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**Form 10-K for BPO MANAGEMENT SERVICES, INC.**

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**31-Mar-2009****Annual Report****ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.****Forward-Looking Statements**

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements are based on our current expectations, assumptions, estimates, and projections about us and our industry and generally include the plans and objectives of management for future operations, including plans and objectives relating to our future economic performance. You can identify certain forward-looking statements by our use of forward-looking terminology such as the words "may," "will," "believes," "expects," "anticipates," "intends," "plans," "estimates," "forecasts," "projects," "should," "could," "seek," "pro forma," "goal," "continues," "anticipates," or similar expressions. These forward-looking statements include, in particular, statements about our plans, strategies, and prospects under this heading, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and under the heading "Business." These forward-looking statements necessarily depend upon assumptions and estimates that may prove to be incorrect. Although we believe that the assumptions and estimates reflected in the forward-looking statements are reasonable, we cannot guarantee that we will achieve our plans, intentions, or expectations. The forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ in significant ways from any future results expressed or implied by the forward-looking statements. Some of these risks, uncertainties and other factors are identified under the heading "Risk Factors," and you should carefully consider such risks, uncertainties and other factors before deciding to invest or maintain an investment in shares of our stock. Any of the factors referenced under the heading "Risk Factors" or elsewhere could cause our future financial results, including our net income (loss) or growth in net income (loss) to differ materially from prior results, which in turn could, among other things, cause the price of our common stock to fluctuate substantially.

**Overview**

On December 30, 2008, Healthaxis Inc., a Pennsylvania corporation incorporated in 1982 ("Legacy Healthaxis"), completed a merger resulting in BPO Management Services, Inc., a Delaware corporation ("Legacy BPOMS"), becoming a wholly-owned subsidiary of Healthaxis (the "Merger"). Legacy Healthaxis changed its name to "BPO Management Services, Inc." upon the closing of the Merger ("BPOMS"). Immediately following the closing of the Merger, Legacy BPOMS' pre-Merger shareholders held approximately 75% of BPOMS' shares, and Legacy Healthaxis' pre-Merger shareholders retained approximately 25% of BPOMS' shares, all on a fully diluted, as-converted basis. Notwithstanding the fact that Legacy Healthaxis was the legal acquiror under the Merger and remains the registrant for SEC reporting purposes, the Merger was accounted for as a reverse acquisition with Legacy BPOMS as the accounting acquiror. BPOMS has accounted for the Merger as a purchase business combination, using Legacy BPOMS' historical financial information and accounting policies and applying fair value estimates to the acquired assets, liabilities and commitments of Legacy Healthaxis as of December 30, 2008.

The financial information contained in this annual report reflects the Merger as if Legacy BPOMS had issued consideration to Legacy Healthaxis shareholders. As a result, financial information derived from the Consolidated Statements of Operations and Consolidated Statements of Cash Flows included with this report for the year ended

December 31, 2008 and all prior periods reflects the consolidated financial results of Legacy BPOMS alone. Financial information derived from the Consolidated Balance Sheet at December 31, 2008 reflects the consolidated assets and liabilities of Legacy BPOMS and Legacy Healthaxis at December 31, 2008, while financial information derived from the Consolidated Balance Sheet at December 31, 2007 reflects the assets and liabilities of Legacy BPOMS alone. Please see Note 2 in the Notes to Consolidated Financial Statements for additional discussion of the Merger and a pro forma presentation of financial results for the combined companies.

Legacy BPOMS was incorporated in 1981 under the name Research Engineers, Inc., changed its name to netGuru, Inc. in 2000 and to BPO Management Services, Inc. on December 15, 2006 immediately following its reverse merger with privately-held BPO Management Services, Inc. ("Private BPOMS"). Private BPOMS was incorporated in July 2005. On December 15, 2006, Private BPOMS acquired all of the outstanding common stock of publicly-held NetGuru, Inc. in a reverse merger. Private BPOMS was the accounting acquiror.

