
BPO Management Services Announces Financial Results for Fourth Quarter and Full Year 2008

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Revenue Increases 71% for the Year as Demand Remains Strong Across All Business Segments Company Expects 35% Sequential Increase in Revenue for Q1 09 as Healthaxis Integration Proceeds According to Plan

ANAHEIM, Calif., April 1 /PRNewswire-FirstCall/ -- BPO Management Services Inc., (OTC Bulletin Board: **HAXS - News**), a full-service healthcare and business process outsourcing company focused on serving the middle-market, today announced its financial results for the fourth quarter and full year 2008 ended December 31, 2008. The income statement does not reflect the merger of BPO Management Services and Healthaxis, Inc., which was completed on December 30, 2008.

Operational Highlights

- BPOMS continues to experience solid growth in its ITO business segment as the Company continues to sign long-term, recurring revenue contracts. Concurrent with this effort, expenses for this segment were higher, as a percentage of revenue, than normal as the Company ramps up to support new contract revenue. Typically, there is a 3 to 6 month lag after contract signing before new revenue commences, while customer systems are being migrated. During this short period of time, the Company will experience higher expense levels without matching revenue.
- BPOMS signed a multi-year agreement to provide ITO services to Forrest T. Jones & Company, Inc. (FTJ), an insurance agency and administrator. Under the terms of this agreement BPOMS will host and manage FTJ's IT infrastructure environment, including monitoring, support and maintenance of all related network components and devices from BPOMS full-service 24/7/365 support center located in Pearl River, NY. BPOMS will also provide dedicated Disaster Recovery services from its high-availability recovery center in Branchburg, NJ.
- BPOMS completed a planned infrastructure upgrade to its Pearl River data center facility in order to provide additional electrical capacity to support future customer processing requirements. With this upgrade in place the Company is now positioned to increase revenue generated by its ITO segment approximately four-fold, without incurring any significant capital expenditures.
- BPOMS experienced continuing progress in its ECM business segment with significant improvements in both top- and bottom-line financial performance for Q4, as compared sequentially to the prior quarter. The Company anticipates continuing business improvement in this segment, yielding increasing revenues and bottom-line profitability in the coming quarters. The Company continues to focus on growing its recurring revenue content in this segment, reducing its historic reliance on one-time project implementations.
- In its HRO segment, the Company continues to grow and transition into a "Software as a Service" (SaaS) business model with customers signing up to use its signature *HRAdvocate* Human Resource Information Systems (HRIS) offering hosted by BPOMS, under a multi-year contract arrangement, in order to manage their human resource function in a cost-effective manner.
- As revenue grows and ongoing Company integration activities take hold, BPOMS continues to drive down SG&A as a percentage of revenue. This is an important trend that will continue as the Company grows its top line and integrates consolidated Company SG&A activities. This bellweather trend demonstrates the BPOMS operating leverage as incremental revenue drives increasingly higher margins going forward. As the Company grows its revenue base and achieves critical mass, SG&A as a percentage of revenue will continue to drop-off significantly.

- BPOMS completed its merger with Healthaxis during the fourth quarter, bringing to the Company a robust Healthcare Claims Processing capability in a rapidly expanding Healthcare marketplace. The sophisticated Healthaxis technology provides another important vertical to further leverage key underlying Company technology, processes and infrastructure. The related integration activity is well advanced and will generate improved top- and bottom-line results in the quarters and years ahead.
- With the Healthaxis merger completed the Company has increased its recurring revenue content to approximately 80%, and continues to drive towards its goal of 90%-plus of revenues derived from recurring revenue contracts.

