

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

BPO Management Services, Inc.

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

FORM 10-Q

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

For the quarterly period ended: September 30, 2009

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

For the transition period from _____ to _____.

Commission File Number: 0-13591

BPO MANAGEMENT SERVICES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania

(State or Other Jurisdiction of Incorporation or Organization)

23-2214195

(IRS Employer Identification No.)

1290 N. Hancock, Ste 200, Anaheim, CA

(Address of Principal Executive Offices)

92807

(Zip Code)

(714) 974-2670

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the registrant's only class of common stock, \$0.10 par value, was 15,116,838 on November 12, 2009.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BPO MANAGEMENT SERVICES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
 FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
 (Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Revenues:				
IT outsourcing services	\$ 2,676,977	\$ 3,377,155	\$ 8,510,841	\$ 9,827,698
Healthcare	3,334,816	-	10,446,628	-
Human resource outsourcing servicing	86,139	366,157	614,978	1,338,992
Total revenues	6,097,932	3,743,312	19,572,447	11,166,690
Operating expenses:				
Cost of services provided	4,511,790	1,938,998	14,007,957	5,213,168
Selling, general and administrative	1,955,387	2,037,938	6,780,035	6,210,920
Research and development	124,429	81,221	349,189	228,258
Depreciation and amortization	1,032,106	544,781	3,045,721	1,660,672
Share-based compensation	-	207,091	18,333	621,275
Restructuring costs	-	-	382,207	-
Goodwill and intangible asset impairment	2,356,452	-	2,356,452	-
Total operating expenses	9,980,164	4,810,029	26,939,894	13,934,293
Loss from operations	(3,882,232)	(1,066,717)	(7,367,447)	(2,767,603)
Interest expense				
Related parties	18,782	27,148	57,948	80,853
Other, net	110,816	12,953	346,840	54,029
Total interest expense	129,598	40,101	404,788	134,882
Loss before income taxes	(4,011,830)	(1,106,818)	(7,772,235)	(2,902,485)
Income tax expense	-	19,500	15,600	63,952
Loss from continuing operations	(4,011,830)	(1,126,318)	(7,787,835)	(2,966,437)
Discontinued operations (Note 3):				
Loss from sale of discontinued business	(203,854)	(736,088)	(2,942,175)	(1,599,374)
Net loss	(4,215,684)	(1,862,406)	(10,730,010)	(4,565,811)
Foreign currency translation gain (loss)	(110,658)	(8,372)	349,677	(188,566)
Comprehensive loss	\$ (4,326,342)	\$ (1,870,778)	\$ (10,380,333)	\$ (4,754,377)
Loss per share - basic and diluted				
Loss from continuing operations	\$ (0.27)	\$ (0.09)	\$ (0.51)	\$ (0.24)
Loss from discontinued operations	(0.01)	(0.06)	(0.19)	(0.13)

Net loss per share - basic and diluted	<u>\$ (0.28)</u>	<u>\$ (0.15)</u>	<u>\$ (0.70)</u>	<u>\$ (0.37)</u>
Basic and diluted weighted average common shares outstanding	<u>15,138,379</u>	<u>12,671,034</u>	<u>15,156,517</u>	<u>12,529,216</u>

See accompanying notes to condensed consolidated financial statements.
2008 amounts have been reclassified to reflect discontinued operations. See Note 3

BPO MANAGEMENT SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2009 AND DECEMBER 31, 2008
(UNAUDITED)

	2009	2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,004,790	\$ 2,895,711
Accounts receivable, net of allowance for doubtful accounts of \$534,858 and \$505,338, respectively	3,933,364	5,408,156
Prepaid expenses and other current assets	1,046,258	928,647
Current assets held for sale	-	2,290,630
Total current assets	5,984,412	11,523,144
Equipment, net	6,828,277	7,170,213
Goodwill	-	2,282,064
Intangible assets, net	3,633,328	4,192,955
Other assets	614,513	1,244,641
Non-current assets held for sale	-	4,447,545
	\$ 17,060,530	\$ 30,860,562
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of lines of credit and long-term debt	\$ 3,050,345	\$ 2,196,652
Current portion of capital lease obligations	487,343	394,765
Accounts payable	5,737,822	4,687,333
Accrued expenses	2,989,265	2,856,021
Restructuring liability	316,711	-
Accrued interest-related party	57,948	-
Accrued dividend payable	1,369,331	1,369,331
Accrued dividend payable-related party	651,281	651,281
Amount due former shareholders of acquired companies	-	1,000,000
Deferred revenues	1,609,883	2,091,277
Related party notes payable	830,246	930,246
Other current liabilities	120,000	137,715
Current liabilities associated with assets held for sale	-	4,101,437
Total current liabilities	17,220,175	20,416,058
Lines of credit and long-term debt, net of current portion	-	722,304
Capital lease obligations, net of current portion	799,488	690,278
Other long-term liabilities	1,110,440	742,520
Non-current liabilities associated with assets held for sale	-	5,694
Total liabilities	19,130,103	22,576,854
Commitments and contingencies (Note 9)		
Stockholders' equity		
Convertible preferred stock, Series B, par value \$1.00; authorized 21,105,000 shares; 21,103,955 shares issued and outstanding	21,103,955	21,103,955
Common stock, par value \$0.10; authorized 1,900,000,000 shares; 15,138,379 shares issued and outstanding	1,513,838	1,516,559
Additional paid-in capital	14,716,978	14,687,206
Accumulated deficit	(39,436,739)	(28,706,729)
Accumulated other comprehensive income (loss), foreign currency translation adjustments	32,395	(317,283)
Total stockholders' equity	(2,069,573)	8,283,708
	\$ 17,060,530	\$ 30,860,562

See accompanying notes to condensed consolidated financial statements.
2008 amounts have been reclassified to reflect assets and liabilities held for sale of discontinued operations. See Note 3

BPO MANAGEMENT SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(UNAUDITED)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Net loss	\$ (10,730,010)	\$ (4,565,811)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Loss from sale of discontinued operations	2,942,175	1,599,374
Depreciation	2,568,181	872,604
Amortization of intangible assets	477,540	788,068
Increase in the reserve for doubtful accounts	321,120	-
Non-cash equity compensation expense	27,051	621,275
Goodwill and intangible asset impairment	2,356,452	-
Changes in operating assets and liabilities:		
Accounts receivable	1,153,672	(1,074,931)
Prepaid expenses and other current assets	247,425	(316,499)
Other assets	265,092	(404,744)
Accounts payable	1,050,489	(481,800)
Accrued expenses	133,244	554,594
Restructuring liability	316,711	-
Accrued interest-related parties	57,948	(27,306)
Accrued dividends-related parties	-	897,556
Amount due former shareholders of acquired companies	-	(215,944)
Deferred revenues	(481,394)	400,836
Other long-term liabilities	370,364	-
Net cash provided by (used in) operating activities	<u>1,076,060</u>	<u>(1,352,728)</u>
Cash flows from investing activities:		
Purchase of equipment and internally developed capitalized software, net	(1,639,067)	(659,895)
Release of restricted cash	-	922,888
Net cash provided by (used in) investing activities	<u>(1,639,067)</u>	<u>262,993</u>
Cash flows from financing activities:		
Proceeds from bank loans	111,230	491,292
Repayment of notes issued to former shareholders of acquired companies	(1,000,000)	(885,827)
Repayment of capital lease obligations	(385,390)	(161,036)
Proceeds from issuance of preferred stock, net of cash paid for commissions and direct costs	-	5,157,996
Dividends accrued on preferred stock	-	(753,461)
Repayment of notes payable - related party	(100,000)	(200,000)
Net cash provided by (used in) financing activities	<u>(1,374,160)</u>	<u>3,648,964</u>
Net cash used in discontinued operations	<u>(711,131)</u>	<u>(419,882)</u>
Effect of exchange rate changes on cash and cash equivalents (cumulative)	<u>757,377</u>	<u>(72,212)</u>
Net change in cash	<u>(1,890,921)</u>	<u>2,067,135</u>
Cash and cash equivalents, beginning of period	<u>2,895,711</u>	<u>857,941</u>
Cash and cash equivalents, end of period	<u>\$ 1,004,790</u>	<u>\$ 2,925,076</u>

See accompanying notes to condensed consolidated financial statements.

2008 amounts have been reclassified to reflect cash flows from discontinued operations. See Note 3

BPO MANAGEMENT SERVICES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
 (UNAUDITED)

	2009	2008
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	\$ 346,840	\$ 300,050
Income taxes	\$ 15,600	\$ 70,465
Supplemental disclosure of non-cash investing and financing activities:		
Acquisition of equipment under capital leases	\$ 587,178	\$ 434,146
Issuance of Series F Preferred Stock	\$ -	\$ 8,949

See accompanying notes to condensed consolidated financial statements.
 2008 amounts have been reclassified to reflect cash flows from discontinued operations. See Note 3

BPO MANAGEMENT SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

1. Organization and Basis of Presentation

Organization

BPO Management Services, Inc. was incorporated in 1982 in the state of Pennsylvania and was previously named Healthaxis, Inc. On December 30, 2008, Healthaxis Inc. (as used in these Condensed Consolidated Financial Statements, "Healthaxis") acquired the publicly held BPO Management Services, Inc. ("Legacy BPOMS") in a reverse merger and immediately changed its name to BPO Management Services, Inc., also referred to "BPOMS." BPOMS is a provider of business process outsourcing services providing information technology outsourcing ("ITO") services, Healthcare administrative systems and related services and financial and accounting outsourcing ("Healthcare") services and human resource outsourcing ("HRO") services to middle market enterprises.

For accounting purposes, the acquisition has been treated as a recapitalization of Legacy BPOMS as the acquirer. The historical consolidated financial statements prior to December 30, 2008, are those of the Legacy BPOMS. All share-related data have been presented giving effect to the recapitalization resulting from the reverse merger. References in these Condensed Consolidated Financial Statements to the "Company" or "BPOMS" refer to BPOMS.

Basis of Presentation

The following unaudited condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the company believes that the disclosures made are adequate to make the information not misleading. Operating results for the three and nine month period ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. The interim condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and related footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2008. For 2008, amounts have been reclassified to reflect discontinued operations on the condensed consolidated statements of operations, condensed consolidated balance sheets, condensed consolidated statements of cash flows and in the notes contained herein (see Note 3).

2. Summary of Significant Accounting Policies

Principles of Consolidation

The condensed consolidated financial statements include the accounts of BPOMS and its wholly-owned subsidiaries. All significant intercompany accounts, transactions and profits among the consolidated entities have been eliminated upon consolidation. Each of the following entities is included in consolidation as of date of its inception or acquisition.

Company	Inception/Acquisition Date
BPO Management Services, Inc. (the "Company") or ("BPOMS")	Inception date: July 26, 2005
Adapsys Document Management LP ("ADM") (2)	Acquired: July 29, 2005
Adapsys LP ("ADP") (2)	Acquired: July 29, 2005
Digica, Inc. ("Digica") (1)	Acquired: January 1, 2006
Novus Imaging Solutions, Inc. ("Novus") (2)	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") (2)	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
Healthaxis Inc. ("Healthaxis") (3)	Acquired: December 30, 2008

(1) Effective January 1, 2008, Digica was merged with Blue Hill

(2) On January 1, 2008, ADM, ADP, Novus and DocuCom were amalgamated into one company, BPO Management Services, Ltd. These operations were sold in July 2009 as discussed in Note 3.

(3) Because the merger of Legacy BPOMS and Legacy Healthaxis took place at the end of fiscal 2008, the operating results for the three and nine months ended September 30, 2009 include those of the Healthcare segment, while the operating results for the three and nine months ended September 30, 2008 do not include the Healthcare segment.

Going Concern

The Company incurred a loss from continuing operations of \$7.8 million and a net decline in cash of \$1.9 million for the nine months ended September 30, 2009. The Company has historically funded its operations from the private placement of shares of its common stock and preferred stock and through the founders' bridge loan facility established in August 2006. To meet the needs of the current business and to fund growth, the Company anticipates raising capital by issuing its securities and/or debt in one or more private transactions, by way of a strategic merger or divestiture of certain assets or operations.

The Company's future capital requirements will depend upon many factors. These factors include but are not limited to sales and marketing efforts, the development of new products and services, possible future corporate mergers or strategic acquisitions or divestitures, the progress of research and development efforts, and the status of competitive products and services. If the Company's anticipated financing transactions do not take place at all and/or are unreasonably delayed, the Company may not have adequate funds to extinguish all remaining liabilities of the Company and fund its current operations going forward.

Although the Company expects to meet its operating capital needs through one or more financing transactions, merger or divestiture of certain assets or operations, there can be no assurance that funds required will be available on terms acceptable to the Company, if at all. If the Company is unable to raise sufficient funds on acceptable terms, it may be not be able to complete its business plan or otherwise continue to operate its business. If equity financing is available to the Company on acceptable terms, it could result in dilution to the Company's existing stockholders.

The report of the Company's independent registered public accounting firm dated March 31, 2009 contained in the Company's condensed consolidated financial statements as of and for the year ended December 31, 2008 included a paragraph that explains that the Company had incurred recurring operating losses, a working capital deficit and an accumulated deficit of \$28.7 million as of December 31, 2008. The report concluded that these matters, among others, raised substantial doubt about the Company's ability to continue as a going concern.

Concentration of Risk

The Company is subject to credit risk primarily through its accounts receivable balances. The Company does not require collateral for its accounts receivable balances. For the three and nine months ended September 30, 2009 one customer accounted for \$1.1 million (18%) and \$3.2 million (16%), respectively, of the Company's total revenues. At September 30, 2009 and December 31, 2008, two customers individually accounted for more than 10% of the Company's accounts receivable as shown in the table below.

	Percent of accounts and note receivable	
	September 30, 2009	Dec. 31, 2008
Customer A	19%	13%
Customer B	11%	11%

Research and Development

The Company's research and development ("R&D") costs consist mainly of software developers' salaries. The Company follows Generally Accepted Accounting Principals ("GAAP") to capitalize software development costs when technological feasibility has been established and to stop capitalization when the product is available for general release to customers. The Company capitalized software development costs of approximately \$140,755 and \$142,741 during the three months ended September 30, 2009 and 2008, respectively and \$446,544 and \$380,341 during the nine months ended September 30, 2009 and 2008, respectively.

Subsequent Events

The Company's Management has evaluated subsequent events through November 13, 2009, which is the date that the Company's condensed consolidated financial statements were filed. Management is aware of no material subsequent events that have occurred since September 30, 2009 that would require recognition or disclosure in the condensed consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the prior period condensed consolidated financial statements to conform to the current presentation. For 2008, amounts have been reclassified to reflect discontinued operations on the condensed consolidated statements of operations, condensed consolidated balance sheets, condensed consolidated statements of cash flows and in the notes contained herein (see Note 3).

Basic and Diluted Loss Per Share

In accordance with GAAP, we calculate basic and diluted net loss per share using the weighted average number of common shares outstanding during the periods presented and adjust the amount of net loss, used in this calculation, for preferred stock dividends declared during the period.

We incurred a net loss in each period presented, and as such, did not include the effect of potentially dilutive common stock equivalents in the diluted net loss per share calculation, as their effect would be anti-dilutive for all periods. Potentially dilutive common stock equivalents would include the common stock issuable upon the conversion of preferred stock and the exercise of warrants and stock options that have conversion or exercise prices below the market value of our common stock at the measurement date. As of September 30, 2009 and 2008, all potentially dilutive common stock equivalents amounted to 27,643,809 and 142,383,018 shares, respectively.

The following table illustrates the computation of basic and diluted loss per share from continuing and discontinued operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Loss From Continuing Operations:				
Numerator:				
Loss from continuing operations	\$ (4,011,830)	\$ (1,126,318)	\$ (7,787,835)	\$ (2,966,437)
Less:				
Preferred dividends paid in stock	-	(34,759)	-	(68,836)
Loss and numerator used in computing basic and diluted loss per share	<u>\$ (4,011,830)</u>	<u>\$ (1,161,077)</u>	<u>\$ (7,787,835)</u>	<u>\$ (3,035,273)</u>
Loss From Discontinued Operations:				
Numerator:				
Loss from discontinued operations and numerator used in computing basic and diluted loss per share	<u>\$ (203,854)</u>	<u>\$ (736,088)</u>	<u>\$ (2,942,175)</u>	<u>\$ (1,599,374)</u>
Denominator:				
Denominator for basic and diluted net loss per share-weighted average number of common shares outstanding	<u>15,138,379</u>	<u>12,671,034</u>	<u>15,156,517</u>	<u>12,529,216</u>
Loss per share - basic and diluted				
Loss from continuing operations	\$ (0.27)	\$ (0.09)	\$ (0.51)	\$ (0.24)
Loss from discontinued operations	(0.01)	(0.06)	(0.19)	(0.13)
Net loss per share - basic and diluted	<u>\$ (0.28)</u>	<u>\$ (0.15)</u>	<u>\$ (0.70)</u>	<u>\$ (0.37)</u>

The following table sets forth potential shares of common stock that are not included in the diluted net loss per share because to do so would be antidilutive since the company reported net losses in all the reporting periods:

	As of September 30,	
	2009	2008
Options to purchase shares of common stock	4,492,563	5,002,954
Warrants to purchase shares of common stock	2,047,291	68,086,261
Shares of convertible preferred stock - Legacy BPOMS Series A	-	1,637,710
Shares of convertible preferred stock - Legacy BPOMS Series B	-	1,449,204
Shares of convertible preferred stock - Legacy BPOMS Series D	-	22,833,341
Shares of convertible preferred stock - Legacy BPOMS Series D-2	-	20,999,998
Shares of convertible preferred stock - Legacy BPOMS Series F	-	22,373,550
Shares of convertible preferred stock - Series B	<u>21,103,955</u>	<u>-</u>
Total	<u>27,643,809</u>	<u>142,383,018</u>

Impact of Recently Issued Accounting Standards

In June 2009, the FASB issued a new accounting standard which provides guidance in accounting for transfers of financial assets to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. This standard must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. This standard must be applied to transfers occurring on or after the effective date. We are currently evaluating the potential impact that the adoption of this statement will have on our financial position and results of operations and will adopt the provisions of this standard in fiscal 2010.