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We provide business process outsourcing (BPO) services to enterprises in the United States and Canada. "BPO" refers to the outsourcing of entire business processes, typically to reduce cost and/or to improve the performance of that process. Our objective is to provide a comprehensive suite of BPO functions to support the back-office business requirements of middle-market enterprises throughout North America on an outsourced and/or recurring revenue basis.

Our primary business offerings are:

- Document and data management solutions, also known as enterprise content management or "ECM";
- Information technology services outsourcing or "ITO";
- Human resources information systems and related outsourcing services, or "HRO"; and
- Healthcare administrative systems and related services and financial and accounting outsourcing services or "Healthcare and F&A".

Our business plan for 2009 includes continuing our efforts to integrate the newly acquired Healthcare operations with the operations of Legacy BPOMS, to achieve financial synergies and to continue our efforts to grow all of our lines of business organically. Our longer term strategy continues to rely heavily on growth through strategic acquisitions. Our business and strategic plans for 2009 are likely to be negatively impacted by the current severe financial crises and resulting poor business environment. In the current environment, customers and prospects are likely to delay or avoid making decisions on whether to outsource business process functions, making sales extremely difficult to close. The financial health of some of our customers may also be at risk and we may see declines in volume as some customers scale back their operations or cease activities that rely on our services. The current crises in the capital markets will also have a negative impact on our plans for strategic growth and may limit our options for raising needed additional capital as described below under the caption "Liquidity and Capital Resources."

#### **Consolidated Results of Operations**

Legacy BPOMS began operations in July 26, 2005 and merged with netGuru, Inc. on December 15, 2006 in a reverse merger. For accounting purposes, the acquisition was treated as a recapitalization of Legacy BPOMS with Legacy BPOMS as the acquiror. The historical statements of operations included in this annual report for the years ended December 31, 2008 and 2007, are those of Legacy BPOMS.

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The following entities of Legacy BPOMS are included in the consolidated results of operations from the date of their respective acquisitions:

Company	Inception/Acquisition Date
BPO Management Services, Inc. (the "Company"), "BPOMS," "we," "our," or "us."	Inception date: July 26, 2005
Adapsys Document Management LP ("ADM")	Acquired: July 29, 2005
Adapsys LP ("ADP")	Acquired: July 29, 2005
Digica, Inc. ("Digica") (1)	Acquired: January 1, 2006
Novus Imaging Solutions, Inc. ("Novus")	Acquired: September 30, 2006
NetGuru Systems, Inc. ("NGSI")	Acquired: December 15, 2006
Research Engineers, GmbH ("GmbH")	Acquired: December 15, 2006
DocuCom Imaging Solutions, Inc. ("DocuCom")	Acquired: June 21, 2007
Human Resource Micro-Systems, Inc. ("HRMS ")	Acquired: June 29, 2007
Blue Hill Data Services, Inc. ("Blue Hill")	Acquired: October 10, 2007
BPO Management Services, Ltd. ("BPOMS Ltd") (2)	Amalgamation: January 1, 2008

(1) Digica was merged with Blue Hill in January 2008

(2) BPO Management Services, Ltd. was formed through the amalgamation of ADM, ADP, Novus and DocuCom.

**Operations Reporting**

BPOMS combines its operating entities into four separate reporting segments;

- IT Outsourcing (" ITO") comprised of Blue Hill, Digica (which was merged with Blue Hill in January 2008) and NGSI,
- Human Resources Outsourcing ("HRO") comprised of HRMS,
- Enterprise Content Management ("ECM") comprised of BPOMS Ltd., Web4 division of BPOMS, and GmbH, and
- Healthcare comprised of Legacy Healthaxis.

Because the merger of Legacy BPOMS and Legacy Healthaxis took place at the end of fiscal 2008, the operating results for fiscal 2008 and the comparable results for fiscal 2007 do not reflect the operating results of Healthcare.

