
BPO Management Services Announces Financial Results for Third Quarter of 2008

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Strong Bookings Set the Stage for Record Revenues and Positive Cash Flow in 2009

ANAHEIM, Calif., Nov. 14 /PRNewswire-FirstCall/ -- BPO Management Services Inc., (OTC Bulletin Board: **BPOM - News**), a full-service business process outsourcing company focused on serving middle-market enterprises, today announced financial results for the third quarter and first nine months of 2008, the period ended September 30, 2008.

Operational Highlights

* BPOMS experienced significant acceleration of its Information Technology Outsourcing (ITO) segment, including \$5 million in annualized new business wins year-to-date (a 60% increase compared to the first nine months of 2007). Typically, the Company begins to recognize revenue following the migration, which can take up to six months, and \$5 million in new business is scheduled to be migrated before the end of 2008. The Company experiences higher expense levels during migration, and a ramp in profit margins is typical once the project goes live.

* BPOMS has proposals in process for an additional \$6 million in ITO projects, and the pipeline for new business is accelerating due to the pressure for corporations to reduce costs in the challenging economic environment. The Company's Pearl River ITO facility is at approximately 50% capacity, providing significant room to expand without significant capital expenditures.

* BPOMS Enterprise Content Management (ECM) business experienced a temporary slowdown. Following a restructuring of management, the division is back on-track and October was a record month for the ECM segment.

* The Company also reorganized its HRO segment to reflect demand for a "Software as a Service" (SaaS) model. This adjustment is expected to result in improved performance in the fourth quarter and beyond.

* Management continues to anticipate \$30 million in revenue for the full-year (2008) and expects to be EBITDA-positive as it enters 2009.

Merger Update

* BPO Management Services, Inc. (BPOMS) announced a definitive agreement to acquire Healthaxis Inc. (Nasdaq: **HAXS - News**). As a result of the transaction, Healthaxis will become the Healthcare division of BPOMS, complementing BPOMS' existing operations for Human Resources Outsourcing (HRO) consulting, Enterprise Content Management (ECM), and IT infrastructure outsourcing (ITO).

* Healthaxis signed a significant, multi-year outsourcing agreement with HealthSCOPE Benefits, Inc., one of its largest customers, to extend the relationship until November 2012 and expand the relationship to include fully outsourced data center and information technology services. The outsourced data center and IT services will be delivered through BPOMS' Data Center, in Pearl River, New York. This is the first example of cross-selling synergies of the proposed combination of BPOMS and Healthaxis.

* SEC review of joint shareholder proxy between BPOMS and Healthaxis has been completed.

* Management estimates that the combination will produce about \$4 million in a combination of organic growth from the Healthaxis core business and cross-selling opportunities. In addition, the merger will generate approximately \$3-to-\$4 million in pro forma EBITDA from revenue growth, elimination of redundant expenses and additional synergies in the 12

months following the close of the transaction. In addition, BPOMS will have an improved and simplified capital structure and a strong balance sheet.

* The combined organization will have approximately \$50 million in annualized revenue.

Financial Results
(in \$ thousands)

	Q3 2008	Q3 2007	% Change	YTD 2008	YTD 2007	% Change
Revenues	\$5,893	\$4,632	27.2%	\$20,996	\$8,989	133.6%
ECM	\$2,529	\$3,505	(27.8)%	\$10,899	\$5,867	85.8%
ITO	\$2,997	\$ 881	240.2%	\$ 8,758	\$2,862	206.0%
HRO	\$ 366	\$ 246	48.8%	\$ 1,339	\$ 260	415.0%
Loss from						
Operations	\$(1,753)	\$(1,266)	(38.4)%	\$(4,201)	\$(3,175)	(32.2)%
Net Loss	\$(1,862)	\$(1,279)	(45.6)%	\$(4,566)	\$(3,932)	(16.1)%
Income (loss)						
from Operations						
before non-cash						
items	\$(836)	\$(1,012)	17.4%	\$(1,386)	\$(2,692)	48.5%

Patrick Dolan, chief executive officer of BPOMS, said, "The third quarter represented an important transition period as we made tremendous progress in the rounding out of our solutions-based offerings for customers. Our ITO segment demonstrated particular strength, adding \$5 million in new business and developing proposals for an additional \$6 million to meet increasing demand. The challenging economic environment serves to accelerate demand for our solutions, as middle-market corporations look for ways to reduce their cost of ownership while improving the quality of their IT investment. Our Pearl River, New York facility has room to expand, enabling us to continue growth in our ITO segment without adding significant expenses. The true benefits of the progress we made in this area have not been reflected in our income statement as much of the migration work is ongoing. During this transition period, we experience higher expenses and lower revenue. This migration will be largely complete by the end of the fourth quarter and the \$5 million in incremental revenue will begin to show up in our recurring revenue base."