In June 2009, the FASB issued a new accounting standard which changes the consolidation rules as they relate to variable interest entities. Specifically, the new standard makes significant changes to the model for determining who should consolidate a variable interest entity, and also addresses how often this assessment should be performed. This standard is effective for financial statements issued for fiscal years beginning after November 15, 2009, with earlier adoption prohibited. We are currently evaluating the potential impact that the adoption of this standard will have on our financial position and results of operations and will adopt the provisions of this standard in fiscal 2010.

In June 2009, the FASB issued new accounting standards codification and the hierarchy of generally accepted accounting principles. This Codification is now the single source of authoritative United States accounting and reporting standards applicable for all non-governmental entities, with the exception of the SEC and its staff. The Codification, which changes the referencing of financial standards, is effective for interim or annual financial periods ending after September 15, 2009. Therefore, in all references made to US GAAP will now use the new Codification numbering system prescribed by the FASB. As the Codification is not intended to change or alter existing US GAAP, it is not expected to have any impact on our consolidated financial position or results of operations.

In October 2009, the FASB issued a new accounting standard which provides guidance for arrangements with multiple deliverables. Specifically, the new standard requires an entity to allocate arrangement consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices. In addition, the new standard eliminates the use of the residual method of allocation and requires the relative-selling-price method in all circumstances in which an entity recognizes revenue for an arrangement with multiple deliverables. In October 2009, the FASB also issued a new accounting standard which changes revenue recognition for tangible products containing software and hardware elements. Specifically, if certain requirements are met, revenue arrangements that contain tangible products with software elements that are essential to the functionality of the products are scoped out of the existing software revenue recognition accounting guidance and will be accounted for under the multiple-element arrangements revenue recognition guidance discussed above. Both standards will be effective for us in the first quarter of 2011. Early adoption is permitted. We are currently evaluating the impact of the adoption of these accounting standards on our condensed consolidated financial statements.

3. Sale of Discontinued Operations

In the second quarter of 2009, the Board of Directors authorized management to pursue the sale of the BPOMS' Canadian operations ("BPOMS Ltd."). On July 30, 2009, BPOMS entered into a Share Purchase Agreement with CriticalControl Solutions Corp., an Alberta corporation located in Calgary, Alberta, Canada which then closed on July 31, 2009. Under the terms of the Agreement, BPOMS sold all of the issued and outstanding capital stock of BPOMS Ltd., an Ontario corporation and all intercompany debt owed by BPOMS, Ltd., to the buyer. The total purchase price payable at closing to BPOMS was 100,000 Canadian Dollars. BPOMS, Ltd., with the backing of the buyer, became responsible for its outstanding liabilities (which totaled \$4.7 million Canadian Dollars at closing).

BPOMS Ltd. operations have been accounted for as discontinued operations in prior periods. The results of operations of these businesses have been removed from the results of continuing operations for all periods presented. The assets and liabilities of discontinued operations have been reclassified and are segregated in the condensed consolidated balance sheets. The Company recorded an impairment charge of approximately \$2,420,170 in the second quarter of 2009 to write down the discontinued operations to its estimated fair value. During the third quarter of 2009, the sale of BPOMS, Ltd. resulted in an additional charge to discontinued operations of approximately \$203,854. BPOMS, Ltd. was the operating subsidiary in which all of the Company's Canadian operations were maintained and represents a substantial component of its ECM business.

The operating results of the Canadian based business have been classified as discontinued operations and are summarized below:

Discontinued Operations

	For the three months ended September 30,		For the nine months ended September 30,	
	2009	2008	2009	2008
Revenues	\$ -	\$ 2,149,545	\$ 6,252,893	\$ 9,829,511
Loss from discontinued operations	\$ (203,854)	\$ (2,462,660)	\$ (2,942,175)	\$ (1,599,374)
Loss per share from discontinued operations	\$ (0.01)	\$ (0.19)	\$ (0.19)	\$ (0.13)
Basic and diluted weighted average common shares outstanding	15,138,379	12,671,034	15,156,517	12,529,216

The assets and liabilities of BPOMS Ltd. held for sale as of December 31, 2008 are summarized below:

	December 31, 2008
Assets Held For Sale	
Cash and cash equivalents	\$ -
Accounts receivable, net	2,017,649
Inventory	181,968
Prepaid expenses and other current assets	91,013
Total current assets	2,290,630
Equipment, net	565,564
Goodwill	2,574,107
Intangible assets, net	1,307,874
Other assets	-
Total non-current assets	\$ 4,447,545
Liabilities Associated With Assets Held For Sale	
Bank debt	\$ 1,257,482
Accounts payable	1,016,200
Accrued expenses	572,551
Deferred revenues	865,862
Income taxes payable	146,695
Other current liabilities	242,647
Total current liabilities	4,101,437
Long-term bank debt	5,694
Total non-current liabilities	\$ 5,694

4. Business Combinations

On December 30, 2008, the Company completed a reverse merger with Healthaxis, in which it exchanged its outstanding common and preferred series shares for the outstanding common and preferred shares of Healthaxis. The following table summarizes estimated fair values of the assets acquired and liabilities assumed from Healthaxis at the date of acquisition:

	<u>Healthaxis</u>
Cash & cash equivalents	\$ 1,973,907
Accounts receivable	2,212,972
Prepays	2,068,757
Property, plant and equipment	2,917,563
Other assets	959,349
Goodwill	2,282,064
Identifiable intangible assets	1,600,000
Total assets acquired	<u>14,014,612</u>
Current liabilities	5,656,486
Other non current liabilities	1,360,147
Total liabilities assumed	<u>7,016,633</u>
Net assets acquired	<u>\$ 6,997,979</u>

An acquired identifiable intangible asset in the amount of \$1,600,000 was assigned to customer contracts. The purchase price and costs associated with the reverse merger of Healthaxis exceeded the Company's allocation of the fair value of net assets acquired by \$2,282,064, which was assigned to goodwill. The amount assigned to goodwill is not expected to be deductible for United States income tax or state income tax purposes.

The following unaudited pro forma information presents the combined results of operations of the Company as though the merger with Healthaxis had been consummated on January 1, 2008. The pro forma financial information does not necessarily reflect the actual results of operations had the merger been consummated at the beginning of the period or which may be attained in the future.

Unaudited Pro Forma Statement of Operations For the Three Months Ended September 30, 2008:

	<u>BPOMS</u>	<u>Healthaxis</u>	<u>Pro Forma</u>
Revenues	\$ 3,743,312	\$ 3,676,000	\$ 7,419,312
Net loss	<u>\$ (1,862,406)</u>	<u>\$ (7,678,000)</u>	<u>\$ (9,540,406)</u>
Basic and diluted loss per common share	<u>\$ (0.15)</u>	<u>\$ (0.91)</u>	<u>\$ (0.63)</u>
Basic and diluted weighted average common shares outstanding	<u>12,671,034</u>	<u>8,427,295</u>	<u>15,138,379</u>

Unaudited Pro Forma Statement of Operations For the Nine Months Ended September 30, 2008:

	<u>BPOMS</u>	<u>Healthaxis</u>	<u>Pro Forma</u>
Revenues	\$ 11,166,690	\$ 11,615,000	\$ 22,781,690
Net loss	<u>\$ (4,565,811)</u>	<u>\$ (8,301,000)</u>	<u>\$ (12,866,811)</u>
Basic and diluted loss per common share	<u>\$ (0.36)</u>	<u>\$ (0.99)</u>	<u>\$ (0.85)</u>
Basic and diluted weighted average common shares outstanding	<u>12,529,216</u>	<u>8,385,149</u>	<u>15,156,517</u>

5. Lines of Credit and Long-Term Debt

Blue Hill has a credit facility from Comerica Bank which includes a revolving operating line limited to the lesser of the \$1,000,000 maximum availability or 80% of eligible accounts receivable and carries interest at the daily adjusting LIBOR rate plus 4.0%, which amounted to 4.25% at September 30, 2009, a \$500,000 term loan amortized over a four year period and bearing interest at the Comerica Bank prime rate plus 1.25%, which amounted to 4.5% at September 30, 2009, a specific advance facility for equipment purchases up to a maximum of \$500,000 bearing interest at the Comerica Bank prime rate plus 1.00%, which amounted to 4.25% at September 30, 2009 and a specific advance facility for equipment purchases up to a maximum of \$700,000 bearing interest at the daily adjusting LIBOR rate plus 6.0%, which amounted to 6.25% at September 30, 2009. The loans are supported by a general security interest in all the assets of Blue Hill and the operating facility is also supported by the guaranty of Legacy BPOMS and the subordination of loans of a minimum of \$1,400,000, payable by Blue Hill to Legacy BPOMS, to Comerica Bank. At September 30, 2009 Blue Hill had an outstanding balance of \$646,485 under the operating line, \$291,667 under the term loan, \$43,687 under the equipment loan and \$674,000 under the second equipment loan. These loan agreements contain covenants pertaining to maintenance of various ratios. At September 30, 2009, the Company was in breach of these covenants. Under the terms of the agreement, the bank may call the loans if the Company is in violation of any restrictive covenant. The bank has provided a notice of default to the Company and has not waived the ratio requirement. Accordingly the entire amount of the loans, \$1,655,839, including the long-term portion of approximately \$717,108, has been included in current liabilities.

On July 22, 2009, certain of the Company's healthcare subsidiaries entered into an amended and restated loan and security agreement with Silicon Valley Bank (the "Amended LSA"). Under this agreement, the subsidiaries may borrow up to the lesser of (i) \$1.6 million or (ii) 80% of eligible accounts receivable subject to certain adjustments. Advances under the Amended LSA bear interest at SVB's prime rate (4.0% at September 30, 2009) plus 3.5% plus a collateral handling fee of 0.35% per month. The Amended LSA contains customary affirmative and negative covenants including the maintenance of a specified level of EBITDA as defined by the Amended LSA. Advances under the Amended LSA are covered by a first priority lien on substantially all the assets of the Company's healthcare subsidiaries, including intellectual property. The Amended LSA matures June 14, 2010. At September 30, 2009, the Company's healthcare subsidiaries had outstanding balances of \$1,224,130 and \$170,376 under the related revolving line and equipment line, respectively.

6. Related Party Transactions

The Company is a party to a Remote Resourcing Agreement with Healthcare BPO Partners L.P., a company affiliated with a significant shareholder. Healthcare BPO Partners, based in Jaipur, India, provides personnel and infrastructure that is utilized by the Company to provide business process outsourcing services and other software development and technical support services to support the Company's operations. The resources provided by Healthcare BPO Partners supplement the Company's existing wholly-owned operations in Utah, Texas and Jamaica. For the three and nine months ended September 30, 2009, the Company incurred costs of approximately \$111,000, and \$334,000 related to the Resourcing Agreement. At September 30, 2009 and December 31, 2008, the Company had accounts payable to Healthcare BPO Partners of approximately \$86,000 and \$124,000, respectively.

7. Segment and Geographic Data

The Company is a business process outsourcing services provider. The Company's operating segments are:

- Information Technology services outsourcing (ITO),
- Healthcare administrative systems and related services and financial and accounting outsourcing services or (Healthcare) and
- Human resources outsourcing (HRO)

The Company applies GAAP which requires segments to be determined and reported based on how management measures performance and makes decisions about allocating resources. The Company's management monitors unallocable expenses related to the Company's corporate activities in a separate "Corporate," which is reflected in the tables below.

Due to the classification of BPOMS Ltd. as discontinued operations, these operations have been removed from the segment discussion contained herein. The operations of BPOMS Ltd. comprised approximately 95% of the segment the Company had previously reported as its ECM operations, thus the Company has eliminated any further discussion of the ECM segment and has reclassified the remaining former ECM operations in its ITO Operations discussion.

The significant components of worldwide operations by reportable operating segment for the three and nine months ended September 30, 2009 and 2008, respectively, are:

	For the three months ended September 30,		For the nine months ended September 30,	
	2009	2008	2009	2008
Net revenues				
ITO	\$ 2,676,977	\$ 3,377,155	\$ 8,510,841	\$ 9,827,698
Healthcare	3,334,816	-	10,446,628	-
HRO	86,139	366,157	614,978	1,338,992
Consolidated	<u>\$ 6,097,932</u>	<u>\$ 3,743,312</u>	<u>\$ 19,572,447</u>	<u>\$ 11,166,690</u>
Operating income (loss)				
ITO	\$ (825,345)	\$ (65,139)	\$ (2,324,955)	\$ 107,271
Healthcare	145,019	-	396,211	-
HRO	(59,589)	(154,683)	(259,973)	(314,002)
Corporate	(3,142,317)	(846,895)	(5,178,730)	(2,560,872)
Consolidated	<u>\$ (3,882,232)</u>	<u>\$ (1,066,717)</u>	<u>\$ (7,367,447)</u>	<u>\$ (2,767,603)</u>
Depreciation and amortization expense				
ITO	\$ 544,151	\$ 456,406	\$ 1,538,490	\$ 1,312,539
Healthcare	411,935	-	1,275,045	-
HRO	13,611	23,289	40,768	153,868
Corporate	62,409	65,086	191,418	194,265
Consolidated	<u>\$ 1,032,106</u>	<u>\$ 544,781</u>	<u>\$ 3,045,721</u>	<u>\$ 1,660,672</u>

The Company's continuing consolidated operations are based in domestic and foreign subsidiaries and branch offices in the U.S. and Germany. The following are significant components of worldwide operations by geographic location:

	For the three months ended September 30,		For the nine months ended September 30,	
	2009	2008	2009	2008
Net revenues				
North America	\$ 6,009,192	\$ 3,496,174	\$ 19,220,235	\$ 10,561,481
Europe	88,740	247,138	352,212	605,209
Consolidated	<u>\$ 6,097,932</u>	<u>\$ 3,743,312</u>	<u>\$ 19,572,447</u>	<u>\$ 11,166,690</u>
Long-Lived Assets				
	At September 30, 2009	At December 31, 2008		
North America	\$ 11,049,120	\$ 18,956,867		
Europe	26,998	15,515		
Consolidated	<u>\$ 11,076,118</u>	<u>\$ 18,972,382</u>		

8. Restructuring Plan and Liability

In the second quarter of 2009, the Company initiated a restructuring program to reduce overhead costs, which included workforce reduction and consolidation of administrative activities. These restructuring charges are generally of a nonrecurring nature and are excluded from segment financial results, which is our measure used for evaluating performance and for decision-making purposes. For the quarter ended June 30, 2009, we recorded approximately \$150,000 related to employee severance and approximately \$232,000 for lease exit costs based on the present value of remaining lease rentals reduced by estimated sublease rentals that could be reasonably obtained for the property. The Company paid approximately \$31,000 during the three months ended September 30, 2009 with a remaining restructuring liability of \$316,711 as of September 30, 2009.

9. Commitments and Contingencies

From time to time we may be involved in claims arising in the ordinary course of business. However, except as described below, there are no other pending legal proceedings or claims to which we are a party or of which any of our property is subject that in the opinion of management, could reasonably be expected to have a material adverse effect on our business or financial condition. Due to our cash flow constraints, the number of vendors with past due balances and the aggregate dollar amount of those past due balances have continued to grow. We expect that the number of threatened claims will continue to grow and that some of these vendors may file lawsuits seeking to collect amounts owed. The Company does not believe that current threats of litigation from any single vendor would materially impact the Company, but the aggregate value of the claims could have a material negative impact on the Company if a substantial number of these vendors file lawsuits against us.

BridgePointe Master Fund Ltd.

The Company is a defendant along with two of its officers in a lawsuit that commenced on May 28, 2009 in the Supreme Court of the State of New York, County of New York, Index No. 601661-2009 entitled *BridgePointe Master Fund Ltd. v. BPO Management Services, Inc., James Cortens, and Patrick Dolan*. The complaint asserts, among other things, claims for (1) breach of certain provisions of warrants held by BridgePointe; (2) breach of the implied covenant of good faith and fair dealing related to certain stock agreements to which Legacy BPOMS and BridgePointe were parties; and (3) breach of fiduciary duty against two executive officers of BPO Management Services, Inc., Mr. Patrick Dolan and Mr. James Cortens. The complaint seeks damages in excess of \$3.2 million from the Company and the other defendants. The Company does not currently believe that the claims have any merit. On August 25, 2009, the Company filed its answer and a motion to dismiss the claims against the two officers and directors named in the suit. The Company intends to continue to vigorously defend the lawsuit.