ITO Operations

	ITO	
	Year ended December 31;	
	2008	2007
Revenues:	\$ 12,213,508	\$ 5,616,239
Operating expenses:		
Cost of services provided	6,786,804	3,001,984
Selling, general and administrative	4,501,140	2,831,390
Depreciation and amortization	1,794,202	513,486
Goodwill & Intangible asset impairment	8,656,033	-
Total operating expenses	21,738,179	6,346,860
Loss from operations	(9,524,671 )	(730,621 )
Interest expense	99,318	25,035
Net loss before income taxes	\$ (9,623,989 )	\$ (755,656 )

Blue Hill, which represents the majority of the ITO sales revenue, was acquired in October of 2007. Accordingly the 2007 results reflect only 3 months of the Blue Hill operations. Sales revenue in the year ended December 31, 2008 was \$12.2 million, a 118% increase from the \$5.6 million for the year ended December 31, 2007, resulting from a \$7.9 million increase attributable to a full year of Blue Hill whose sales for the full year 2008 were 30% greater than its sales for the full year 2007. Offsetting the increased sales attributable to Blue Hill was a \$1.3 million in reduction in sales from Digica and NGSi for the year ended December 31, 2008 over the year ended December 31, 2007. An impairment charge of \$8.7 million reducing the valuation of Blue Hill and NGSi goodwill and intangible assets was taken in the year ended December 31, 2008 pursuant to a valuation performed by the Company.

Cost of services provided increased to \$6.8 million and selling general and administrative increased to \$4.5 million for the year ended December 31, 2008, increases of 126% and 59% respectively over the \$3.0 million and \$2.8 million recorded for the year ended December 31, 2007. The increases reflected both the full year results for Blue Hill and the higher infrastructure costs at Blue Hill for conversion and migration expenses incurred mainly during the fourth quarter. These expenses related to the securing of additional contracts that will generate greater revenue as they come on stream. Four new firm contracts will contribute revenue increasing to \$1.8 million annually over the first six months of 2009.

Income/loss excluding non-cash charges consists of loss from operations excluding goodwill and intangible asset impairment charges as well as depreciation and amortization, which are the only non-cash charges included in loss from operations. Loss from operations set forth above, but excluding goodwill and intangible asset impairment charges of zero and \$8,656,033 for 2007 and 2008, respectively, and depreciation and amortization of \$513,486 and \$1,794,202 for 2007 and 2008, respectively, results in a loss from operations, excluding non-cash charges, of \$217,135 for 2007 and income from operations, excluding non-cash charges, of \$925,564 for 2008. Income/loss excluding non-cash charges is a non-GAAP financial measurement and does not purport to be an alternative to loss from operations determined in accordance with GAAP, or as a measure of operating performance or cash flows from operating activities determined in accordance with GAAP as a measure of liquidity. Management views income/loss excluding non-cash charges as a useful and appropriate supplement of loss from operations because it enables management to evaluate performance without the effects of these non-cash charges that management believes may not have a direct financial impact on us. Income/loss excluding non-cash charges should not be considered as an alternative to loss from operations calculated in accordance

with GAAP. Instead, income/loss excluding non-cash charges should be reviewed in connection with loss from operations to help analyze how our business is performing both currently and in comparison to past performance.

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HRO Operations

	HRO	
	Year ended December 31;	
	2008	2007
Revenues:	\$ 1,727,631	\$ 711,552
Operating expenses:		
Cost of services provided	524,762	237,224
Selling, general and administrative	1,504,846	1,024,573
Depreciation and amortization	177,157	249,901
Goodwill & Intangible asset impairment	1,914,528	-
Total operating expenses	4,121,293	1,511,698
Loss from operations and net loss before income taxes	\$ (2,393,662 )	\$ (800,146 )