Financial Results

(in \$ thousands)

	Q4 2008	Q4 2007	% Change	FY 2008	FY 2007	% Change
Revenues	\$7,115	\$7,480	(4.9)%	\$28,111	\$16,469	71%
ECM	\$3,271	\$4,274	(23.5)%	\$14,170	\$10,141	40%
ITO	\$3,455	\$2,754	25.4%	\$12,214	\$5,616	118%
HRO	\$389	\$452	(13.9)%	\$1,728	\$712	143%
Loss from Operations	\$(13,393)	\$(2,493)	437%	\$(17,594)	\$(5,668)	210%
Net Loss	\$(13,619)	\$(2,536)	437%	\$(18,138)	\$(6,468)	180%
Income (loss) from Operations before non-cash items	\$(1,402)	\$(1,462)	17.4%	\$(2,787)	\$(4,154)	(24.2)%

Patrick Dolan, chief executive officer of BPOMS, said, "We continue to believe that the Company is well-positioned to succeed in the current economic environment as the middle market looks for ways to reduce their cost of ownership, improve operational efficiencies and enhance the quality of their technology investment. We are operating at approximately 25% percent capacity, providing lots of room to grow without adding significant costs. Our future ability to grow has been somewhat tempered by the ongoing crisis in the capital/credit markets, which like most companies today, has made obtaining additional growth capital very challenging. We are actively pursuing several strategic alternatives in order to strengthen our balance sheet and provide the necessary working capital to fully accelerate our growth as we continue to drive towards critical mass."

Fiscal 2008 Financial Results

Revenue for the full year ended December 31, 2008 was \$28.1 million, an increase of 71% compared to the \$16.5 million for the full year 2007. The Company experienced a 40% increase in Enterprise Content Management (ECM) revenue, to \$14.2 million compared to \$10.1 million last year. IT Outsourcing Services (ITO) revenue increased 118% to \$12.2 million from \$5.6 million last year. Human Resource Outsourcing (HRO) revenue increased 143% to \$1.7 million from \$712,000 in the year-ago period.

Total operating expenses increased 106.5% to \$45.7 million after a goodwill and intangible asset charge of \$10.6 million compared to \$22.1 million for of the same period last year. Inclusive in this increase was an increase in cost of services provided to \$15.3 million from \$8.0 million last year. SG&A expenses, as a percent of revenue, decreased to 53% from 72.7% in the full year last year, demonstrating strong expense management and the inherent leverage in the Company's business model. The loss from operations for the year was \$17.6 million, inclusive of \$14.8 million in non-cash expenses, compared to a loss from operations of \$5.7 million, inclusive of \$3.0 in non-cash expenses in 2007. The non-cash expenses included a one-time, non-cash \$10.6 million charge for impairment of goodwill and intangible assets. Excluding non-cash expenses, the loss from operations for the full year period was \$2.8 million from \$3.8 million in the year-ago

period. The net loss for the full year 2008 was \$18.1 million, or \$(5.74) per basic and fully diluted share (based on 3.2 million shares) compared to a net loss of \$5.9 million, or \$(0.67) per basic and fully diluted share (based on 9.5 million shares).

Fourth Quarter 2008 Financial Results

For the fourth quarter, total revenue decreased 4.9% to \$7.1 million from \$7.5 million for the same period last year. The change was due to decreases in the ECM and HRO business segments offset by a 25.5% increase in ITO revenue. ECM revenue reduction was a result of the recent decline in value of the Canadian dollar vs. the U.S. dollar and greater focus on higher margin opportunities yielding improved bottom-line performance. HRO experienced a revenue decline as the Company shifts focus from one-time licensing fees to growing Software as a Service, recurring revenue contracts generating long-term customer relationships. Total operating expenses for the quarter were \$20.5 million, an increase of 105.6% compared to total operating expenses of \$10.0 million during the fourth quarter last year. Included in the operating expenses was a 36.5% increase in cost of services provided, reflecting a spike in short-term migration expenses as new ITO service contracts are migrated into the BPOMS processing environment. The loss from operations for the quarter increased to \$13.4 from \$2.5 million in the prior-year fourth quarter. Included in the operating loss was a one-time, non-cash charge for the impairment of goodwill totaling \$10.6 million, as well as depreciation and amortization and share-based compensation, which in aggregate totaled \$12.0 million for the fourth quarter of 2008 and \$2.5 million for the fourth quarter of 2007. Excluding these non-cash expenses, the Company's operating loss was \$1.4 million during the fourth quarter, compared to a loss of \$1.5 million in the fourth quarter last year. The net loss for the quarter was \$13.6 million compared to a net loss of \$2.5 million in the fourth quarter last year.