10. Goodwill and Intangible Asset Impairment

The Company performs its annual goodwill and intangible asset impairment review in the fourth quarter of each year or when events and circumstances indicate that goodwill or intangible assets may be impaired. As of September 30, 2009, management reviewed the carrying value of goodwill and intangible assets due to a change in circumstances and determined that goodwill and intangible asset impairment was probable and reasonably estimable. The Company recognized a goodwill impairment charge of approximately \$2.3 million and an intangible asset impairment charge of approximately \$74,000.

ITEM 2. 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 acquirer 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 acquirer. 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 report reflects the Merger as if Legacy BPOMS had issued consideration to Legacy Healthaxis shareholders. As a result, financial information derived from the Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Cash Flows included with this report for the three and nine months ended September 30, 2008 reflects the consolidated financial results of Legacy BPOMS alone, while financial information derived from the Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Cash Flows for the three and nine months ended September 30, 2009 reflects the post-merger consolidated financial results of BPOMS. 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 Condensed Consolidated Balance Sheet at September 30, 2009 reflects the post-merger consolidated assets and liabilities of BPOMS. Please see Note 4 in the Notes to Condensed Consolidated Financial Statements for additional discussion of the Merger and a pro forma presentation of financial results for the combined companies for the three and nine months ended September 30, 2008.

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 acquirer.

We provide business process outsourcing (BPO) services primarily to middle-market enterprises in the United States. “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 on an outsourced and/or recurring revenue basis.

Our primary business offerings are:

- Information technology services outsourcing or “ITO”;
- Healthcare administrative systems and related services and financial and accounting outsourcing services or “Healthcare and F&A”, and
- Human resources information systems and related outsourcing services, or “HRO”

As of July 31, 2009, the Company divested its Canadian operations, and thus the financial information in this report is provided for the Canadian operations as discontinued operations, and the results of the Canadian operations have therefore been removed from the following discussion of the results of continuing operations.

Our business plan for 2009 is to focus on our core strengths in information technology outsourcing and our offerings in managed services and software for healthcare benefits administration, finance and accounting, and human resources. We believe that our growth opportunities in these areas are the keys for putting BPOMS on a faster track for growth and profitability. In the second quarter of 2009, we initiated a restructuring program to reduce overhead costs, which included workforce reduction and consolidation of administrative activities. We will continue our work on integrating the Company’s operations to achieve additional financial synergies. Our longer term strategy continues to focus on organic growth and accretive acquisitions. Our business and strategic plans for 2009 are likely to be negatively impacted by the current severe financial conditions 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 condition of 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.”

The third quarter loss from operations was \$3.9 million, which included non-cash expenses for depreciation and amortization of \$1.0 million and for goodwill and intangible asset impairment of \$2.4 million. We are starting to realize cost savings from our restructuring efforts as evidenced by the \$527,000 reduction in selling, general and administrative expense as compared to the second quarter of 2009. More importantly, our ITO operations have recently signed contracts with new customers with a total contract value exceeding \$5.0 million and have several more opportunities with total contract value of more than \$9.0 million in the contracting or advanced negotiation stage.

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 acquirer. The historical statements of operations included in this annual report for the three and nine months ended September 30, 2008, are those of Legacy BPOMS.

Except as referenced in footnote (2) below, the following entities of Legacy BPOMS are included in the consolidated results of operations from the date of their respective acquisitions:

Company	Segment	Inception/Acquisition Date
BPO Management Services, Inc. (the "Company") or ("BPOMS")	Corporate	Inception date: July 26, 2005
Adapsys Document Management LP ("ADM") (2)	(2)	Acquired: July 29, 2005
Adapsys LP ("ADP") (2)	(2)	Acquired: July 29, 2005
Digica, Inc. ("Digica") (1)	ITO	Acquired: January 1, 2006
Novus Imaging Solutions, Inc. ("Novus") (2)	(2)	Acquired: September 30, 2006
NetGuru Systems, Inc. ("NGSI")	ITO	Acquired: December 15, 2006
Research Engineers, GmbH ("GmbH")	ITO	Acquired: December 15, 2006
DocuCom Imaging Solutions, Inc. ("DocuCom") (2)	(2)	Acquired: June 21, 2007
Human Resource Micro-Systems, Inc. ("HRMS")	HRO	Acquired: June 29, 2007
Blue Hill Data Services, Inc. ("Blue Hill")	ITO	Acquired: October 10, 2007
BPO Management Services, Ltd. ("BPOMS Ltd") (2)	(2)	Amalgamation: January 1, 2008
Healthaxis Inc. ("Healthaxis") (3)	Healthcare	Acquired: December 30, 2008

(1) Effective January 1, 2008, Digica was merged with Blue Hill

(2) On January 1, 2008, ADM, ADP, Novus and DocuCom were amalgamated into one company, BPO Management Services, Ltd. These operations were sold in July 2009 as discussed in Note 3.

(3) Because the merger of Legacy BPOMS and Legacy Healthaxis took place at the end of fiscal 2008, the operating results for the three and nine months ended September 30, 2009 include those of the Healthcare segment, while the operating results for the three and nine months ended September 30, 2008 do not include the Healthcare segment.

Operations Reporting

BPOMS combines its continuing operating entities into three separate reporting segments:

- IT Outsourcing ("ITO") comprised of Blue Hill, Digica (which was merged with Blue Hill in January 2008), NGSI and GmbH,
- Healthcare comprised of Legacy Healthaxis, and
- Human Resources Outsourcing ("HRO") comprised of HRMS.

Three Months Ended September 30, 2009 Compared to Three Months Ended September 30, 2008

ITO Operations

	For the three months ended September 30,		
	2009	2008	Change
Revenues:	\$ 2,676,977	\$ 3,377,155	\$ (700,178)
Operating expenses :			
Cost of services provided	1,918,628	1,733,499	(185,129)
Selling, general and administrative	915,114	1,171,168	256,054
Research and development	124,429	81,221	(43,208)
Depreciation and amortization	544,151	456,406	(87,745)
Total operating expenses	3,502,322	3,442,294	(60,028)
Loss from operations before interest and income taxes	\$ (825,345)	\$ (65,139)	\$ (760,206)

Sales for the three months ended September 30, 2009 of \$2,676,977 decreased 21% from \$3,377,155 for the three months ended September 30, 2008 due to a decline in information technology consulting services provided on a time and materials basis, reduced sales of collaborative software tools, and the loss of legacy data center customers that were acquired and consolidated their IT operations with those of the acquiror. Cost of services provided of \$1,918,628 increased from \$1,733,499 primarily due to increased costs for software and licensing fees of approximately \$300,000, offset with reductions of consulting costs of approximately \$130,000. Much of these expenses related to securing and related increasing support of additional contracts that are anticipated to generate greater revenue as they come on stream. Selling, general and administrative expenses of \$915,114 decreased 22% from \$1,171,168 primarily due to a decrease in payroll costs of approximately \$48,000 and consulting costs of approximately \$190,000. Research and development (“R&D”) expenses for the three months ended September 30, 2009 of \$124,429 increased \$43,208 from \$81,221 primarily due to increases in software developers’ wages for development of enhancements to and integrations with the EReview collaborative software product. Depreciation and amortization expenses for the three months ended September 30, 2009 increased \$87,745 primarily due to the acquisition of fixed assets throughout 2008 and 2009, offset by the reduction of amortization expense of approximately \$112,500 due to the impairment loss of \$2,765,429 on intangible assets recorded at December 31, 2008.

Healthcare Operations (1)

For Three Months Ended	September 30, 2009	% of Revenue
Revenues:	\$ 3,334,816	
Operating expenses :		
Cost of services provided	2,515,981	75.4%
Selling, general and administrative	261,881	7.9%
Research and development (2)	-	0.0%
Depreciation and amortization	411,935	12.4%
Total operating expenses	3,189,797	95.7%
Income from operations before interest and income taxes	\$ 145,019	4.3%

(1) Due to the merger with Legacy Healthaxis occurring on December 30, 2008, there is no comparable 2008 period with which to compare Healthcare's quarterly results for the three months ended September 30, 2009.

(2) The Company capitalized software development costs of approximately \$118,003 for the three months ended September 30, 2009.

HRO Operations

	For the three months ended September 30,		
	2009	2008	Change
Revenues	\$ 86,139	\$ 366,157	\$ (280,018)
Operating expenses :			
Cost of services provided	77,181	110,457	33,276
Selling, general and administrative	54,936	387,094	332,158
Depreciation and amortization	13,611	23,289	9,678
Total operating expenses	\$ 145,728	\$ 520,840	\$ 375,112
Loss from operations before interest and income taxes	\$ (59,589)	\$ (154,683)	\$ 95,094

Sales for the three months ended September 30, 2009 of \$86,139 decreased from \$366,157 for the three months ended September 30, 2008 due to a significant drop in professional services revenue combined with a reduction in software licensing fees and lower maintenance renewals as companies have dramatically reduced spending on less critical administrative applications. Cost of services provided of \$77,181 decreased from \$110,457 primarily due to the reduction of personnel. Selling, general and administrative expenses of \$54,936 decreased from \$387,094 due to reductions in personnel, consultant fees and variable sales and marketing costs. The change in depreciation and amortization expense between periods was due to a SFAS revaluation in the second quarter of 2008 which resulted in a reduction to the values previously assigned to fixed assets and intangible assets. Software development costs of approximately \$29,600 and \$70,600 were capitalized for the three months ended September 30, 2009 and 2008, respectively.

Corporate Operations

	For the three months ended September 30,		
	2009	2008	Change
Operating expenses :			
Selling, general and administrative	\$ 723,456	\$ 574,718	\$ (148,738)
Depreciation and amortization	62,409	65,086	2,677
Stock based compensation	-	207,091	207,091
Restructuring costs	-	-	-
Goodwill & Intangible asset impairment	2,356,452	-	(2,356,452)
Total operating expenses before interest and income taxes	\$ 3,142,317	\$ 846,895	\$ (2,295,422)

Selling, general and administrative expenses for the three months ended September 30, 2009 of \$723,456 increased from \$574,718 for the three months ended September 30, 2008, primarily due to the addition of corporate related expenses in the 2009 period from the reverse merger with Legacy Healthaxis of approximately \$157,000 partially offset by broad-based decreases in corporate operating costs resulting from our restructuring and consolidation efforts. The decrease in stock-based compensation expense is a result of all Legacy BPOMS stock-based awards becoming fully vested and completely expensed as of December 31, 2008, a result of the reverse merger with Legacy Healthaxis on December 30, 2008. The goodwill and intangible asset impairment charge resulted from Management's review of the carrying value of the assets compared to their fair value during the three months ended September 30, 2009.

Interest Expense

	For the three months ended September 30,		
	2009	2008	Change
Interest expense:			
Related parties	\$ 18,782	\$ 27,148	8,366
Other, net	110,816	12,953	(97,863)
Total interest expense	<u>\$ 129,598</u>	<u>\$ 40,101</u>	<u>\$ (89,497)</u>

Total interest expense for the three months ended September 30, 2009 of \$129,598 increased \$89,497 from \$40,101 for the three months ended September 30, 2008, primarily due to the increased usage of various loan facilities and the addition of approximately \$57,450 in interest expense associated with the operations of our new Healthcare segment, partially offset by the reduction in notes payable to related parties.

Nine Months Ended September 30, 2009 Compared to Nine Months Ended September 30, 2008

ITO Operations

	For the nine months ended September 30,		
	2009	2008	Change
Revenues:	<u>\$ 8,510,841</u>	<u>\$ 9,827,698</u>	<u>\$ (1,316,857)</u>
Operating expenses :			
Cost of services provided	5,727,889	4,820,700	(907,189)
Selling, general and administrative	3,220,228	3,358,930	138,702
Research and development	349,189	228,258	(120,931)
Depreciation and amortization	<u>1,538,490</u>	<u>1,312,539</u>	<u>(225,951)</u>
Total operating expenses	<u>10,835,796</u>	<u>9,720,427</u>	<u>(1,115,369)</u>
Income (loss) from operations before interest and income taxes	<u>\$ (2,324,955)</u>	<u>\$ 107,271</u>	<u>\$ (2,432,226)</u>

Sales for the nine months ended September 30, 2009 of \$8,510,841 decreased 13% from \$9,827,698 for the nine months ended September 30, 2008 due to a decline in information technology consulting services provided on a time and materials basis, reduced sales of collaborative software tools, and the loss of legacy data center customers that were acquired and consolidated their IT operations with those of the acquiror. Cost of services provided of \$5,727,889 increased from \$4,820,700 primarily due to increased costs for software and licensing fees of approximately \$786,000 and increased wages of approximately \$265,000 offset by reductions in consulting fees of approximately \$143,000. Much of these expenses related to securing and related increasing support of additional contracts that are anticipated to generate greater revenue as they come on stream. Selling, general and administrative expenses of \$3,220,228 decreased from \$3,358,930 primarily due to a reduction in payroll costs of approximately \$117,000, reduction in consultant fees of approximately \$147,000, partially offset with an increase in bad debt expense of approximately \$138,000. Research and development ("R&D") expenses for the nine months ended September 30, 2009 of \$349,189 increased \$120,931 from \$228,258 primarily due to increases in software developers' wages for development of enhancements to and integrations with the EReview collaborative software product. Depreciation and amortization expenses for the nine months ended September 30, 2009 increased \$225,951 primarily due to the continued acquisition of fixed assets throughout 2008 and the first nine months of 2009, offset by the reduction of amortization expense of approximately \$337,500 due to the impairment loss of \$2,765,429 on intangible assets recorded at December 31, 2008.

Healthcare Operations (1)

For Nine Months Ended	September 30, 2009	% of Revenue
Revenues:	<u>\$ 10,446,628</u>	
Operating expenses :		
Cost of services provided	7,984,285	76.4%
Selling, general and administrative	791,087	7.6%
Research and development (2)	-	0.0%
Depreciation and amortization	<u>1,275,045</u>	<u>12.2%</u>
Total operating expenses	<u>10,050,417</u>	<u>96.2%</u>
Income from operations before interest and income taxes	<u>\$ 396,211</u>	<u>3.8%</u>

(1) Due to the merger with Legacy Healthaxis occurring on December 30, 2008, there is no comparable 2008 period with which to compare Healthcare's results for the nine months ended September 30, 2009.

(2) The Company capitalized software development costs of approximately \$339,050 for the nine months ended September 30, 2009.

HRO Operations

	For the nine months ended September 30,		
	2009	2008	Change
Revenues	<u>\$ 614,978</u>	<u>\$ 1,338,992</u>	<u>\$ (724,014)</u>
Operating expenses :			
Cost of services provided	295,783	392,468	96,685
Selling, general and administrative	538,400	1,106,658	568,258
Depreciation and amortization	<u>40,768</u>	<u>153,868</u>	<u>113,100</u>
Total operating expenses	<u>\$ 874,951</u>	<u>\$ 1,652,994</u>	<u>\$ 778,043</u>
Loss from operations before interest and income taxes	<u>\$ (259,973)</u>	<u>\$ (314,002)</u>	<u>\$ 54,029</u>

Sales for the nine months ended September 30, 2009 of \$614,978 decreased from \$1,338,992 for the nine months ended September 30, 2008 primarily due to a significant drop in professional services revenue combined with a reduction in software licensing fees and lower maintenance renewals as companies have dramatically reduced spending on less critical administrative applications. Cost of services provided of \$295,783 decreased from \$392,468 primarily due to the reduction of personnel. Selling, general and administrative expenses of \$538,400 decreased from \$1,106,658 as reductions in personnel and variable sales and marketing costs were somewhat offset by an increase in bad debt expense of approximately \$85,000. Depreciation and amortization expense for the nine months ended September 30, 2009 decreased \$113,100 from \$153,868 for the nine months ended September 30, 2008 primarily due to a SFAS revaluation in the second quarter of 2008 which resulted in a reduction of values previously assigned to fixed assets and intangible assets. Software development costs of \$84,700 and \$237,600 were capitalized for the nine months ended September 30, 2009 and 2008, respectively.

Corporate Operations

	For the nine months ended September 30,		
	2009	2008	Change
Operating expenses :			
Selling, general and administrative	\$ 2,230,320	\$ 1,745,332	\$ (484,988)
Depreciation and amortization	191,418	194,265	2,847
Stock based compensation	18,333	621,275	602,942
Restructuring costs	382,207	-	(382,207)
Goodwill & Intangible asset impairment	2,356,452	-	(2,356,452)
Total operating expenses before interest and income taxes	<u>\$ 5,178,730</u>	<u>\$ 2,560,872</u>	<u>\$ (2,617,858)</u>

Selling, general and administrative expenses for the nine months ended September 30, 2009 of \$2,230,320 increased from \$1,745,332 for the nine months ended September 30, 2008. For the nine months ended September 30, 2008, the Company released a contingent liability of approximately \$215,000, and as a result, the prior year expenses are lower by this amount. The overall change primarily results from the release of this liability combined with corporate related expenses in the 2009 period from the reverse merger with Legacy Healthaxis of approximately \$335,000. These changes were partially offset by a broad based decrease of overall corporate expenses resulting from our restructuring and consolidation efforts. The decrease in stock-based compensation expense is a result of all Legacy BPOMS stock-based awards became fully vested and completely expensed as of December 31, 2008, a result of the reverse merger with Legacy Healthaxis on December 30, 2008. In the second quarter of 2009, the Company initiated a restructuring program to reduce overhead costs, which included workforce reduction and consolidation of administrative activities. These restructuring charges are generally of a nonrecurring nature and are excluded from segment financial results, which is our measure used for evaluating performance and for decision-making purposes. For the nine months ended September 30, 2009, we recorded approximately \$150,000 related to employee severance and approximately \$232,000 for lease exit costs based on the present value of remaining lease rentals reduced by estimated sublease rentals that could be reasonably obtained for the property. The goodwill and intangible asset impairment charge resulted from Management's review of the carrying value of the assets compared to their fair value during the three months ended September 30, 2009.