HRMS was acquired in June 2007. Accordingly, the 2007 results reflect approximately seven months of HRMS operations. Sales revenue for the year ended December 31, 2008 of \$1,727,631 represents an increase of 143% over the \$711,552 recorded for the period ended December 31, 2007, reflective of an increase in both hosting revenue and in professional services, as well as the inclusion of a full twelve months of operations. Over \$600,000 of the increased sales is attributable to consulting and professional services, and approximately \$175,000 of the increased sales is attributable to SaaS ("Software as a Service" is a model of software deployment where an application is licensed for use as a service provided to customers on demand and is hosted on the BPOMS servers), while sales of software declined approximately \$135,000 for the year ended December 31, 2008 as compared to the period ended December 31, 2007. Cost of services provided of \$524,762 and selling, general and administrative expenses of \$1,504,846 represented increases at the lesser rate of 121% and 47% from the \$237,224 and \$1,024,573 recorded for the period ended December 31, 2007, respectively, with the increase in selling general and administrative cost representing the addition of sales people. An impairment charge of \$1.9 million reducing the valuation of HRMS goodwill and intangible assets was taken in the year ended December 31, 2008 pursuant to a valuation performed by the Company. During 2008 approximately \$451,000 of development resources were expended and capitalized in the development of the new software suite HR Advocate that is scheduled to be released in mid-2009 to replace the older software package HR Entree.

Loss from operations set forth above, but excluding goodwill and intangible asset impairment charges of zero and \$1,914,528 for 2007 and 2008, respectively, and depreciation and amortization of \$249,901 and \$177,157 for 2007 and 2008, respectively, results in loss from operations, excluding non-cash charges, of \$550,245 and \$301,977 for 2007 and 2008, respectively. Management views loss excluding non-cash charges as a useful and appropriate supplement of loss from operations because it enables management to evaluate performance without the effects of these non-cash charges that management believes may not have a direct financial impact on us. Loss excluding non-cash charges should not be considered as an alternative to loss from operations calculated in accordance with GAAP. Instead, loss excluding non-cash charges should be reviewed in connection with loss from operations to help analyze how our business is performing both currently and in comparison to past performance.

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ECM Operations

	ECM	
Year ended December 31;	2008	2007
Revenues:	\$ 14,169,854	\$ 10,141,210
Operating expenses:		
Cost of services provided	8,009,790	4,806,548
Selling, general and administrative	6,859,035	6,199,275
Research and development	322,876	298,211
Depreciation and amortization	717,780	455,002
Total operating expenses	15,909,481	11,759,036
Loss from operations	(1,739,627 )	(1,617,826 )
Interest expense	160,856	74,633
Net loss before income taxes	\$ (1,900,483 )	\$ (1,692,459 )

DocuCom was acquired in June 2007 such that the results for the year ended December 31, 2007 include slightly more than 6 months of DocuCom operations, whereas the results for the year ended December 31, 2008 include a full year of DocuCom operations. Sales for the year ended December 31, 2008 of \$14.2 million increased 40% over the \$10.1 million for the year ended December 31, 2007 due to the full year effect of DocuCom operations and 50% increases in the capture/scan business in Novus, the result of several large scanning contracts, and in Web4 collaborative software sales. Cost of services increased to 57% of sales, reflecting the decreased margins on the incremental DocuCom product sales. The increase in selling, general and administrative expenses from the incorporation of a full year of DocuCom operations in the year ended December 31, 2008 was partially offset by staff reduction savings of over \$500,000, by facility cost and related expense reductions of approximately \$300,000 from shutting down one facility in Regina Saskatchewan and combining two facilities in Winnipeg, Manitoba into one, and a reduction in financial system implementation costs in excess of \$100,000 over the year ended December 31, 2007. Depreciation and amortization increased 58% from \$455,002 for the year ended December 31, 2007 to \$717,780 for the year ended December 31, 2008, reflecting the increased depreciation of fixed assets and amortization of intangible assets resulting from the purchase of DocuCom. Research and development ("R&D") expenses, which increased modestly in 2008 over 2007, consist primarily of software developers' wages expended for development of enhancements to and integrations with the EReview collaborative software product.