Mr. Dolan continued, "Demand for our services, technology and infrastructure, provided on a recurring revenue basis, remains consistently strong across all business segments, including our Healthcare segment which was created through the recent Healthaxis merger. We anticipate continuing business improvement in the first quarter as we expand our revenue base and ongoing Company-wide integration activities reduce SG&A expenses. Going forward we continue to expand our pipeline of new business opportunities, grow our recurring revenue content and relentlessly drive operating efficiencies through cross-organization integration activities. The integration of Healthaxis is well-advanced and should contribute strong top-line growth to accelerate our overall progress during the first quarter. As of December 31, 2008, approximately 80% of our revenues were derived from recurring revenue activities and we continue to focus on building out our backlog of future business to be delivered in the years. This growing base of recurring revenue business serves as the platform on which we will build future shareholder value, and management is confident that as capital/credit markets loosen we are well-positioned to accelerate growth and achieve positive cash flow from operations in fairly short order."

Mr. Dolan concluded, "We believe our revenue will grow approximately 35% on a sequential basis, compared to the \$7.1 million reported for the fourth quarter and including the contribution of Healthaxis' healthcare claims processing business. We anticipate continued improvement in our gross profit margin and ongoing reductions in SG&A expenses, as a percent of revenue, as we more effectively leverage our fixed infrastructure across an increasing base of revenue. We remain squarely focused on achieving cash flow break-even as quickly as possible, and expect to narrow our cash burn in the first quarter."

As of December 31, 2008, BPOMS' balance sheet showed \$2.8 million in cash compared to \$0.9 million at December 31, 2007.

About BPO Management Services, Inc.

BPO Management Services (BPOMS) is a healthcare and business process outsourcing (BPO) service provider that offers a diversified range of on-demand services, including claims processing, human resources, information technology, and enterprise content management, to support the back-office business functions of the middle-market on an outsourced basis. BPOMS supports middle-market businesses new to the BPO market, established businesses that already

outsource, and businesses seeking to maximize return-on-investment from their in-house workforce. For more information, please visit <http://www.bpoms.com>

Forward-Looking Statements

Certain statements in this press release that are not historical facts are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements may be identified by the use of words such as "anticipate," "believe," "expect," "future," "may," "will," "would," "should," "plan," "projected," "intend," and similar expressions. Such forward-looking statements, involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of BPO Management Services, Inc. (the "Company") to be materially different from those expressed or implied by such forward-looking statements. The Company's future operating results are dependent upon many factors, including but not limited to: (i) the Company's ability to obtain sufficient capital or a strategic business arrangement to fund its current operational or expansion plans; (ii) the Company's ability to build and maintain the management and human resources and infrastructure necessary to support the anticipated growth of its business; (iii) competitive factors and developments beyond the Company's control; and (iv) other risk factors discussed in the Company's periodic filings with the Securities and Exchange Commission, which are available for review at <http://www.sec.gov> under "Search for Company Filings."

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**BPO MANAGEMENT SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2008 AND DECEMBER 31, 2007**

	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$2,784,155	\$888,043
Restricted cash	-	922,888
Accounts receivable, net of allowance		

for doubtful accounts of \$530,050 and \$347,797, respectively	7,425,805	4,768,618
Inventory	181,968	268,160
Prepaid expenses and other current assets	1,384,696	417,041
Total current assets	11,776,624	7,264,750
Equipment and leaseholds, net of accumulated depreciation of \$1,864,728 and \$931,268, respectively	7,735,777	4,834,941
Goodwill	4,856,171	9,029,142
Intangible assets, net of accumulated amortization of \$2,347,659 and \$266,194, respectively	5,500,829	9,898,219
Other assets	879,605	38,449
	\$30,749,006	\$31,065,501

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Current portion of lines of credit and long-term debt, net of discount of \$2,733 and \$3,405, respectively	\$138,666	\$17,024
Current portion of capital lease obligations	394,765	149,653
Accounts payable	5,591,976	3,540,827
Accrued expenses	3,428,573	1,927,451
Working capital and equipment lines of credit	3,195,468	795,132
Accrued interest-related party	-	36,672
Accrued dividend payable	1,369,331	379,222
Accrued dividend payable-related party	651,281	67,242
Amount due former shareholders of acquired companies	1,000,000	2,101,771
Deferred revenues	2,957,139	2,509,885
Related party notes payable	930,246	1,200,000
Severance obligations payable	-	72,199
Income taxes payable	146,695	257,091
Other current liabilities	1,010,767	-
Total current liabilities	20,814,907	13,054,169
Lines of credit and long-term debt, net of current portion and net of discount of \$1,139 and \$4,825, respectively	727,998	24,117
Capital lease obligations, net of current portion	690,278	392,942
Other long-term liabilities	232,115	33,115
Total liabilities	22,465,298	13,504,343