Interest Expense

	For the nine months ended September 30,		
	2009	2008	Change
Interest expense:			
Related parties	\$ 57,948	\$ 80,853	22,905
Other, net	346,840	54,029	(292,811)
Total interest expense	<u>\$ 404,788</u>	<u>\$ 134,882</u>	<u>\$ (269,906)</u>

Total interest expense for the nine months ended September 30, 2009 of \$404,788 increased \$269,906 from \$134,882 for the nine months ended September 30, 2008, primarily due to the increased usage of various loan facilities and the addition of approximately \$156,055 in interest expense associated with the operations of our new Healthcare segment, partially offset by the reduction of notes payable to related parties.

Liquidity and Capital Resources

Overview of Cash Resources

At September 30, 2009, our cash and cash equivalents amounted to \$1.0 million compared to \$2.9 million at December 31, 2008. The sources and uses of cash during 2009 are described more fully in “Analysis of Cash Flows” below. The Company’s focus is on becoming profitable and generating positive cash flow, however in the event that we are unable to generate sufficient cash from operations or raise additional capital, then our business would be adversely affected.

On July 22, 2009, certain of the Company’s healthcare subsidiaries entered into an amended and restated loan and security agreement with Silicon Valley Bank (the “Amended LSA”). Under this agreement, the subsidiaries may borrow up to the lesser of (i) \$1.6 million or (ii) 80% of eligible accounts receivable subject to certain adjustments. Advances under the Amended LSA bear interest at SVB’s prime rate (4.0% at September 30, 2009) plus 3.5% plus a collateral handling fee of 0.35% per month. The Amended LSA contains customary affirmative and negative covenants including the maintenance of a specified EBITDA level. Advances under the Amended LSA are covered by a first priority lien on substantially all the assets of the Company’s healthcare subsidiaries, including intellectual property. The Amended LSA matures June 14, 2010. At September 30, 2009, the Company’s healthcare subsidiaries had outstanding balances of \$1,224,130 and \$170,376 under the related revolving line and equipment line, respectively.

Blue Hill has a credit facility from Comerica Bank which includes a revolving operating line limited to the lesser of the \$1,000,000 maximum availability or 80% of eligible accounts receivable and carries interest at the daily adjusting LIBOR rate plus 4.0%, which amounted to 4.25% at September 30, 2009, a \$500,000 term loan amortized over a four year period and bearing interest at the Comerica Bank prime rate plus 1.25%, which amounted to 4.5% at September 30, 2009, a specific advance facility for equipment purchases up to a maximum of \$500,000 bearing interest at the Comerica Bank prime rate plus 1.00%, which amounted to 4.25% at September 30, 2009 and a specific advance facility for equipment purchases up to a maximum of \$700,000 bearing interest at the daily adjusting LIBOR rate plus 6.0%, which amounted to 6.25% at September 30, 2009. The loans are supported by a general security interest in all the assets of Blue Hill and the operating facility is also supported by the guaranty of Legacy BPOMS and the subordination of loans of a minimum of \$1,400,000, payable by Blue Hill to Legacy BPOMS, to Comerica Bank. At September 30, 2009 Blue Hill had an outstanding balance of \$646,485 under the operating line, \$291,667 under the term loan, \$43,687 under the equipment loan and \$674,000 under the second equipment loan. These loan agreements contain covenants pertaining to maintenance of various ratios. At September 30, 2009, the Company was in breach of these covenants. Under the terms of the agreement, the bank may call the loans if the Company is in violation of any restrictive covenant. The bank has provided a notice of default to the Company and has not waived the ratio requirement, but has allowed the Company to continue to borrow on the revolving line and has not demanded immediate repayment in full of the obligations to the bank. Accordingly the entire amount of the loans, \$1,655,839, including the long-term portion of approximately \$717,108, has been included in current liabilities.

Analysis of Cash Flows

Cash provided by operating activities for the nine months ended September 30, 2009 was approximately \$1.1 million as compared to cash used in operating activities of approximately \$1.4 million for the same period in 2008. The improvement was primarily the result of changes in working capital, including generating cash from the reduction of accounts receivable combined with a higher accounts payable balance. These increases to cash flow from operations were partially offset by the increased net loss from continuing operations.

Cash used in investing activities during the nine months ended September 30, 2009 was approximately \$1.6 million as compared to cash used in investing activities of approximately \$263,000 for the same period in 2008. During the nine months ended September 30, 2009, the Company’s purchase of equipment and internally developed capitalized software amounted to approximately \$1.6 million. For the nine months ended September 30, 2008, cash used by investing activities was due to the purchase of equipment of approximately \$660,000, offset by the release of restricted cash in the amount of approximately \$923,000.

Net cash used in financing activities during the nine months ended September 30, 2009 was approximately \$1.4 million as compared to net cash provided by financing activities of approximately \$3.6 million for the same period in 2008. Net cash used in financing activities for the nine months ended September 30, 2009 is the net result of proceeds from bank loans of approximately \$111,000, payment of notes issued to former shareholders of \$1.0 million, repayment of capital lease obligations of approximately \$385,000, repayment of a note payable to a related party in the amount of \$100,000. Net cash provided by financing activities for the nine months ended September 30, 2008 is the result of proceeds from the issuance of preferred stock of \$5.2 million plus net bank borrowings of approximately \$491,000 offset by payments to former shareholders of approximately \$886,000, dividend payments of approximately \$753,000, repayment of note payable to a related party in the amount of \$200,000 and capital lease obligation payments of approximately \$161,000.

During the next twelve months, the Company anticipates raising capital necessary to meet the needs of its current business, grow its business and complete additional acquisitions by issuing its securities and/or debt in one or more private transactions, merger, or divestiture of certain assets or operations.

Our future capital requirements will depend upon many factors. These factors include but are not limited to sales and marketing efforts, the development of new products and services, possible future corporate mergers or strategic acquisitions or divestitures, the progress of research and development efforts, and the status of competitive products and services. If our anticipated financing needs are not met or are unreasonably delayed, we may not have adequate funds to extinguish all our remaining obligations and fund our current operations going forward.

Although we plan to meet our operating capital needs through one or more financing transactions, merger, or divestiture of certain assets or operations, there can be no assurance that funds required will be available on terms acceptable to us, if at all. If we are unable to raise sufficient funds on acceptable terms, we may not be able to complete our business plan. If equity financing is available to us on acceptable terms, it could result in additional dilution to our existing stockholders.

This uncertainty, recurring losses from operations, limited cash resources, and an accumulated deficit, among other factors, raise doubt about our ability to continue as a going concern and led our independent registered public accounting firm to include an explanatory paragraph in their report dated March 31, 2009 contained in the Company's consolidated financial statements as of and for the year ended December 31, 2008. The report concludes that these matters, among others, raise substantial doubt about the Company's ability to continue as a going concern.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable under smaller reporting company scaled disclosure requirements

Item 4T. Controls and Procedures

The Company maintains "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Act of 1934, as amended (the "Exchange Act"), that are designed to ensure that information required to be disclosed by the Company in reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management including the Company's principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

The management of the Company has designed and evaluated the Company's disclosure controls and procedures. Management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable assurance of achieving the desired control objectives, and the Company necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures.

The Company's management, including its principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of September 30, 2009, and concluded that the disclosure controls and procedures were not effective, because certain deficiencies involving internal controls constituted a material weakness as disclosed in the Company's Form 10-K for the year ended December 31, 2008. The material weaknesses identified did not result in the restatement of any previously reported consolidated financial statements or any other related financial disclosure, nor does management believe that it had any effect on the accuracy of the Company's financial statements for the current reporting period.

Changes in Internal Control over Financial Reporting

There has not been any change in our internal control over financial reporting that occurred during the quarterly period ended September 30, 2009, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time we may be involved in claims arising in the ordinary course of business. However, except as described below, there are no other pending legal proceedings or claims to which we are a party or of which any of our property is subject that in the opinion of management, could reasonably be expected to have a material adverse effect on our business or financial condition. Due to our cash flow constraints, the number of vendors with past due balances and the aggregate dollar amount of those past due balances have continued to grow. We expect that the number of threatened claims will continue to grow and that some of these vendors may file lawsuits seeking to collect amounts owed. The Company does not believe that current threats of litigation from any single vendor would materially impact the Company, but the aggregate value of the claims could have a material negative impact on the Company if a substantial number of these vendors file lawsuits against us.

BridgePointe Master Fund Ltd.

The Company is a defendant along with two of its officers in a lawsuit that commenced on May 28, 2009 in the Supreme Court of the State of New York, County of New York, Index No. 601661-2009 entitled *BridgePointe Master Fund Ltd. v. BPO Management Services, Inc., James Cortens, and Patrick Dolan*. The complaint asserts, among other things, claims for (1) breach of certain provisions of warrants held by BridgePointe; (2) breach of the implied covenant of good faith and fair dealing related to certain stock agreements to which Legacy BPOMS and BridgePointe were parties; and (3) breach of fiduciary duty against two executive officers of BPO Management Services, Inc., Mr. Patrick Dolan and Mr. James Cortens. The complaint seeks damages in excess of \$3.2 million from the Company and the other defendants. The Company does not currently believe that the claims have any merit. On August 25, 2009, the Company filed its answer and a motion to dismiss the claims against the two officers and directors named in the suit. The Company intends to continue to vigorously defend the lawsuit.

Item 1-A. Risk Factors

Not applicable under smaller reporting company scaled disclosure requirements.

Item 2. Unregistered Sales Of Equity Securities And Use Of Proceeds

None

Item 3. Defaults Upon Senior Securities

Blue Hill bank borrowing agreements contain covenants pertaining to maintenance of various ratios. At September 30, 2009, the company was in breach of these covenants and as of such date, the total amount outstanding under these agreements was \$1,655,839. The bank has provided a notice of default to the Company and has not waived the ratio requirement but has allowed the Company to continue to borrow on the revolving line and has not demanded immediate repayment in full of the obligations to the bank. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources."

Item 4. Submission Of Matters To A Vote Of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
10.1	Share Purchase Agreement dated July 30, 2009 by and between BPOMS, Inc. and CriticalControl Solutions Corp. (1)
31.1	Certification of Chief Executive Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (1)
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (1)
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (1)

(1) Attached as an exhibit to this Form 10-Q.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 13, 2009

BPO MANAGEMENT SERVICES, INC.

By: /s/ ***Patrick A. Dolan***

Chief Executive Officer
(principal executive officer)

By: /s/ ***Ronald K. Herbert***

Chief Financial Officer
(principal financial officer)

EXHIBITS ATTACHED TO THIS QUARTERLY REPORT ON FORM 10-Q

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SHARE PURCHASE AGREEMENT

between

CRITICALCONTROL SOLUTIONS CORP.

and

BPOMS, INC.

July 30, 2009

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SHARE PURCHASE AGREEMENT

THIS SHARE PURCHASE AGREEMENT entered into as of July 30, 2009 by and between CRITICALCONTROL SOLUTIONS CORP., an Alberta corporation with its principal place of business located at 1100, 840 - 7th Ave S.W., Calgary, Alberta, Canada (the “Buyer”) and BPOMS, INC., a Delaware corporation with its principal place of business located at 1290 North Hancock, Street, Suite 202, Anaheim, California 92807 (the “Seller”). The Buyer and the Seller are referred to collectively herein as the “Parties”. The Parties hereto agree as follows:

RECITALS

- A. The Seller owns all of the outstanding shares in the capital of BPO Management Services, Ltd. (the “Company”); and
- This Agreement contemplates a transaction in which the Buyer will purchase from the Seller, and the Seller will sell to the Buyer,
- B. all of the outstanding shares in the capital of the Company in return for the sum of One Hundred Thousand Dollars (\$100,000.00) on closing, in accordance with the terms and conditions herein.

NOW, THEREFORE, in consideration of the premises and the mutual promises herein made, and in consideration of the representations, warranties, and covenants herein contained, the Parties agree as follows.

ARTICLE 1 DEFINITIONS

1.1 Definitions and Interpretation

In this Agreement, the following terms shall have the following meanings:

“**Accredited Investor**” has the meaning set forth in Section 1.1 of National Instrument 45-106 *Prospectus and Registration Exemptions* of the Canadian Securities Administrators.

“**Adverse Consequences**” means all actions, suits, proceedings, hearings, investigations, charges, complaints, claims, demands, injunctions, judgments, orders, decrees, rulings, damages, dues, penalties, fines, costs, amounts paid in settlement, liabilities, obligations, Taxes, liens, losses, expenses, and fees, including court costs and reasonable attorneys’ fees and expenses.

“**Affiliate**” has the meaning set forth in Section 2 of the *Securities Act* (Alberta).

“**Basis**” means any past or present fact, situation, circumstance, status, condition, activity, practice, plan, occurrence, event, incident, action, failure to act, or transaction that forms or could reasonably be expected to form the basis for any specified consequence.

“**BPOMS Payable**” means approximately \$2,585,001 owed by the Company to the Seller and Seller’s subsidiaries, after offsetting the amounts owed by Seller and/or Seller’s subsidiaries to the Company that have been cancelled and extinguished by the Company on July 30, 2009 as referenced in the Disclosure Schedule.

“**Business**” means the provision by the Company of Enterprise Content Management products, services and solutions aimed at helping business and government capture, access, deliver and preserve their documents.

“**Business Day**” means any day other than a Saturday, Sunday, statutory holiday or day on which banks in the City of Calgary are not generally open for business.

“**Closing**” has the meaning set forth in Section 2.4 below.

“**Closing Date**” has the meaning set forth in Section 2.4 below.

“**Closing Time**” means 2:00 pm (MST) on the Closing Date.

“**Company Employees**” means individuals currently employed or retained by the Company on a full-time, part-time or temporary basis, including those employees on disability leave, parental leave or other absence.

“**Company Indebtedness**” means the BPOMS Payable and all indebtedness for borrowed money, accounts payable, lease payments and other contractual amounts owed, together with all other liabilities and obligations of the Company, including any related prepayment fees, interest or expenses, owed by the Company to any third party or any employee as of the Closing Date.

“**Company Shares**” means all of the shares in the capital of the Company.

“**Confidential Information**” means any information concerning the Business and affairs of the Company that is not already generally available to the public.

“**Disclosure Schedule**” has the meaning set forth in Section 4.1 below. The Disclosure Schedule shall be deemed to incorporate by reference all information contained in the Due Diligence File, whether or not expressly referenced or listed in the in the Disclosure Schedule.

“**Due Diligence File**” means the electronic folder and all files and information contained therein that represents a compilation of the documentation and information delivered from the Company and Seller to Buyer during Buyer’s due diligence process, as well as all other information and correspondence received by Buyer from the Company and Seller at any time during Buyer’s due diligence process or for any other purpose delivered to Buyer at any time at or prior to Closing.

“**Employee Benefit Plan**” means any benefit plan, program, agreement or arrangement maintained, contributed to or provided by the Company or any Affiliate for the benefit of any of the Company’s employees, former employees or dependent or independent contractors or their respective dependents or beneficiaries, whether written or unwritten, including all bonus, deferred compensation, incentive compensation, share purchase, share option, share appreciation, phantom share, savings, profit sharing, severance or termination pay, health or other medical, life, disability or other insurance (whether insured or self-insured), supplementary unemployment benefit, pension, retirement and supplementary retirement plans, programs, agreements and arrangements, except for any statutory plans to which the Company is obligated to contribute or comply or plans administered pursuant to applicable federal or provincial health, workers compensation and employment insurance legislation.

“**Environmental, Health, and Safety Requirements**” shall mean all federal, provincial, local and foreign statutes, regulations, ordinances and other provisions having the force or effect of law, all judicial and administrative orders and determinations, all contractual obligations and all common law concerning public health and safety, worker health and safety, and pollution or protection of the environment, including without limitation all those relating to the presence, use, production, generation, handling, transportation, treatment, storage, disposal, distribution, labeling, testing, processing, discharge, release, threatened release, control, or cleanup of any hazardous materials, substances or wastes, chemical substances or mixtures, pesticides, pollutants, contaminants, toxic chemicals, petroleum products or by-products, asbestos, polychlorinated biphenyls, noise or radiation, each as amended and as now in effect and applicable to the Company.

“**eReview**” means Seller’s proprietary document collaboration and sharing software solution and related services as referenced in the Due Diligence File.