Loss from operations set forth above, but excluding depreciation and amortization of \$455,002 and \$717,780 for 2007 and 2008, respectively, results in loss from operations, excluding non-cash charges, of \$1,162,824 and \$1,021,847 for 2007 and 2008, respectively. Management views loss excluding non-cash charges as a useful and appropriate supplement of loss from operations because it enables management to evaluate performance without the effects of these non-cash charges that management believes may not have a direct financial impact on us. Loss excluding non-cash charges should not be considered as an alternative to loss from operations calculated in accordance with GAAP. Instead, loss excluding non-cash charges should be reviewed in connection with loss from operations to help analyze how our business is performing both currently and in comparison to past performance.

Corporate		
Year ended December 31;	2008	2007
Selling, general and administrative	\$ 2,389,193	\$ 1,910,428
Depreciation and amortization	259,521	248,378
Share-based compensation	1,287,048	360,721
 Total operating expenses	 3,935,762	 2,519,527
 Interest expense	 109,668	 700,422
 Loss from operations and net loss before income taxes	 \$ (4,045,430 )	 \$ (3,219,949 )

Selling, general and administrative expense increased 25% from the \$1.9 million for the year ended December 31, 2007 to the \$2.4 million for the year ended December 31, 2008. Of the increase, 50% was due to increased legal and accounting fees that resulted from acquisitions, and the raising and restructuring of the Company's capital stock, approximately \$100,000 was the result of the creation of a company-wide insurance plan, and a similar amount in increased salaries resulting from strengthening of administrative and accounting staff. Net interest expense for the year ended December 31, 2008 of \$109,668 represented \$165,000 of interest expense, offset by \$55,000 of interest income. Interest expense of approximately \$700,000 for the year ended December 31, 2007 represented \$204,000 of interest expense plus \$594,000 of deferred debt discount expensed, offset by \$96,000 of interest income.

Share-based compensation expense is the estimated cost of stock option plans valued using the Black-Scholes model and amortized over the estimated period during which they provide a benefit, typically the vesting period. Share-based compensation expense of \$1,287,048 was recorded during the year ended December 31, 2008 compared to \$360,721 during the year ended December 31, 2007. The increase was the result of fully expensing the unamortized value of all options granted by virtue of the change in control affected by the Merger, which caused all unvested options to become fully vested.

Loss from operations set forth above, but excluding non-cash charges of depreciation and amortization of \$248,378 and \$259,521 for 2007 and 2008, respectively, and share-based compensation expense of \$360,721 and \$1,287,048 for 2007 and 2008, respectively results in loss from operations, excluding non-cash charges, of \$2,498,861 and \$2,610,850 for 2008 and 2007, respectively. Management views loss excluding non-cash charges as a useful and appropriate supplement of loss from operations because it enables management to evaluate performance with the effects of these non-cash charges that management believes may not have a direct financial impact on us. Loss excluding non-cash charges should not be considered as an alternative to loss from operations calculated in accordance with GAAP. Instead, loss excluding non-cash charges should be reviewed in connection with loss from operations to help analyze how our business is performing both currently and in comparison to past performance.

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Other Expense (Income)

The following table presents our Other Expense (Income):

For The Year Ended		
December 31,		
Other Expense (Income)	2008	2007

Related parties interest	\$	-	\$ 117,168
Amortization of related party debt discount	\$	102,246	\$ 594,029
Other interest, net	\$	267,596	\$ 90,903
Other (income)	\$	-	\$ (2,011 )
Total other expense	\$	369,842	\$ 800,089

Other expense decreased by \$430,247 (54%) during the year ended December 31, 2008 to \$369,842 from \$800,089 during the same period in the preceding year. This was primarily due to the amortization of related party debt discount that originated in December 2006, was fully amortized by April 2007 and for which there was no comparable charge in 2008. Interest increased during 2008 due to the acquisition of capital leases and interest on increased borrowings during the year.

#### **Income taxes**

In the years ended December 31, 2008 and 2007, we recorded no income tax expense because we had net losses from operations; however, amounts recorded reflect corporate taxation by various regional authorities.