Commitments and contingencies (Note 8)

Stockholders' equity

Convertible preferred stock, Series A,

par value \$.01; authorized 1,608,12 shares, 0 and 1,608,612 shares issued and outstanding, respectively	-	16,086
Convertible preferred stock, Series B, par value \$1.00 and \$.01 respectively; authorized 21,105,000 and 1,449,204 shares, respectively; 21,103,955 and 1,449,204 shares issued and outstanding, respectively	21,103,955	14,492
Non-convertible preferred stock, Series C, par value \$.01; authorized 21,378,000 shares; 0 and 916,667 shares issued and outstanding, respectively	-	9,167
Convertible preferred stock, Series D, par value \$.01; authorized 1,500,000 shares; 0 and 1,458,334 shares issued and outstanding, respectively	-	14,583
Convertible preferred stock, Series D-2, par value \$.01; authorized 1,500,000 shares; 0 and 729,167 shares issued and outstanding, respectively	-	7,292
Convertible preferred stock, Series F, par value \$.01; authorized 1,300,000 shares; 0 and 894,942 shares issued and outstanding, respectively	-	-
Common stock, par value \$0.10 and \$.01, respectively; authorized 1,900,000,000 and 1,500,000 shares, respectively; 15,165,586 and 12,171,034 shares issued and outstanding, respectively	1,516,559	121,711
Additional paid-in capital	14,687,206	27,500,477
Accumulated deficit	(28,706,729)	(10,568,915)
Accumulated other comprehensive income, foreign currency translation adjustments	(317,283)	446,265
Total stockholders' equity	8,283,708	17,561,158
	\$30,749,006	\$31,065,501

**BPO MANAGEMENT SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)**

	Three Months Ended December 31,		Year Ended December 31,	
	2008	2007	2008	2007
Revenues:				
Enterprise content management	\$3,270,928	\$4,274,213	\$14,169,854	\$10,141,210
IT outsourcing services	3,455,225	2,754,348	12,213,508	5,616,239
Human resource outsourcing servicing	388,639	451,364	1,727,631	711,552

Total revenues	7,114,792	7,479,925	28,110,993	16,469,001
Operating expenses:				
Cost of services provided	4,929,326	3,608,992	15,321,356	8,045,756
Selling, general and administrative	3,258,471	4,983,125	15,254,214	11,965,666
Research and development	94,618	36,473	322,876	298,211
Depreciation and amortization	391,128	1,242,123	2,948,660	1,466,767
Stock-based compensation	665,773	101,860	1,287,048	360,721
Goodwill and intangible asset impairment	10,570,561	-	10,570,561	-
Total operating expenses	15,578,665	9,972,573	45,704,715	22,137,121
Loss from operations	(13,393,199)	(2,492,648)	17,593,722	(5,668,120)
Interest expense (income)				
Related parties	21,393	27,349	-	117,168
Amortization of related party debt discount	-	-	102,246	594,029
Other (net)	94,013	14,858	267,596	90,903
Other Expense	-	1,091	-	(2,011)
Total interest and other expense	115,406	43,298	369,842	800,089
Loss before taxes	(13,508,605)	(2,535,946)	(17,963,564)	(6,468,209)
Income tax expense	110,852	-	174,250	-
Net loss	13,619,457)	(2,535,946)	(18,137,814)	(6,468,209)
Foreign currency translation gain (loss)	(818,331)	222,406	(763,548)	553,586
Comprehensive loss	\$(14,437,788)	\$(2,313,540)	\$(18,901,362)	\$(5,914,623)
Basic and diluted net loss per share			\$(5.74)	\$(0.67)
Basic and diluted weighted average common			1,516,559	9,513,749