“**Exception**” has the meaning provided by Section 3.1(a) hereof.

“**Financial Statements**” has the meaning set forth in Section 4.1(g) below.

“**GAAP**” means Canadian generally accepted accounting principles as in effect from time to time.

“**Governmental Body**” means any government or governmental or regulatory body thereof, or political subdivision thereof, whether federal, provincial, local or foreign, or any agency, instrumentality or authority thereof, or any court or arbitrator (public or private).

“**Indemnified Party**” has the meaning set forth in Section 8.5 below.

“**Indemnifying Party**” has the meaning set forth in Section 8.5 below.

“**Intellectual Property**” means (a) all inventions (whether patentable or unpatentable and whether or not reduced to practice), all improvements thereto, and all patents, patent applications, and patent disclosures, together with all reissues, continuations, continuations in part, revisions, extensions, and re-examinations thereof, (b) all trademarks, service marks, trade dress, logos, trade names, and corporate names, together with all translations, adaptations, derivations, and combinations thereof and including all goodwill associated therewith, and all applications, registrations, and renewals in connection therewith, (c) all copyrightable works, all copyrights, and all applications, registrations, and renewals in connection therewith, (d) all mask works and all applications, registrations, and renewals in connection therewith, (e) all trade secrets and confidential business information (including ideas, research and development, know how, formulas, compositions, manufacturing and production processes and techniques, technical data, designs, drawings, specifications, customer and supplier lists, pricing and cost information, and business and marketing plans and proposals), (f) all computer software (including data and related documentation), (g) all website content and domain names, (h) all other proprietary rights, and (i) all copies and tangible embodiments thereof (in whatever form or medium).

“**June 30 Financial Statements**” means the unaudited financial statements of the Company for the interim period ended June 30, 2009.

“**Knowledge**” of a certain matter means the actual knowledge of the Seller of that matter and the knowledge which the Seller would have if they conducted such reasonable inquiry that a prudent person in similar circumstances would consider necessary as to that matter.

“**Kodak Service Agreement**” means the Service Agreement dated October 10, 2001 between Kodak Canada Inc. and DocuCom Imaging Solutions Inc., as amended.

“**Law**” means all constitutions, treaties, laws, statutes, codes, ordinances, principles of common law, orders, decrees, rules, regulations and municipal by-laws, whether domestic, foreign or international of any Government Body, in each case binding on or affecting the party or Person referred to in the context in which such word is used.

“**Legal Proceeding**” means any judicial, administrative or arbitral actions, suits, mediation, investigation, inquiry, proceedings or claims (including counterclaims) by or before a Governmental Body.

“**Liability**” means any liability (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due), including any liability for Taxes.

“**Limitation of Liability**” will have the meaning provided by Section 9.1(b) hereof.

“**Material**” or “**Material Adverse Effect**” or “**Material Adverse Change**” means a material adverse effect on or change in the business, assets (including intangible assets), financial condition, prospects, or results of operations of the Company, which is individually or, in the aggregate with other individual items, in excess of \$25,000.

“**Most Recent Fiscal Year End**” means December 31, 2008.

“**Ordinary Course of Business**” means the ordinary course of the business of the Company, consistent with past custom and practice (including with respect to quantity and frequency).

“**Person**” means an individual, a partnership, a corporation, an association, a trust, a joint venture, an unincorporated organization, or a governmental entity (or any department, agency, or political subdivision thereof).

“**Privacy Laws**” means all applicable privacy laws of Canada and of any applicable provincial or other governmental subdivision governing the collection, use, disclosure and retention of personal information about identifiable individuals including, without limitation, information regarding the Company’s employees, agents, customers and suppliers.

“**Purchase Price**” has the meaning set forth in Section 2.2 below.

“**Securities Act**” means the *Securities Act* (Alberta), as amended.

“**Security Interest**” means any mortgage, pledge, lien, encumbrance, charge, or other security interest, other than (a) mechanic’s, builder’s, and similar liens, (b) liens for Taxes not yet due and payable or for Taxes that the taxpayer is contesting in good faith through appropriate proceedings, (c) purchase money liens and liens securing rental payments under capital lease arrangements, and (d) other liens arising in the Ordinary Course of Business and not incurred in connection with the borrowing of money.

“**to/To the Knowledge of the Seller**” means to the extent of Seller’ Knowledge.

“**Tax**” or “**Taxes**” means any federal, provincial, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, shares, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

“**Tax Return**” means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

“**Transaction**” means the purchase and sale of the Company Shares hereunder, including payment of the Purchase Price.

1.2 Other Definitional and Interpretive Matters

(a) Unless otherwise expressly provided, for purposes of this Agreement, the following rules of interpretation shall apply:

(i) Calculation of Time Period. When calculating the period of time before which, within which or following which any act is to be done or step taken pursuant to this Agreement, the date that is the reference date in calculating such period shall be excluded. If the last day of such period is a non-Business Day, the period in question shall end on the next succeeding Business Day.

(ii) Dollars. Any reference in this Agreement to Dollars or \$ shall mean Canadian Dollars.

(iii) Exhibits/Schedules. The Annexes, Exhibits and Schedules to this Agreement are hereby incorporated and made a part hereof and are an integral part of this Agreement. All Exhibits and Schedules annexed hereto or referred to herein are hereby incorporated in and made a part of this Agreement as if set forth in full herein. Any capitalized terms used in any Annexes, Schedule or Exhibit but not otherwise defined therein shall be defined as set forth in this Agreement. The Annexes, Exhibits and Schedules are as follow:

Schedule 4.1 Disclosure Schedule re: Seller Representations and Warranties in Section 4.1

(iv) Gender and Number. Any reference in this Agreement to gender shall include all genders, and words imparting the singular number only shall include the plural and vice versa.

(v) Headings. The provision of a Table of Contents, the division of this Agreement into Articles, Sections and other subdivisions and the insertion of headings are for convenience of reference only and shall not affect or be utilized in construing or interpreting this Agreement. All references in this Agreement to any “Section” are to the corresponding Section of this Agreement unless otherwise specified.

(vi) Herein. The words such as “herein,” “hereinafter,” “hereof,” and “hereunder” refer to this Agreement as a whole and not merely to a subdivision in which such words appear unless the context otherwise requires.

(vii) Including. The word “including” or any variation thereof means “including, without limitation” and shall not be construed to limit any general statement that it follows to the specific or similar items or matters immediately following it.

(viii) The parties hereto have participated jointly in the negotiation and drafting of this Agreement and, in the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as jointly drafted by the parties hereto and no presumption or burden of proof shall arise favouring or disfavouring any party by virtue of the authorship of any provision of this Agreement.

**ARTICLE 2
PURCHASE AND SALE**

2.1 Purchase and Sale.

On and subject to the terms and conditions of this Agreement, the Buyer agrees to purchase from the Seller, and the Seller agrees to and hereby does sell to the Buyer, all of the Company Shares and the BPOMS Payable for the consideration specified in Section 2.2.

2.2 Purchase Price.

In consideration for the sale and transfer of the Company Shares and the BPOMS Payable, the Buyer agrees to pay and issue to the Seller the sum of One Hundred Thousand Dollars (\$100,000.00) (the "Purchase Price") payable in cash, or by wire transfer, bank draft or certified cheque. In addition, the Buyer agrees to assume all Company Indebtedness.

2.3 Closing Date.

The closing of the transactions contemplated by this Agreement (the "Closing" or "Closing Date") shall take place on July 31, 2009.

**ARTICLE 3
REPRESENTATIONS AND WARRANTIES CONCERNING THE TRANSACTION**

3.1 Representations and Warranties of the Seller.

Except as set forth in the Disclosure Schedule, the Seller represents and warrants to the Buyer as of or contemporaneously with the Closing as follows.

(a) Authorization of Transaction.

The Seller has full power and authority to execute and deliver this Agreement and to perform its obligations hereunder. This Agreement constitutes the valid and legally binding obligation of the Seller, enforceable in accordance with its terms and conditions, except that the enforceability of the Agreement (A) may be subject to or limited by bankruptcy, insolvency, reorganization, arrangement, moratorium or other similar laws relating to or affecting the rights of creditors and (B) is subject to general principles of equity (including the possibility of unavailability of specific performance or injunctive relief), regardless of whether considered in a proceeding in equity, at law, or otherwise (such limitations on enforceability being hereinafter called the "Exception"). The Seller need not give any notice to, make any filing with, or obtain any authorization, consent, or approval of any third party, including any government or Governmental Body in order to consummate the transactions contemplated by this Agreement.

(b) Non-contravention.

Neither the execution and the delivery of this Agreement by the Seller, nor the consummation of the transactions contemplated hereby by the Seller, will (A) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which the Seller is subject, or (B) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which the Seller is a party or by which he is bound except as may be disclosed in the Disclosure Schedule or the Due Diligence File.

(c) Brokers' Fees.

The Seller has not engaged nor is obligated to pay any commissions or brokers fees in connection with the transactions contemplated by this Agreement.

(d) Company Shares.

The Seller holds of record and owns beneficially 4,332,318 Company Shares, which constitute all of the shares in the capital of the Company, free and clear of any restrictions on transfer (other than under applicable securities laws), Taxes, Security Interests, options, warrants, purchase rights, contracts, commitments, equities, claims, and demands. The Seller is not a party to any option, warrant, purchase right, or other contract or commitment that could require the Seller to sell, transfer, or otherwise dispose of any Company Shares (other than this Agreement). The Seller is not a party to any voting trust, proxy, or other agreement or understanding with respect to the voting of any Company Shares.

3.2 Representations and Warranties of the Buyer.

The Buyer represents and warrants to the Seller that the statements contained in this Section 3.2 are correct and complete.

(a) Organization of the Buyer.

The Buyer is a corporation duly organized, validly existing, and in good standing under the laws of the Province of Alberta. The Buyer has full corporate power and authority and all licenses, permits, and authorizations necessary to carry on the businesses in which it is engaged and to own and use the properties owned and used by it. Correct and complete copies of the Buyer's certificate of incorporation and bylaws (as amended to date) have been delivered to the Seller.

(b) Authorization of Transaction.

The Buyer has full power and authority (including full corporate power and authority) to execute and deliver this Agreement, and to perform its obligations hereunder. This Agreement has been duly executed and delivered by the Buyer and constitutes the valid and legally binding obligations of the Buyer, enforceable in accordance with its terms and conditions, subject only to the Exception. The Buyer need not give any notice to, make any filing with, or obtain any authorization, consent, or approval of any government or Governmental Body in order to consummate the transactions contemplated by this Agreement.

(c) Non-contravention.

Neither the execution and the delivery of this Agreement nor the consummation of the transactions contemplated hereby and thereby, will (A) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which the Buyer is subject or any provision of its articles or bylaws, or (B) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which the Buyer is a party or by which it is bound or to which any of its assets is subject.

(d) Investment.

The Buyer understands that the Company Shares are being offered and sold in reliance upon exemptions for transactions not involving any public offering from the prospectus and registration requirements under applicable securities Laws. The Buyer: (A) is acquiring the Company Shares solely as principal for its own account, and not with a view to the resale or distribution thereof, (B) is a sophisticated investor with knowledge and experience in business and financial matters, (C) has received certain information concerning the Seller and the Company and has had the opportunity to obtain additional information as desired in order to evaluate the merits and the risks inherent in holding the Company Shares, and (D) is able to bear the economic risk and lack of liquidity inherent in holding the Company Shares and is an Accredited Investor.

(e) Disclosure.

The representations and warranties contained in this Section 3.2 do not contain any untrue statement of a material fact. No representation or warranty contained in this Section 3.2 omits to state any material fact necessary in order to make the statements therein, in light of the circumstances in which they were made, not misleading.

**ARTICLE 4
REPRESENTATIONS AND WARRANTIES CONCERNING THE COMPANY**

4.1 Representations and Warranties concerning the Company

Except as set forth in the disclosure schedule delivered by the Seller to the Buyer simultaneously herewith (the “Disclosure Schedule”), the Seller represents and warrants to the Buyer as of or contemporaneously with the Closing, to the Knowledge of the Seller, as follows:

(a) Organization, Qualification, and Corporate Power.

The Company is a corporation duly organized, validly existing, and in good standing under the law of the Province of Ontario, the jurisdiction of its incorporation. The Company neither owns or leases any property or premises, nor has operations or personnel based outside Ontario, except as described in the Disclosure Schedule. The Company has full corporate power and authority and, all licenses, permits, and authorizations issued by any Governmental Body necessary to carry on the businesses in which it is engaged and in which it presently proposes to engage and to own and use the properties owned and currently being used by it. The Disclosure Schedule lists the directors and officers of the Company. The Seller has delivered to the Buyer correct and complete copies of the articles and bylaws and all other organizational documents of the Company as amended to date. The minute books (containing the records of meetings of the shareholders, the board of directors, and any committees of the board of directors), the share certificate books, and the share record books of the Company are correct and complete in all material respects. The Company is not in material default under or in violation of any provision of its articles or bylaws or any other organizational document.

(b) Capitalization.

The authorized and issued capital of the Company is as described in the Disclosure Schedule. All of the issued and outstanding Company Shares have been duly authorized, are validly issued, fully paid, and non-assessable, and, are held of record by the Seller. There are no outstanding or authorized options, warrants, purchase rights, subscription rights, conversion rights, exchange rights, or other contracts or commitments that could require the Company to issue, sell, or otherwise cause to become outstanding any of the Company Shares. There are no outstanding or authorized share appreciation, phantom share, profit participation, or similar rights with respect to the Company. There are no voting trusts, proxies, or other agreements or understandings with respect to the voting of the Company Shares.

(c) Non-contravention.

Neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will:

- (i) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, Governmental Body, or court to which the Company is subject or any provision of the articles or bylaws of the Company or

- (ii) Except as provided in the Disclosure Schedule, conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which the Company is a party or by which it is bound or to which any of its assets is subject (or result in the imposition of any Security Interest upon any of its assets).

- (iii) The Company does not need to give any notice to, make any filing with, or obtain any authorization, consent, or approval of any government or Governmental Body in order for the Company and the Seller to consummate the transactions contemplated by this Agreement.

(d) Brokerage Fees.

The Company has not engaged and is not obligated to pay any commissions or brokers fees in connection with the transactions contemplated by this Agreement.

(e) Title to Assets.

Except as to properties and assets owned, leased or provided by a customer of the Company, the Company has good and marketable title to, or a valid leasehold interest in, the properties and assets used by them and located on the Company's premises, or shown in the June 30 Financial Statements or acquired by the Company after the date thereof, except for properties and assets disposed of in the Ordinary Course of Business since June 30, 2009 and, except as disclosed in Section 4.1(e) of the Disclosure Schedule. All such property and assets which are owned by the Company are owned free of Security Interests except as disclosed in the Disclosure Schedule.

(f) Financial Statements and Books and Records.

Included in the Due Diligence File are the annual financial statements for the Company as of and for the fiscal years ended December 31, 2006, December 31, 2007 and December 31, 2008. Such financial statements are hereinafter called the "Financial Statements".

It was the Seller's intention when engaging the accounting firm noted in each report, that the Financial Statements be prepared in accordance with GAAP, consistently applied. To the Knowledge of the Seller, there are no entries contained in the Financial Statements which are not in accordance with GAAP, consistently applied. Each of the Financial Statements presents fairly the financial condition of the Company as of such dates and the results of operations of the Company for such periods. The financial condition of the Company is now approximately the same as the financial condition reflected in the Financial Statements for the Most Recent Fiscal Year End and as reflected in the June 30 Financial Statements, when such financial condition is taken as a whole, subject to any adjustments to balances for goodwill and/or other intangibles.

It was the Seller's intention when engaging the accounting firm noted in each report, that the financial and other books, records, files and accounts of the Company be maintained in accordance with GAAP on a basis consistent with prior years. To the Knowledge of the Seller, there are no entries contained in the Company's financial and other books, records, files and accounts which are not in accordance with GAAP, consistently applied.

The Company's financial and other books, records, files and accounts in all material respects:

- (i) are complete, in reasonable detail and accurately and fairly reflect the financial transactions of the Company, and
- (ii) are fairly reflected in the Financial Statements for the Most Recent Fiscal Year End and the June 30 Financial Statements.

It was the Seller's intention when engaging the accounting firm noted in each report, that the Company maintain systems of internal accounting controls sufficient to provide reasonable assurances as to the following matters (and the Seller has no Knowledge of any specific circumstances in which the Company's accounting control systems do not provide reasonable assurance with respect to such matters): (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit the preparation of financial statements in conformity with GAAP and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with the actual levels at reasonable intervals and appropriate action is taken with respect to any differences.

(g) Events Subsequent to June 30, 2009.