"In addition, we took the first step to building a robust Healthcare Claims Processing segment, targeting a growth segment of our industry, with our proposed acquisition of Healthaxis," Mr. Dolan continued. "We proactively responded to short-term challenges in our ECM and HRO segments to help accelerate our growth and position us to achieve consistent profitability in future periods. Collectively, we have built an organization to provide quantifiable solutions for rapidly growing areas of our industry. We expect to experience the benefits of these important efforts beginning in the fourth quarter of this year and consistently throughout 2009."

Third Quarter 2008 Financial Results

For the third quarter, total revenue increased 27.2% to \$5.9 million from \$4.6 million in the third quarter last year. The growth for the quarter was due to a 240.2% increase in IT outsourcing services revenue to \$3.0 million from \$881,000 in third quarter last year. Human Resources outsourcing services revenue increased 48.8% to \$366,000 from \$246,000 in the third quarter last year. Enterprise content management revenue decreased 27.8% to \$2.5 million from \$3.5 million in third quarter last year due to a temporary decline in the Company's document imaging products business, which has been addressed with management and organizational changes. In the last three years, BPOMS has acquired and integrated 10 companies in the Business Process Outsourcing (BPO) industry. Acquisitions completed subsequent to June, 2007 accounted for 70% of the Company's revenue during the quarter while revenue from the Company's organic business or those acquired prior to June, 2007 accounted for 30% of revenue.

Total operating expenses for the quarter were \$7.6 million, an increase of 29.6% compared to total operating expenses of \$5.9 million during the third quarter last year. Included in the operating expenses was a 9% increase in cost of services provided, reflecting the short-term migration expenses associated with new ITO projects. As a percent of revenue, selling, general and administrative (SG&A) expenses increased to 65.4% compared to 62.9% in the prior year third quarter, demonstrating strong expense management and the inherent leverage in the Company's business model.

The loss from operations for the quarter increased to \$1.8 from \$1.3 million in the prior-year third quarter. Included in the operating loss were depreciation and amortization and share-based compensation, which in aggregate totaled \$916,000 for the third quarter of 2008 and \$254,000 for the third quarter of 2007. Excluding these non-cash expenses, the Company generated an operating loss of \$836,000 during the third quarter, compared to a loss of \$1.0 million in the third quarter last year.

"As expected, we experienced attrition of approximately \$2 million from legacy business in our ITO segment that was anticipated at the time we acquired those assets," Mr. Dolan continued. "This expected attrition, coupled with short-term issues in our ECM business which has been resolved, resulted in the slight revenue shortfall and the associated negative EBITDA for the quarter. We expect to return to cash flow positive operations in the fourth quarter and beyond."

The net loss for the quarter (exclusive of a gain on foreign currency translation) was \$1.9 million or \$(0.15) per basic and fully diluted share (based on 12.6 million shares) compared to a net loss of \$1.3 million, or \$(0.14) per basic and fully diluted share (based on 9.0 million shares) in the third quarter last year.

Year-To-Date Financial Results

Revenue for the first nine months of 2008 was \$21.0 million, an increase of 133.6% compared to the \$9.0 million for the first nine months of 2007. Acquisitions completed subsequent to June, 2007 accounted for 72% of the Company's revenue during the first nine months of 2008 while revenue from the Company's organic business or those acquired prior to June, 2007 accounted for 28% of revenue. Total operating expenses increased 107% to \$25.2 million compared to \$12.2 million for the nine months of last year. Inclusive in this increase was a 134.2% increase in cost of services provided to \$10.4 million from \$4.4 million last year. SG&A expenses, as a percent of revenue, decreased to 56% from 77.7% in the first nine months of last year. The loss from operations for the nine-month period was \$4.2 million, inclusive of \$2.8 million in non-cash expenses, compared to a loss from operations of \$3.2 million, inclusive of \$484,000 in non-cash expenses in 2007. Excluding non-cash expenses, the loss from operations for the year-to-date period narrowed to \$1.4 from \$2.7 million. The net loss for the first nine months of 2008 (exclusive of a loss on foreign currency translation) was \$4.6 million, or \$(0.36) per basic and fully diluted share (based on 12.5 million shares) compared to a net loss of \$3.9 million, or \$(0.45) per basic and fully diluted share (based on 8.8 million shares).

As of September 30, 2008, BPOMS' balance sheet showed \$2.9 million in cash. The Company's current ratio was 0.65:1 as of the end of the third quarter. The Company's shareholder equity was \$17.7 million compared to \$17.6 million as of December 31, 2007. In addition to the Company's unutilized \$1 million operating line of credit, upon completion of the merger with Healthaxis, management expects to add approximately \$2 million in cash to its balance sheet.

About BPO Management Services, Inc.

