. Zuyus, Jr., Joseph Giegerich, Terrence G Hare III, J. Michael Looney and John M. Freese, Sr.[3]
10.31	Amendment, dated December 16, 1996, to the Registration Rights Agreement, dated February 29, 1996.[3]
10.32	Amendment, dated December 16, 1996, to the Registration Rights Agreement, dated February 29, 1996.[3]
10.33	Commercial Lease dated April 1, 1997 between the Company and Cummings Properties Management, Inc.[4]
10.34	Master Equipment Lease Agreement between Boston Communications Group, Inc. and Fleet Capital Corp. dated August 20, 1997.[5]
10.36	Long Distance Service Agreement between Boston Communications Group, Inc. and AT&T Corp. dated July 10, 1997.[5]

10.38	Billing and Related Services Agreement between the Company and AT&T Corp. dated October 14, 1997.[6]
10.39	Agreement dated March 21, 1997 between the Company and Aspect Telecommunications Corporation.[7]
10.40^^	Amendment No. 1, dated January 7, 1998 to the service agreement between the Company and Frontier Communications of the West, Inc.[7]
10.41	Agreement dated February 9, 1998 between the Company and the University of Massachusetts at Lowell.[7]
10.42	Employment Letter Agreement dated February 10, 1998 between the Company and E.Y. Snowden.[7]
10.43^^	Agreement dated May 15, 1998 between the Company and ICT Group, Inc.[8]
10.44^^	Agreement dated May 4, 1998 between the Company and Smartalk Teleservices, Inc.[8]
10.45	+1998 Stock Incentive Plan
10.46^	Agreement dated October 6, 1998 between the Company and ICT Group, Inc.
10.47^	Agreement between the Company and AG Communication Systems dated Nov. 16, 1998.
10.48^	Agreement dated December 17, 1998 between MD Telecom, Inc. and the Company.
10. 49	Amendment No. 4, dated December 4, 1998, to the commercial lease between the Company and Cummings Property Management, Inc.
21	Subsidiaries of the Registrant.
23	Consent of Ernst & Young LLP, Independent Auditors.
27	Financial Data Schedules.

[1] Incorporated by reference to the Company's Registration Statement on Form S-1 filed June 17, 1996 (File No. 333-4128)
[2] Incorporated by reference to the Company's Form 10-K for the year ended December 31, 1996.
[3] Incorporated by reference to the Company's Form 10-Q for the quarter ended March 31, 1997.
[4] Incorporated by reference to the Company's Form 10-Q for the quarter ended June 30, 1997.
[5] Incorporated by reference to the Company's Form 10-Q for the quarter ended September 30, 1997.
[6] Incorporated by reference to the Company's Form 10-K for the year ended December 31, 1997.
[7] Incorporated by reference to the Company's Form 10-Q for the quarter ended March 31, 1998.
[8] Incorporated by reference to the Company's Form 10-Q for the quarter ended June 30, 1998.
+ Management contract or compensatory plan or arrangement filed as an exhibit pursuant to Item 14(c) of this Report.
^ Confidential treatment requested as to certain portions, which portions have been deleted and filed separately with the Securities and Exchange Commission.
^^ Confidential treatment granted as to certain portions, which portions have been deleted and filed separately with the Securities and Exchange Commission.

SCHEDULE II

BOSTON COMMUNICATIONS GROUP, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

(In thousands)

COL. A	COL. B	COL. C		COL. D	COL. E
		ADDITIONS			
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS DESCRIBE (1)	DEDUCTIONS DESCRIBE (2)	BALANCE AT END OF PERIOD
Year ended December 31, 1998:					
Reserves and allowances deducted from asset accounts:					
Allowance for billing adjustments and uncollectible accounts	$1,304	$—	$1,557	$1,353	$1,508
Year ended December 31, 1997:					
Reserves and allowances deducted from asset accounts:					
Allowance for billing adjustments and uncollectible accounts	1,242	—	$636	$574	1,304
Year ended December 31, 1996:					
Reserves and allowances deducted from asset accounts:					
Allowance for billing adjustments and uncollectible accounts	$884	$30	$896	$564	$1,242

(1) Billing adjustments recorded as a reduction of revenue.
(2) Settlement of billing adjustments

EXHIBIT 3

MANAGERIAL AND TECHNICAL CAPABILITY

BCGI possesses the requisite managerial and technical qualifications to render the proposed telecommunications services.

The officers of BCGI are as follows:

E.Y. Snowden	-	President
Fritz von Mering	-	Treasurer
Alan J. Bouffard	-	Secretary

The directors of BCGI are:

E.Y. Snowden
Paul J. Tobin
Fritz von Mering

All of the above personnel can be reached at:

BCGI Communications Corp.
100 Sylvan Road
Woburn, MA 01801
Tel: (617) 692-7000
Fax: (617) 692-6230

Below is a summary of the managerial and technical expertise of BCGI's principal officers.

Paul J. Tobin -- Paul has sixteen years experience in the telecommunications and wireless industry. Paul is one of the founders of the company and has served as Boston Communications Group, Inc.'s ("Boston Communications") Chairman since incorporation in 1996. He also held the position of President from 1990 until February 1996, and then again from April 1997 to February 1998. From 1984 until the formation of Boston Communications, Paul was President of Cellular One Boston/Worcester and Portsmouth, NH. Prior to Cellular One, he was Regional Marketing Manager for Satellite Business Systems (a joint venture of IBM, Comsat and Aetna). Paul began his career as a Securities Analyst at Chase Manhattan Bank after receiving his undergraduate degree in Economics from Stonehill College and his M.B.A. in Marketing/Finance from Northeastern University. Paul serves as a member of the Board of Trustees at Stonehill College.

E.Y. Snowden - E.Y. joined Boston Communications as President in February. Prior to Boston Communications, E.Y. was President and Chief Operating Officer of American Personal Communications, L.P. d/b/a Sprint Spectrum, where he was responsible for the successful launch of the nation's first Personal Communications Services (PCS) network. Before joining APC/ Sprint Spectrum, he was an Area Vice President at Pacific Bell, Inc. where he was integral in the plan for Pacific Bell to enter the PCS market through the creation of Pacific Bell Mobile Services. E.Y. was previously Chief Executive Officer of

Universal Optical Company, a manufacturer and marketer of designer eyewear. He began his career as a Corporate Strategy Consultant and Manager with the Boston Consulting Group. E.Y. holds a B.S. in Mathematical Sciences from Stanford University and an M.B.A. from the Harvard Business School.

Fritz von Mering - Fritz has been involved with the telecommunications and wireless industries for fifteen years. Fritz has held the position of Vice President of Finance and Administration since incorporation. Before joining Boston Communications, Fritz was Regional Vice President and General Manager for Metromedia's paging division. Prior to Metromedia, Fritz held various positions at Coopers & Lybrand where he earned his CPA. Fritz has an undergraduate degree in accounting from Boston College and an M.B.A. from Babson College.