Except as indicated in the Disclosure Schedule, to the Seller's Knowledge, since June 30, 2009, there has not been any Material Adverse Change. In addition, and without limiting the generality of the foregoing, since that date, except as indicated in the Disclosure Schedule:

- (i) the Company has not sold, leased, transferred, or assigned any of its assets, tangible or intangible, other than for a fair consideration in the Ordinary Course of Business;
- (ii) the Company has not entered into any agreement, contract, lease, or license (or series of related agreements, contracts, leases, and licenses) outside the Ordinary Course of Business;

- (iii) no party (including the Company) has accelerated, terminated, modified, or cancelled any agreement, contract, lease, or license (or series of related agreements, contracts, leases, and licenses) involving more than \$25,000 to which the Company is a party;
- (iv) the Company has not imposed any Security Interest upon any of its assets, tangible or intangible, outside the Ordinary Course of Business;
- (v) the Company has not made any capital expenditure (or series of related capital expenditures) either involving singly or in the aggregate more than \$25,000 or outside the Ordinary Course of Business;
- (vi) the Company has not made any capital investment in, any loan to, or any acquisition of the securities or all or substantially all of the assets of, any other Person (or series of related capital investments, loans, and acquisitions) either involving singly or in the aggregate more than \$25,000 or outside the Ordinary Course of Business;
- (vii) the Company has not issued any note, bond, or other debt security or created, incurred, assumed, or guaranteed any indebtedness for borrowed money or capitalized lease obligation involving more than \$25,000 singly or in the aggregate;
- (viii) the Company has not delayed or postponed the payment of accounts payable and other Liabilities that are not reflected in the Due Diligence File;
- (ix) the Company has not intentionally and knowingly cancelled, compromised, waived, or released any right or claim (or series of related rights and claims) either involving singly or in the aggregate more than \$25,000 or outside the Ordinary Course of Business;
- (x) except in the Ordinary Course of Business, the Company has not granted any license or sublicense of any rights under or with respect to any Intellectual Property;
- (xi) there has been no change made or authorized in the articles or bylaws of the Company;
- (xii) the Company has not issued, sold, or otherwise disposed of any of the Company Shares, or granted any options, warrants, or other rights to purchase or obtain (including upon conversion, exchange, or exercise) any of the Company Shares;
- (xiii) the Company has not declared, set aside, or paid any dividend or made any distribution with respect to the Company Shares (whether in cash or in kind) or redeemed, purchased, or otherwise acquired any of the Company Shares;
- (xiv) the Company has not experienced any material damage, destruction, or loss (whether or not covered by insurance) to its property, ordinary wear and tear excepted;
- (xv) the Company has not made any loan to, or entered into any other transaction with, any of its directors, officers, and employees outside the Ordinary Course of Business except as identified in the Disclosure Schedule;
- (xvi) the Company has not hired any new employees, entered into any employment contract or collective bargaining agreement, written or oral, or modified the terms of any existing such contract or agreement or terminated the employment of any employee, outside the Ordinary Course of Business except as identified in the Disclosure Schedule;

- (xvii) the Company has not granted any increase in the base compensation of any of its directors, officers, and employees, outside the Ordinary Course of Business except as identified in the Disclosure Schedule;
 - other than as disclosed in this Agreement or the Disclosure Schedule, the Company has not adopted, amended, modified, or terminated any bonus, profit sharing, incentive, severance, or other plan, contract, or commitment for the benefit of any of its directors, officers, and employees (or taken any such action with respect to any other Employee Benefit Plan), outside the Ordinary Course of Business;
- (xviii) the Company has not made any other change in employment terms for any of its directors, officers, and employees, outside the Ordinary Course of Business;
- (xix) the Company has not made or pledged to make any charitable contribution;
- (xx) there has not been any other material occurrence, event, incident, action, failure to act, or transaction outside the Ordinary Course of Business involving the Company; and
- (xxi) as referred to in this Section, the Company has not committed to any of the foregoing.

(h) Undisclosed Liabilities.

The Company does not have any Liabilities except for (A) Liabilities set forth in the Financial Statements for the Most Recent Fiscal Year End and the June 30 Financial Statements, (B) Liabilities which have arisen after June 30, 2009 in the Ordinary Course of Business, (C) Liabilities which are not required by GAAP to be included in the Financial Statements and which, to the extent Material, are set forth in the Disclosure Schedule, and (D) Liabilities that are otherwise apparent from the Due Diligence File.

(i) Legal Compliance.

The Company and its predecessors have complied with all applicable laws (including rules, regulations, codes, plans, injunctions, judgments, orders, decrees, rulings, and charges thereunder) of federal, provincial, local, and foreign governments (and all agencies thereof), and no investigation, charge, complaint, claim, has been filed or commenced against any of them alleging any failure so to comply. Further, no action, suit, proceeding, hearing, demand, or notice has been filed or commenced against any of them alleging any failure so to comply.

(j) Tax Matters.

Except as indicated in the Disclosure Schedule:

- (i) the Company has prepared and filed all Tax Returns on time with all appropriate Government Bodies which were required to be filed before the Closing Date. Each such Tax Return was correct and complete. True copies of all Tax Returns prepared and filed by the Company during the past five years and that the Buyer has requested have been provided to the Buyer on or before the date of this Agreement;
- (ii) the Company has paid all Taxes due and payable by it. The Company has paid all Tax installments due and payable by it;

(iii) there are no assessments or reassessments of Taxes that have been issued and are outstanding. The Company is not negotiating any assessment or reassessment with any Government Body. Neither the Company nor the Seller is aware of any Liability of the Company for Taxes or any grounds for an assessment or reassessment including aggressive treatment of income expenses, credits or other claims for deduction under any Tax Return. Neither the Company nor the Seller has received any indication from any Government body that an assessment or reassessment of the Company is proposed in respect of any Taxes, regardless of its merits. There is no pending or threatened proceeding with respect to any claim or refund made by the Company with respect to Taxes previously paid. The Company has not executed any agreement extending the period for assessment, reassessment or collection of any Taxes;

(iv) the Company has withheld from each payment made to any Company employees or former employees of the Company, officers, directors, and to all Persons who are non-residents of Canada for the purposes of the Income Tax Act all amounts required by applicable Law and has remitted such withheld amounts within the prescribed periods to the appropriate Government Body.

(k) Real Property and Leases.

The Company does not own any real property. The Disclosure Schedule contains a list of all leases and subleases for real property to which the Company is a party, the square footage leased with respect to each lease and the expiration date of each lease and sublease. These leases and subleases are valid and enforceable and are not in default. The Seller is unaware of any condition or situation that does or would render the real property leased or occupied by the Company, the improvements located thereon, and the furniture, fixtures and equipment relating thereto (including plumbing, heating, air conditioning and electrical systems), to be out of conformance with any and all applicable health, fire, safety, zoning, land use and building laws, ordinances and regulations. There are no outstanding contracts made by the Company for any improvements made to the real property leased or occupied by the Company that have not been paid for or as to which payments are not current (e.g., diesel generator). The Disclosure Schedule also contains correct and complete copies of the leases and subleases listed therein. With respect to each lease and sublease listed in the Disclosure Schedule:

(i) the lease or sublease is legal, valid, binding, enforceable, and in full force and effect, according to its terms, subject to the Exception;

(ii) the lease or sublease will continue to be legal, valid, binding, enforceable, and in full force and effect according to its terms following the consummation of the transactions contemplated hereby, subject to the Exception;

(iii) the Company is not in breach or default and, to the Knowledge of the Seller, no other party to the lease or sublease is in breach or default, and no event has occurred which, with notice or lapse of time, would constitute a breach or default or permit termination, modification, or acceleration thereunder;

(iv) the Company has not repudiated and, to the Knowledge of the Seller, no other party to the lease or sublease has repudiated any provision thereof;

(v) to the Knowledge of the Seller, there are no disputes, oral agreements, or forbearance programs in effect as to the lease or sublease;

- (vi) with respect to each sublease, the representations and warranties set forth in subsections (i) through (v) above are true and correct with respect to the underlying lease; and
- (vii) the Company has not assigned, transferred, conveyed, mortgaged, deeded in trust, or encumbered any interest in the leasehold or subleasehold.

(l) Intellectual Property.

Except as listed in the Disclosure Schedule, and except as to PCs, as to which the Company has made reasonable efforts to ensure that all standard shrink-wrap or click-wrap installed software is completely and currently licensed, the Company owns, or has the right to use pursuant to license, sublicense, agreement or other valid permission, all Intellectual Property used in the operation of the Business of the Company as presently conducted. Each item of Intellectual Property owned or used by the Company immediately prior to the Closing hereunder will be owned or available for use by the Company on identical terms and conditions immediately subsequent to the Closing hereunder. Certain marketing and business description materials contained in the Due Diligence File contain references to Seller's eReview product. In addition, the sales forecast and pipeline reports included in the Due Diligence File contain references to eReview sales opportunities. Notwithstanding these references, Buyer acknowledges and agrees that eReview is NOT part of the Intellectual Property owned by the Company, and Buyer is receiving no rights or license to use, market or sell the Seller's eReview product.

(ii)

(A) To the Knowledge of the Seller, the Company has not interfered with, infringed upon, misappropriated, or otherwise come into conflict with any Intellectual Property rights of third parties;

(B) To the Knowledge of the Seller, the Company has not received any charge, complaint, claim, demand, or notice alleging any such interference, infringement, misappropriation, or violation (including any claim that the Company must license or refrain from using any Intellectual Property rights of any third party). The Seller is unaware of any fact or condition that would cause the Seller to believe that a third party has interfered with, infringed upon, misappropriated, or otherwise come into conflict with any Intellectual Property rights of the Company.

(iii) With respect to all Intellectual Property owned by the Company (the "Owned Intellectual Property"), the Disclosure Schedule identifies each Intellectual Property registration which has been issued to the Company and identifies each pending application or application for registration which the Company has made with respect to any of its Owned Intellectual Property. The Disclosure Schedule also identifies each license, agreement, or other permission which the Company has granted to any third party with respect to any of its Owned Intellectual Property (together with any exceptions), other than licenses granted in the Ordinary Course of Business, and the assignment of the Owned Intellectual Property to Healthaxis, Ltd. as specified in Section 6.2(e) of this Agreement. The Seller has delivered to the Buyer correct and complete copies of all such registrations and applications, and all such licenses, agreements, and permissions granted by the Company to any third party with respect to Owned Intellectual Property (excluding licenses granted by the Company in the Ordinary Course of Business). The parties acknowledge that the Disclosure Schedule will describe, in general terms, such licenses, agreements and other permissions.

- (iv) With respect to each item of Owned Intellectual Property, the Seller does not have Knowledge of any fact or condition that would cause the Seller to believe that the following is not true:
- (A) the Company possess all right, title, and interest in and to the item, free and clear of any Security Interest, license, or other restriction;
 - (B) the item is not subject to any outstanding injunction, judgment, order, decree, ruling, or charge;
 - (C) no action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand is pending or, to the Knowledge of the Seller, is threatened which challenges the legality, validity, enforceability, use, or ownership of the item;
 - (D) except as may be provided in each of the Company's contracts for services to its customers, the Company has not agreed to indemnify any Person for or against any interference, infringement, misappropriation, or other conflict with respect to the item; and
 - (E) each software program and script developed by the Company, including the source code and object code thereof and the design documents in connection therewith, is an original work of persons employed by or contracted to the Company.
- (v) No past or present employee, independent contractor or agent has any right, title or interest in or to any of the Company's owned Intellectual Property.

(vi) Except as to standard shrink-wrap or click-wrap software licenses, the Disclosure Schedule identifies each item of Intellectual Property that any third party owns and that the Company uses pursuant to license, sublicense, agreement or permission (the "Licensed Intellectual Property"). The Seller has delivered to the Buyer correct and complete copies of all such licenses with respect to the Licensed Intellectual Property or the software which is licensed is referred to in one or more contracts between the Company and its customers. With respect to each item of Licensed Intellectual Property identified in the Disclosure Schedule, the Seller does not have Knowledge of any fact or condition that would cause the Seller to believe that the following is not true:

- (A) the license, sublicense, agreement, or permission covering the item is legal, valid, binding, enforceable, and in full force and effect;
- (B) the license, sublicense, agreement, or permission will continue to be legal, valid, binding, enforceable, and in full force and effect on identical terms immediately following the consummation of the transactions contemplated hereby;
- (C) no party to the license, sublicense, agreement, or permission is in breach or default, and no event has occurred which with notice or lapse of time would constitute a breach or default or permit termination, modification, or acceleration thereunder;

- (D) no party to the license, sublicense, agreement, or permission has repudiated any provision thereof;
- (E) with respect to each sublicense, the representations and warranties set forth in subsections (A) through (D) above are true and correct with respect to the underlying license;
- (F) the underlying item of Licensed Intellectual Property is not subject to any outstanding injunction, judgment, order, decree, ruling, or charge;
- (G) no action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand is pending or, to the Knowledge of the Seller, is threatened, which challenges the legality, validity, or enforceability of the underlying item of Licensed Intellectual Property; and
- (H) the Company has not granted any sublicense or similar right with respect to the license, sublicense, agreement, or permission.

(vii) The Seller does not have Knowledge of any fact or circumstance that would cause it to believe that the following is not true: the Company's software is reasonably free of computer viruses and does not contain any contaminants or time bombs, including any codes or instructions, that may be used to access, modify, delete, damage or disable any computer system.

(viii) The Seller does not have Knowledge of any fact or circumstance that would cause it to believe that the following is not true: the documentation possessed by Company in respect of software developed by or for the Company will be sufficient to allow Buyer and the Company's existing staff, with the assistance of skilled software professionals possessing experience in this industry, to operate such software and to further develop and maintain it.

(ix) The Disclosure Schedule lists all open source software used and licensed by the Company. The Seller is unaware of any fact or circumstance that would cause it to believe that the following is not true: the Company has complied with all applicable open source licences by which it is bound.

(x) The Company has used reasonable commercial efforts to take precautions and to protect its proprietary information from unauthorized access or disclosure.

(m) Tangible Assets.

Except as to any of the following provided by a customer, the Company owns or leases all premises, machinery, equipment, and other tangible assets necessary for the conduct of the Company's businesses as presently conducted. To the Knowledge of the Seller, each such tangible asset owned or leased by it has been maintained in accordance with the Company's normal practice, and is in good operating condition and repair (subject to normal wear and tear).

(n) Inventory.

The current inventory of consumables of the Company, subject to a reasonable allowance for obsolete inventory consistent with the allowance reflected in the June 30 Financial Statements, is good and usable and is capable of being sold in the Ordinary Course of Business. The Company's inventory level is consistent with past practice.

(o) Contracts.

The Disclosure Schedule lists the following contracts and other agreements to which the Company is a party:

- (i) any agreement (or group of related agreements) for the lease of personal property (including without limitation software) to or from any Person providing for lease payments in excess of \$10,000 per annum;
- (ii) any agreement (or group of related agreements) for the purchase or sale of supplies, products or other personal property, or for the furnishing or receipt of services, the performance of which will extend over a period of more than one year, result in a material loss to the Company or, except for Contracts made in the Ordinary Course of Business, involve consideration in excess of \$10,000;
- (iii) any agreement concerning a partnership or joint venture or arrangement to share profits;
- (iv) any agreement (or group of related agreements) under which it has created, incurred, assumed, or guaranteed any indebtedness for borrowed money, or any capitalized lease obligation, in excess of \$10,000 or under which it has imposed a Security Interest on any of its assets, tangible or intangible;
- (v) any agreement concerning confidentiality or non-competition;
- (vi) any agreement with any of the Seller and their Affiliates (other than the Company) or any members of their immediate families;
- (vii) any profit sharing, share option, share purchase, share appreciation, deferred compensation, severance, or other plan or arrangement for the benefit of its current or former directors, officers, and employees;
- (viii) any collective bargaining agreement;
- (ix) any agreement under which it has advanced or loaned any amount to any of its directors, officers, and employees or any members of their immediate families, excluding claims for reimbursement of expenses incurred in the Ordinary Course of Business;
- (x) any agreement under which the consequences of a default or termination could have a Material Adverse Effect; or
- (xi) any other agreement (or group of related agreements) which was not entered into in the Ordinary Course of the Business.

The Seller has delivered to the Buyer a correct and complete copy of each written agreement listed in the Disclosure Schedule (as amended to date), and to the Knowledge of the Seller, a written summary of the terms of all oral agreements referred to in the Disclosure Schedule. With respect to each such agreement: (A) the agreement is legal, valid, binding, enforceable, and in full force and effect, subject to the Exception; (B) subject to obtaining the consents indicated in the Disclosure Schedule, the agreement will continue to be legal, valid, binding, enforceable, and in full force and effect on identical terms immediately following the consummation of the transactions contemplated hereby except for the Exception; (C) the Company is not in breach or default and, to the Knowledge of the Seller, no other party is in breach or default of the agreement; (D) to the Knowledge of the Seller, no event has occurred which with notice or lapse of time would constitute a breach or default, or permit termination, modification, or acceleration, under the agreement; and (E) to the Knowledge of the Seller, no party has repudiated any provision of the agreement. Without limiting the generality of the foregoing, the Company is in compliance with all covenants under all agreements with its bank and other lenders except as referenced in the Disclosure Schedule.

(p) Customers and Receivables.

(i) The Company has delivered to the Buyer a true and complete list of all customers of the Business as of the date hereof. Such customer list and other information in the Disclosure Schedule reasonably accurately summarizes or reflects with respect to each customer all information relevant to this Section 4.1(p).

(ii) Except as may be reflected in the Disclosure Schedule, the Seller has no Knowledge of any facts or circumstances arising outside the Ordinary Course of Business which could reasonably be expected to result in the loss of any customers or sources of revenue of the Business or any reduction in volume of purchases from the Business prior to the end of their contract term by any customer which, in the aggregate, could be Material to the Business.