BPO Management Services (BPOMS) is a business process outsourcing (BPO) service provider that offers a diversified range of on-demand services, including human resources, information technology, and enterprise content management, to support the back-office business functions of middle-market enterprises 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
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2008 AND DECEMBER 31, 2007

	2008 (Unaudited)	2007 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$2,911,367	\$888,043
Restricted cash	-	922,888
Accounts receivable, net of allowance for doubtful accounts of \$312,693 and \$347,797, respectively	4,951,677	4,768,618
Inventory consisting of finished		

goods	199,537	268,160
Prepaid expenses and other current assets	656,878	417,041
Total current assets	8,719,459	7,264,750
Equipment, net of accumulated depreciation of \$1,211,807 and \$718,913, respectively	4,904,576	4,834,941
Goodwill	10,391,940	9,029,142
Intangible assets, net of accumulated amortization of \$2,101,785 and \$931,268, respectively	7,589,249	9,898,219
Other assets	443,193	38,449
	\$32,048,417	\$31,065,501

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Current portion of long-term debt, net of discount of \$3,219 and \$3,405, respectively	\$1,569,575	\$812,156
Current portion of capital lease obligations	288,622	149,653
Accounts payable	2,661,326	3,540,827
Accrued expenses	2,431,074	1,927,451
Accrued interest-related party	9,366	36,672
Accrued dividend payable	840,458	379,222
Accrued dividend payable-related party	503,562	67,242
Amount due former shareholders of acquired companies	1,000,000	2,101,771
Income taxes payable	172,815	257,091
Deferred revenues	2,733,347	2,509,885
Related party notes payable	1,000,000	1,200,000
Severance obligations payable	-	72,199
Other current liabilities	290,805	-
Total current liabilities	13,500,950	13,054,169
Long-term debt, net of current portion and net of discount of \$2,146 and \$4,825, respectively	302,395	24,117
Capital lease obligations, net of current portion	527,083	392,942
Purchase price payable-long term	-	-
Other long-term liabilities	33,115	33,115
Total liabilities	14,363,543	13,504,343

Commitments and contingencies (Note 7)

Stockholders equity:

Convertible preferred stock, Series A, par value \$.01; authorized 1,608,612 shares; 1,608,612 shares issued and outstanding,

respectively	16,086	16,086
Convertible preferred stock, Series B, par value \$.01; authorized 1,449,204 shares; 1,449,204 shares issued and outstanding	14,492	14,492
Non-convertible preferred stock, Series C, par value \$.01; authorized 21,378,000 shares; 916,667 shares issued and outstanding	9,167	9,167
Convertible preferred stock, Series D, par value \$.01; authorized 1,500,000 shares; 1,427,084 and 1,458,334 shares issued and outstanding, respectively	14,271	14,583
Convertible preferred stock, Series D-2, par value \$.01; authorized 1,500,000 shares; 1,312,500 and 729,167 shares issued and outstanding, respectively	13,125	7,292
Convertible preferred stock, Series F, par value \$.01; authorized 1,300,000 shares; 894,942 shares issued and outstanding	8,949	-
Common stock, par value \$.01; authorized 150,000,000 shares; 12,671,034 and 12,171,034 shares issued and outstanding, respectively	126,711	121,711
Additional paid-in capital	32,359,100	27,500,477
Accumulated deficit	(15,134,726)	(10,568,915)
Accumulated other comprehensive income foreign currency translation adjustments	257,699	446,265
Total stockholders' equity	17,684,874	17,561,158
	\$32,048,417	\$31,065,501

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues:				
Enterprise content management	\$2,529,276	\$3,504,953	\$10,898,926	\$5,866,997
IT outsourcing services	2,997,424	880,978	8,758,283	2,861,891
Human resource outsourcing servicing	366,157	246,371	1,338,992	260,188

Total revenues	5,892,857	4,632,302	20,996,201	8,989,076
Operating expenses:				
Cost of services provided	2,795,573	2,563,277	10,392,030	4,436,764
Selling, general and administrative	3,852,338	2,912,249	11,761,666	6,982,541
Research and development	81,221	168,371	228,258	261,738
Depreciation and amortization	709,320	142,257	2,193,495	224,644
Share-based compensation	207,091	112,118	621,275	258,861
Total operating expenses	7,645,543	5,898,272	25,196,724	12,164,548
Loss from operations	(1,752,686)	(1,265,970)	(4,200,523)	(3,175,472)
Interest expense (income)				
Related parties	27,148	27,222	80,853	89,819
Amortization of related party debt discount	-	-	-	594,029
Other (net)	64,447	(11,300)	173,583	76,045
Other Expense	-	(3,115)	-	(3,102)
Total interest and other expense	91,595	12,807	254,436	756,791
Loss before taxes	(1,844,281)	(1,278,777)	(4,454,959)	(3,932,263)
Income tax expense	18,125	-	110,852	-
Net loss	(1,862,406)	(1,278,777)	(4,565,811)	(3,932,263)
Foreign currency translation gain (loss)	(8,372)	(40,623)	(188,566)	(331,180)
Comprehensive loss	\$(1,870,778)	\$(1,319,400)	\$(4,754,377)	\$(4,263,443)
Basic and diluted net loss per share	\$(0.15)	\$(0.14)	\$(0.36)	\$(0.45)
Basic and diluted weighted average common	12,671,034	9,004,368	12,529,216	8,750,543