(iii) All accounts receivable of the Company are fairly reflected on the Company's books and records. All accounts receivable of the Company arose from bona fide transactions in the Ordinary Course of the Business and are valid, enforceable and to the Knowledge of the Seller fully collectable accounts (subject to a reasonable allowance, consistent with past practice for doubtful accounts as reflected in the June 30 Financial Statements, and subject to the disclosure made in the Disclosure Schedule). Such accounts receivable are not subject to any set-off or counterclaim rights of which Seller is aware.

(q) Suppliers.

Listed in the Disclosure Schedule are the names and addresses of the ten (10) largest suppliers (measured by dollar volume of the Company's purchases) from which the Company ordered services, materials, supplies, telecommunications capacity, merchandise and other goods during the twelve-month period ended December 31, 2008. Except as disclosed in the Disclosure Schedule, the Company has not received any notice that any such supplier will not sell services, raw materials, supplies, merchandise and other goods to the Company at any time, on terms and conditions substantially similar to those used in its current sales to the Company, subject only to general and customary price increases.

(r) Telecommunications Infrastructure.

Listed in the Disclosure Schedule are:

(i) all the rights of way, tower locations, regen hut locations, and rights for lit and unlit fiber owned or licensed in favor of the Company; and

- (ii) a list of all contracts, licences, agreements and understandings relating to telecommunications infrastructure to which the Company is a party.

(s) Powers of Attorney.

The Disclosure Schedule lists all outstanding powers of attorney executed on behalf of the Company.

(t) Insurance.

The Disclosure Schedule sets forth the following information with respect to each insurance policy (including policies providing property, casualty, liability, and workers' compensation coverage and bond and surety arrangements) to which the Company has been a party, a named insured, or otherwise the beneficiary of coverage at any time within the past 5 years:

- (i) the name, address, and telephone number of the agent;
- (ii) the name of the insurer, the name of the policyholder, and the name of each covered insured;
- (iii) the policy number and the period of coverage; and
- (iv) a description of any retroactive premium adjustments or other loss sharing arrangements.

The Seller has delivered to the Buyer the insurance policies, brokers certificates or other information in the Company's possession concerning insurance covering the Company. With respect to each insurance policy, the Seller is unaware of any fact or circumstance that would cause the following to be untrue: (A) if unexpired, the policy is legal, valid, binding, enforceable, and in full force and effect in accordance with its terms, (B) the policy will continue to be legal, valid, binding, enforceable, and in full force and effect on identical terms immediately following the consummation of the transactions contemplated hereby except to the extent such policies are held at the Seller/parent company level, in which event coverage may lapse upon sale of the Company Stock to Buyer by virtue of the fact that the Company will no longer be a subsidiary of Seller upon Closing; (C) neither the Company nor any other party to the policy is in breach or default (including with respect to the payment of premiums or the giving of notices), and no event has occurred which, with notice or the lapse of time, would constitute such a breach or default, or permit termination, modification, or acceleration, under the policy; and (D) no party to the policy has repudiated any provision thereof. The Disclosure Schedule describes any self insurance arrangements affecting the Company. Seller has not made, and does not make, any representation or warranty that any such coverages may be continued beyond the Closing Date, and Buyer has been advised to seek the advice of its on consultants and professional advisors to assure that Buyer has adequate insurance coverage at and following the Closing.

(u) Litigation.

The Disclosure Schedule sets forth each instance in which the Company (i) is subject to any outstanding injunction, judgment, order, decree, ruling, or charge or (ii) is a party or, to the Knowledge of the Seller, is threatened to be made a party to any action, suit, proceeding, hearing, or investigation of, in, or before any court or quasi judicial or administrative agency of any federal, provincial, local, or foreign jurisdiction or before any arbitrator. There is presently no Basis of which Seller is aware for the commencement of any Material action, suit or proceeding against the Company with any reasonable likelihood of success.

(v) Product and Service Warranties.

Each product or service sold, licensed or delivered by the Company has been in material conformity with all applicable contractual commitments, all express warranties, and all warranties, if any, that are implied as a matter of the law governing the contract at issue. The Company does not have any existing Liability of which Seller is aware for replacement or repair of any product or re-performance of any service or other damages in connection therewith, subject only to the reserve for warranty claims, if any, set forth in the June 30 Financial Statements as adjusted for the passage of time through the Closing Date in accordance with the normal, past custom and practice of the Company. To the Seller' Knowledge, no product or service manufactured, sold, licensed or delivered by the Company is subject to any guaranty, warranty, or other indemnity beyond the warranties described in the Disclosure Schedule. The Disclosure Schedule describes the normal terms and conditions of sale or lease or licensing of or providing of services by or for the Company (including applicable guarantee, warranty and indemnity provisions).

(w) Product and Service Liabilities.

The Seller is unaware of any Liability or any Basis of Liability for the Company arising out of any injury to individuals or damage to property as a result of the ownership, possession, use or license of any product or service manufactured, sold, leased, licensed or delivered by the Company prior to the date hereof.

(x) Employees.

The Disclosure Schedule sets out:

- (i) a complete list of all Company Employees; and
- (ii) their position/title.

The Disclosure Schedule also sets out with respect to the Company Employees as of the date hereof, in a non-individually identifiable format:

- (iii) their status (i.e., full time, part time, temporary, casual, seasonal, co-op student);
- (iv) their total annual remuneration, including a breakdown of (A) salary and (B) bonus or other incentive compensation, if any;
- (v) other terms and conditions of their employment (other than Employee Benefit Plans), including accrued vacation, car allowance or lease; and
- (vi) their total length of employment including any prior employment that would affect the calculation of years of service for any purpose.

The Company has no written employment contracts with any Company Employee other than those of which copies are included in the Disclosure Schedule. The Disclosure Schedule sets out, as of the date hereof, a list of all independent contractors and consultants who provide services to the Company in connection with the key business functions of the Company, including:

- (vii) name;
- (viii) title;

- (ix) current compensation;
- (x) eligibility to participate in any Employee Benefit Plans;
- (xi) length of relationship with the Company.

Except as set out in the Disclosure Schedule, the Company is not a party to or bound by any contract or commitment to pay any management or consulting fee. Seller is unaware of any plans by any executive, key employee or group of employees, not including the Seller, to terminate employment with the Company at or following Closing. The Company is not a party to or bound by any collective bargaining agreement. The Company has not experienced any strikes, grievances, claims of unfair labor practices, or other collective bargaining disputes by any existing employee within the twelve (12) month period preceding Closing. The Seller is unaware of any unfair labor practice committed by the Company within the twelve (12) month period preceding Closing. The Seller is unaware of any instance in which the Company is not in compliance with all applicable workers compensation law and employee regulations of the applicable jurisdiction. The Seller is unaware of any organizational effort presently being made or threatened by or on behalf of any labor union with respect to employees of the Company.

(y) Employee Benefits Plans.

- The Disclosure Schedule sets forth a correct and complete list of: (i) all employee benefit plans, programs, agreements, policies, arrangements or payroll practices, including bonus plans, employment, consulting or other compensation agreements, collective bargaining agreements, incentive, equity or equity-based compensation, or deferred compensation arrangements, change in control, termination or severance plans or arrangements, share purchase, severance pay, sick leave, vacation pay, salary continuation for disability, hospitalization, medical insurance, life insurance and scholarship plans and programs maintained by the Company or to which the Company contributed or is obligated to contribute thereunder for current or former employees of the Company.

- (i) Correct and complete copies of the following documents, with respect to each of the Employee Benefit Plans have been made available or delivered to Buyer by the Company (and the Buyer has acknowledged receipt) or otherwise included or referenced in the Disclosure Schedule, to the extent applicable: (i) any plans, all amendments thereto and related trust documents, insurance contracts or other funding arrangements, and amendments thereto; (ii) summary plan descriptions; (iii) written communications to employees relating to the Employee Benefit Plans; and (iv) written descriptions of all non-written agreements relating to the Employee Benefit Plans.

- (iii) Seller is unaware of any respect in which the Employee Benefit Plans have not been maintained in all material respects in accordance with their terms and with all applicable federal and provincial Laws and regulations. Seller is unaware of any instance in which any fiduciary has any liability for breach of fiduciary duty or any other failure to act or comply in connection with the administration or investment of the assets of any Employee Benefit Plan.

- (iv) Seller is unaware of any respect in which the Disclosure Schedule does not set forth on a plan by plan basis, the present value of benefits payable presently or in the future to Company Employees under each unfunded Employee Benefit Plan.

(v) To the Knowledge of the Seller all contributions (including all employer contributions and employee salary reduction contributions) required to have been made under any of the Employee Benefit Plans (including workers compensation) or by law, to any funds or trusts established thereunder or in connection therewith have been made by the due date thereof (including any valid extension), and contributions for any period ending on or before the Closing Date that are not yet due will have been paid or sufficient accruals for such contributions and other payments in accordance with GAAP are duly and fully provided for in the June 30 Financial Statements. Seller is unaware of any accumulated funding deficiencies existing in any of the Employee Benefit Plans.

(vi) To the Knowledge of the Seller, the Company has no liability under any Employee Benefit Plan that has not been funded nor that has any such obligation been satisfied with the purchase of a contract from an insurance company that is not rated AA by Standard & Poor's Corporation or the equivalent by any other nationally recognized rating agency.

(vii) Seller is unaware of any pending actions, claims or lawsuits that have been asserted or instituted against the Employee Benefit Plans, the assets of any of the trusts under the Employee Benefit Plans or the sponsor or administrator of any of the Employee Benefit Plans, or against any fiduciary of the Employee Benefit Plans with respect to the operation of any of the Employee Benefit Plans (other than routine benefit claims), nor do or the Seller have any Knowledge of facts that could form the basis for any such claim or lawsuit.

(viii) Seller is unaware of any Employee Benefit Plan that provides for post-employment life or health insurance, benefits or coverage for any participant or any beneficiary of a participant, except as may be required by Law, and at the expense of the participant or the participant's beneficiary.

(ix) To the Knowledge of the Seller, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will (i) result in any payment becoming due to any Company Employee, (ii) increase any benefits otherwise payable under any Employee Benefit Plan or (iii) result in the acceleration of the time of payment or vesting of any such benefits under any Employee Benefit Plan.

(x) The Company does not have any contract, plan or commitment, whether legally binding or not, to create any additional Employee Benefit Plan or to modify any existing Employee Benefit Plan.

(xi) No share or other security issued by Company forms or has formed a material part of the assets of any Employee Benefit Plan.

(xii) Seller is unaware of any individual who performs services for the Company (other than through a contract with an organization other than such individual) and who is not treated as an employee of any Company for federal income tax purposes by is not an employee for such purposes.

(xiii) Notwithstanding anything to the contrary in this Agreement, an account payable for the Company's minimum "Safe Harbor" contribution has been established and appears on the Company's books and records as of the effective date of the Closing, and the Seller shall have no liability for any contribution to the Company's pension or profit-sharing plan as to any portion of 2009.

(z) Nick Curry.

The Company has no obligations or liability to Nick Curry under any employment contract, Employment Benefit Plan or other written or unwritten agreement, arrangement, understanding or practice that requires or will require any payment to Nick Curry by the Company.

(aa) Guaranties.

The Company is not a guarantor or otherwise liable for any Liability or obligation (including indebtedness) of any other Person.

(bb) Environmental, Health, and Safety Matters.

Seller is unaware of any manner in which the following are not true:

- (i) the Company and its predecessors and Affiliates have complied and are in compliance in all material respects with all Environmental, Health, and Safety Requirements;

without limiting the generality of the foregoing, the Company has obtained and complied with, and is in compliance in all material respects with, all permits, licenses and other authorizations that are required pursuant to Environmental, Health, and

- (ii) Safety Requirements for the occupation of its facilities and the operation of its business. A list of all such permits, licenses and authorizations is contained in the Disclosure Schedule, as well as and copies of all such permits, licenses and authorizations have been provided by the Company to the Buyer;

- (iii) neither the Company nor its predecessors or Affiliates has received any written or oral notice, report or other information regarding any actual or alleged violation of Environmental, Health, and Safety Requirements, or any liabilities or potential liabilities (whether accrued, absolute, contingent, unliquidated or otherwise), including any investigatory, remedial or corrective obligations, relating to any of them or its facilities arising under Environmental, Health, and Safety Requirements;

- (iv) neither the Company nor its predecessors or Affiliates has treated, stored, disposed of, arranged for or permitted the disposal of, transported, handled, or released any substance, including without limitation any hazardous substance, or owned or operated any property or facility (and no such property or facility is contaminated by any such substance) in a manner that has given or would give rise to liabilities, including any liability for response costs, corrective action costs, personal injury, property damage, natural resources damages or attorney fees, pursuant to any other Environmental, Health, and Safety Requirements;

- (v) neither the Company nor any of its predecessors or Affiliates has, either expressly or by operation of law, assumed or undertaken any liability, including without limitation any obligation for corrective or remedial action, of any other Person relating to Environmental, Health, and Safety Requirements;

- (vi) no facts, events or conditions relating to the past or present facilities, properties or operations of the Company or any of its predecessors or Affiliates will prevent, hinder or limit continued compliance by the Company with Environmental, Health, and Safety Requirements, give rise to any investigatory, remedial or corrective obligations pursuant to Environmental, Health, and Safety Requirements, or give rise to any other liabilities (whether accrued, absolute, contingent, unliquidated or otherwise) pursuant to Environmental, Health, and Safety Requirements, including without limitation any relating to onsite or offsite releases or threatened releases of hazardous materials, substances or wastes, personal injury, property damage or natural resources damage.

(cc) Licenses, Agency and Distribution Agreements.

The Disclosure Schedule lists all agreements to which the Company is a party or by which it is bound under which the right to manufacture, process, market or use any product, service or other property of the Company has been granted, licensed or otherwise provided by the Company to any agent, distributor, dealer, licensee or other person. The Disclosure Schedule also lists all agreements to which the Company is a party or by which it is bound under which the right to market, manufacture, process or use any product, service or other product has been granted to the Company by any other person or by which the Company has been appointed as an agent, distributor, licensee or franchisee. Complete and correct copies of all of the agreements referred to in this paragraph have been provided by the Company to the Buyer. None of the agreements listed in the Disclosure Schedule grant to any third person any authority to incur any liability or obligation or enter into any agreement on behalf of the Company. The Seller has no Knowledge of the intention of the other parties to any of the agreements referred to in this paragraph to terminate such agreements.

(dd) Subsidiaries.

The Company has no subsidiaries.

(ee) Related Party Matters.

Except as disclosed in the Disclosure Schedule, the Company is not a party to or bound by any agreement with, is not indebted to, and no amount is owing to the Company by, any of the Seller or any officers, former officers, directors, former directors, shareholders, former shareholders, or any members of the immediate family of any of the foregoing persons or any entity controlled by any of the foregoing persons. Without limiting the generality of the foregoing, none of the foregoing persons (i) is involved in any business arrangement or other relationship with the Company, (ii) owns any property or right, tangible or intangible, that is used by the Company, (iii) has any claim or cause of action against the Company, or (iv) owns any direct or indirect interest of any kind in, or is a director, officer or employee of, or consultant to, or has the right to participate in the profits of any Person who is a competitor, supplier, customer, landlord, creditor or debtor of the Company.

(ff) Compliance with Privacy Laws.

Except as disclosed in the Disclosure Schedule, Seller is unaware of any manner in which the collection, use and retention of personal information by the Company and the disclosure or transfer of personal information by the Company to any third parties has not complied with all Privacy Laws and is not consistent with the Company's own privacy practices. Seller is unaware of any restrictions on the Company's collection, use, disclosure and retention of personal information except as provided by Privacy Laws and, in some cases, contracts with clients.

(gg) Accounts; Lockboxes; Safe Deposit Boxes.

(i) The Disclosure Schedule contains a true and complete list of:

- (A) the names of each bank, savings and loan association, securities or commodities broker or other financial institution in which the Company has an account, including cash contribution accounts, and the names of all persons authorized to draw thereon or have access thereto; and
- (B) the location of all lockboxes and safe deposit boxes of the Company and the names of all persons authorized to draw thereon or have access thereto.

(ii) The Seller have not commingled monies or accounts of Company with other monies or accounts of the Seller or relating to their other activities and affairs nor, except as to distributions to the Seller, has transferred monies or accounts of the Company other than to an account of the Company.

(hh) Restrictions on Doing Business.

- (i) Except as disclosed in the Disclosure Schedule, the Company is not a party to or bound by any agreement which would restrict or limit the Company's right to carry on any business or activity or to solicit business from any person or in any geographical area or otherwise to conduct the Business as the Company may determine from time to time.
- (ii) The Seller is unaware of any legislation or any judgment, order or requirement of any court or Governmental Body which is not a general application to persons carrying on a business similar to the Business to which the Company is subject.

**ARTICLE 5
COVENANTS**

5.1 Covenants of Seller Prior to Closing Date.

The Seller covenants as follows with respect to the period between the date of this Agreement and the Closing Date:

(a) Access to Information.

The Seller will, and will cause the Company to: (A) afford the Buyer full and free access to the Company's personnel, properties, contracts, books and records, and other documents and data; (B) provide the Buyer with copies of all such contracts, books and records, and other existing documents and data as the Buyer may reasonably request; and (C) provide the Buyer with such additional financial, operating, and other data and information as the Buyer may reasonably request.

(b) Operation of the Business of the Company.

The Seller will, and will cause the Company to: (A) conduct the business of the Company only in the Ordinary Course of Business; (B) confer with the Buyer concerning operational matters of a material nature; and (C) otherwise report to the Buyer concerning the status of the business, operations, and finances of the Company.

(c) Negative Covenant.

Except as otherwise expressly permitted by this Agreement, the Seller will not, and will cause the Company not to, without the prior consent of the Buyer, take any affirmative action, or fail to take any reasonable action within their or its control, as a result of which any of the changes or events listed in Section 4.1(h) is likely to occur.

(d) Notification.

The Seller will promptly notify the Buyer in writing if the Seller or the Company becomes aware of any fact or condition that causes or constitutes a breach of any of the Seller's representations and warranties as of the date of this Agreement, or if the Seller or the Company becomes aware of the occurrence after the date of this Agreement of any fact or condition that would (except as expressly contemplated by this Agreement) cause or constitute a breach of any such representation or warranty had such representation or warranty been made as of the time of occurrence or discovery of such fact or condition. Should any such fact or condition require any change in the Disclosure Schedule if the Disclosure Schedule were dated the date of the occurrence or discovery of any such fact or condition, the Seller will promptly deliver to the Buyer a supplement to the Disclosure Schedule specifying such change. During the same period, Seller will promptly notify the Buyer of the occurrence of any breach of any covenant of the Seller in this Article 5 or of the occurrence of any event that may makes the satisfaction of the conditions in Section 6.1 impossible or unlikely.

(e) Best Efforts.

The Seller will use its best efforts to cause the conditions in Article 6 to be satisfied.

5.2 Covenants of Buyer Prior to Closing Date.

The Buyer covenants as follows with respect to the period between the date of this Agreement and the Closing Date:

(a) Best Efforts.

The Buyer will use its best efforts to cause the conditions in Article 6 to be satisfied.

5.3 Post Closing Covenants.

The Parties agree as follows with respect to the period following the Closing:

(a) General.

In case at any time after the Closing any further action is necessary to carry out the purposes of this Agreement, each of the Parties will take such further action (including the execution and delivery of such further instruments and documents) as any other Party reasonably may request, all at the sole cost and expense of the requesting Party (unless the requesting Party is entitled to indemnification therefor under Article 8 below). In addition, each Party will provide reasonable assistance in a timely fashion with respect to information requests concerning periods prior to Closing, including reasonable support for requests regarding audit and tax matters. Notwithstanding the foregoing, requests made by the Seller of the Buyer or the Company, or vice versa, in the context of an arbitration or litigation shall not come within the ambit of this sub-paragraph.

(b) Litigation Support.

In the event and for so long as any Party actively is contesting or defending against any action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand not involving one Party or the Company claiming against another Party or the Company, in connection with (i) any transaction contemplated under this Agreement or (ii) any fact, situation, circumstance, status, condition, activity, practice, plan, occurrence, event, incident, action, failure to act, or transaction on or prior to the Closing Date involving the Company, each of the other Parties will cooperate with him or it and its or its counsel in the contest or defense, make available their personnel, and provide such testimony and access to their books and records as shall be necessary in connection with the contest or defense, all at the sole cost and expense of the contesting or defending Party (unless the contesting or defending Party is entitled to indemnification therefor under Article 8 below).

(c) Confidentiality.

Except as provided by Section 5.2(d) hereof, each of the Seller will treat and hold as such all of the Confidential Information, refrain from using any of the Confidential Information except in connection with this Agreement, and deliver promptly to the Buyer all tangible embodiments (and all copies) of the Confidential Information which are in its possession.

(d) Disclosure of Confidential Information.

In the event that the Seller is requested or required (by oral question or request for information or documents in any legal proceeding, interrogatory, subpoena, civil investigative demand, or similar process) to disclose any Confidential Information, that Seller will notify the Buyer promptly of the request or requirement so that the Buyer may seek an appropriate protective order or waive compliance with the provisions of this Section 5.2(d). If, in the absence of a protective order or the receipt of a waiver hereunder, the Seller is, on the advice of counsel, compelled by law to disclose any Confidential Information, that Seller may disclose the Confidential Information as so compelled; provided, however, that the disclosing Seller shall use reasonable efforts to obtain, at the request of the Buyer, an order or other assurance that confidential treatment will be accorded to such portion of the Confidential Information required to be disclosed as the Buyer shall designate. The foregoing provisions shall not apply to any Confidential Information which is generally available to the public immediately prior to the time of disclosure. All expenses, fees and costs incurred by Seller, including for the reasonable time and disbursements of attorneys, in complying with this section 5.2(d) shall be paid in full and in advance by Buyer as a condition precedent to Seller's obligations in this section 5.2(d).

(e) Covenant Not to Compete.

- (i) Commencing on the Closing Date and for a period of three (3) years from the Closing Date, the Seller covenants not to engage directly or indirectly in any business competitive to the Business anywhere in the following provinces: Ontario, Manitoba and Quebec; provided, however, that no owner of less than 1% of the outstanding shares of any publicly-traded corporation shall be deemed to engage solely by reason thereof in any of its businesses.
- (ii) Without limiting the provisions of Section 5.2(e)(i) hereof, commencing on the Closing Date and for a period of 5 years from the Closing Date, the Seller covenants not to, directly or indirectly:
 - (A) solicit, endeavor to solicit or gain the business of any person that is a customer, or has been within three (3) years prior to the Closing Date, a customer of the Business or has been pursued as a prospective customer of the Business, for the purpose of selling to such customer or prospective customer any products or services which are competitive with those offered by the Company;

- (B) induce or endeavor to induce any employee of the Business to leave its or her employment;
- (C) employ or attempt to employ or assist any person in employing any employee of the Business during the term of their employment; or
- (D) solicit or endeavor to solicit any person that is a supplier or business partner of the Business at the time of Closing in a manner that would be competitive with the Business.

(iii) Buyer hereby acknowledges and agrees that eReview product sales and services are not included in the Business, and nothing in this Section 5.3(e) of this Agreement is intended to prevent Seller or its affiliates from marketing or selling the eReview product and service in Canada, including eReview sales to existing prospects shown on the sales pipeline reports included in the Due Diligence File.

(iv) If the final judgment of a court of competent jurisdiction declares that any term or provision of this Section 5.2(e) is invalid or unenforceable, the Parties agree that the court making the determination of invalidity or unenforceability shall have the power to reduce the scope, duration, or area of the term or provision, to delete specific words or phrases, or to replace any invalid or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision, and this Agreement shall be enforceable as so modified after the expiration of the time within which the judgment may be appealed.

(v) The Seller hereby expressly agrees and acknowledges that:

(A) in this section, the words “directly or indirectly” include any action taken by either of the Seller for its own benefit or for the benefit of any Person competing with the Business, either individually or in partnership or jointly or in conjunction with any other Person as principal, agent, trustee, employee or shareholder (except for the holding of less than 1% of the shares of a corporation as referred to in Section 5.2(e)(i) hereof);

(B) The Company has protectable business interests with respect to its suppliers, employees, customers and prospective customers, and that competition as proscribed above with and against such business interests would be harmful to the Company and Buyer;

(C) the covenants contained in this Section 5.2(e) above are reasonable as to time and geographical area and do not place any unreasonable burden upon the Seller’s ability to earn a livelihood;

(D) the public will not be harmed as a result of enforcement of the covenants contained in this Section 5.2(e);

(E) the legal counsel for Seller has reviewed the covenants contained in this Section 5.2(e);

- the parties have entered into the covenants contained herein in connection with and as a condition precedent to the consummation of this Agreement, pursuant to which Buyer shall acquire the outstanding shares of the Company; the agreements, actions, covenants, and promises contained herein are intended to protect and ensure the value of the Company, including its goodwill, which actions, covenants, and promises are a material consideration to Buyer in connection with this Agreement; and, to the extent that the laws of any jurisdiction in which this Agreement shall be interpreted, construed, and/or enforced distinguish between covenants given in connection with the sale of a business and its goodwill and covenants given in connection with employment, this covenant will be given the broader interpretation customarily given to covenants in connection with the sale of a business and the transfer of goodwill to a buyer; and
- (F)
- (G) Seller understands and agrees to each and every term and condition contained in Section 5.2(e) of this Agreement.

- (vi) Seller recognizes and acknowledges that irreparable damage will result to Buyer in the event of a breach by Seller of the provisions of this Section 5.2(e) and, accordingly, in the event of such a breach, Buyer will be entitled, in addition to any other legal or equitable damages and remedies to which it may be entitled or which may be available, to an injunction to restrain the violation thereof.

(f) Electronic Mail.

Seller shall provide transition services for email currently used by the employees of the Company under the bpoms.com domain name. Seller shall ensure that all currently active accounts used by employees of the Company are maintained as active and accessible for a 30 day transition period. In addition, for 1 year following the Closing Date, the Seller shall ensure all emails at each address used by employees of the Company shall be automatically redirected to their equivalent corresponding address at the CriticalControl.com domain.

(g) Release of Lease Guaranty.

Buyer shall use commercially reasonable efforts to obtain, within 30 days following Closing, a full release from HREIT Holdings 65 Corporation (the "Landlord") of the Seller from the indemnity and guaranty with respect the Company's lease with Landlord dated November 23, 2007, which release shall be in form and substance acceptable to Seller and its counsel.

(h) Access to Accounting System.

Seller and its affiliates will provide Buyer with access to the existing Company accounting system (and provide related hardware hosting support) for a period of 60 days following the Closing Date sufficient to permit Buyer to migrate the Company's accounting system to its own accounting platform.

ARTICLE 6
CONDITIONS

6.1 Conditions for the Benefit of the Buyer.

The purchase by the Buyer of the Company Shares is subject to the following conditions, which are for the exclusive benefit of the Buyer and which are to be performed or complied with at or prior to the time of Closing:

- (a) the representations and warranties set forth in Section 3.1 and Section 4 will be true and correct in all material respects (and for this purpose all materiality qualifications in such representations and warranties will be disregarded) as at the time of Closing with the same force and effect as if made at and as of such time;
- (b) the Seller will have performed or complied with all of the terms, covenants and conditions of this Agreement to be performed or complied with by the Seller at or prior to the time of Closing;
- (c) there will have been obtained from all appropriate governmental authorities such approvals or consents as are required to permit the change of ownership of the Company Shares contemplated hereby and to permit the Business of the Company to be carried on by the Buyer as now conducted;
- (d) the Seller will have obtained any consents or waivers of third parties required to sell and transfer the Company Shares to the Buyer and to allow the Buyer to cause the Company to conduct the Business as it is conducted prior to the time of Closing; without limiting the generality of the foregoing, the Seller shall have obtained consents to the change of control resulting from the Transaction under each of the contracts, if any, referred to in the Disclosure Schedule which specify that consent is required and for which Buyer has specifically requested Seller to obtain such consent;
- (e) no action or proceeding will be pending or threatened by any person or governmental authority to enjoin, restrict or prohibit the sale and purchase of the Shares contemplated hereby, or the right of the Buyer or the Company to conduct the Business of the Company;
- (f) all directors of the Company shall resign and the elected officers of the Company shall resign their respective offices unless Buyer requests that any such officer not resign. To the extent Buyer requires a resignation of any employee, it is understood and agreed that Buyer will be responsible for all pay in lieu of notice, severance, or other post-termination amounts due to such employee as a result of the forced resignation;
- (g) the Seller and all directors (subject to Buyer's achieving a satisfactory agreement with Brian Meyer as contemplated in Section 6.1(k) below) of the Company shall release the Company from any and all possible claims against the Company arising from any act, matter or thing arising at or prior to the time of Closing; provided, however, except in respect of claims made against the Seller by the Buyer pursuant to this Agreement, the Seller may make a claim at any time against the Company for protection, defense and indemnification pursuant to the bylaws, any applicable law, and/or for defense, liability and indemnification coverage under any policy of insurance the benefits of which run directly or indirectly to the Seller in their capacity as a former director, owner or employee of the Company and such claims shall not be released by the Seller;
- (h) the Buyer shall have reached an agreement with Kodak Canada Inc. regarding the Kodak Service Agreement in a form and substance satisfactory to the Buyer; and
- (i) the Buyer shall have reached an agreement with Brian Meyer regarding certain employment matters in a form and substance satisfactory to the Buyer.

6.2 Conditions for the Benefit of the Seller.

The sale by the Seller and the purchase by the Buyer of the Company Shares is subject to the following conditions, which are for the exclusive benefit of the Seller and which are to be performed or complied with at or prior to the time of Closing:

- (a) the representations and warranties of the Buyer set forth in Section 3.2 will be true and correct in all material respects (and for this purpose any materiality qualifications in such representations and warranties will be disregarded) as at the time of Closing with the same force and effect as if made at and as of such time;
- (b) the Buyer will have performed or complied with all of the terms, covenants and conditions of this Agreement to be performed or complied with by the Buyer at or prior to the time of Closing;
- (c) the Seller will be furnished with such certificates of officers of the Buyer as the Seller or the Seller's counsel may reasonably require in order to establish that the terms, covenants and conditions contained in this Agreement to have been performed or complied with by the Buyer at or prior to the time of Closing have been performed or complied with in all material respects, and that the representations and warranties of the Buyer herein given are true and correct in all material respects at the time of Closing;
- (d) the Buyer shall have caused its wholly owned subsidiary, CriticalControl Solutions Inc., to have entered into an indemnification agreement acceptable to Seller pursuant to which CriticalControl Solutions Inc. shall unconditionally indemnify and hold harmless the Seller from any and all liability, losses and costs incurred by Seller under the existing indemnity and guaranty in favor of the Landlord with respect to the Company's lease with Landlord dated November 23, 2007, which indemnification agreement shall be in form and substance acceptable to Seller and its counsel;
- (e) the Seller shall have received a full release from Royal Bank of Canada ("RBC") of Seller from any guaranty or other similar undertaking with respect to the Company's indebtedness owed to RBC in form and substance satisfactory to Seller and its counsel or all of the Company's indebtedness owed to RBC shall have been satisfied and all of the Company's credit facilities with RBC shall have been cancelled; and
- (f) Healthaxis, Ltd. (an affiliate of Seller) shall have received an assignment from Buyer of all ownership and intellectual property rights in and to the accounts payable front end data capture solution that has been jointly developed between Healthaxis, Ltd. and the Company specifically to support the accounts payable business that is conducted by Healthaxis, Ltd.

6.3 Waiver of Conditions.

The Buyer, in the case of a condition set out in Section 6.1, and the Seller, in the case of a condition set out in Section 6.2, will have the exclusive right to waive the performance or compliance of such condition in whole or in part and on such terms as may be agreed upon without prejudice to any of its rights in the event of non-performance of or non-compliance with any other condition in whole or in part. Any such waiver will not constitute a waiver of any other conditions in favor of the waiving party.

ARTICLE 7
DELIVERIES AT CLOSING

7.1 Closing.

The sale and purchase of the Company Shares will be completed at the Closing Time on the Closing Date at the offices of the Company.

7.2 Documents Delivered to Buyer.

At Closing, Seller shall deliver to Buyer, in addition to any other documents required by any provision of this Agreement, the following documents:

- (a) share certificates representing the Company Shares, duly endorsed in blank or accompanied by share transfer powers sufficient to transfer the Company Shares to the Buyer free and clear of all Security Interests;
- (b) a certificate of good standing for the Company dated not more than 3 Business Days prior to the Closing Date certified by the appropriate governmental officials in the incorporating jurisdiction of the Company;
- (c) all of the third party consents specified in Section 4.1(c) above;
- (d) resignations, effective as of the Closing, of each director and elected officer of the Company if and as required herein;
- (e) releases in the form acceptable to the Buyer, as contemplated by Section 6.1(h) hereof; and
- (f) a legal opinion from Seller's General Counsel in form and substance reasonably acceptable to Buyer, addressed to the Buyer, and dated as of the Closing Date.

7.3 Documents Delivered to Seller.

At Closing, Buyer shall deliver to the Seller the following:

- (a) cash or a wire transfer, certified cheque or bank draft for the Purchase Price;
- (b) Board of Director resolution of Buyer authorizing the execution and performance of this Agreement; and
- (c) a legal opinion in form and substance reasonably acceptable to Seller, addressed to the Seller and dated as of the Closing Date.

ARTICLE 8
REMEDIES FOR BREACHES OF THIS AGREEMENT

8.1 Survival of Representations and Warranties.

All representations and warranties of the Seller contained in Section 3.1 shall survive the Closing and continue in full force and effect for a period of twelve (12) months following the Closing. All of the representations and warranties of the Seller contained in Section 4.1 above shall, except as hereinafter provided, survive the Closing hereunder and continue in full force and effect for a period of twelve (12) months thereafter as representations and warranties of current condition as of the Closing.

8.2 Indemnification Provisions for Benefit of the Buyer.

- In the event the Seller breaches any of its representations, warranties, and covenants contained herein and, if there is an applicable survival period pursuant to Section 8.1 above, provided that the Buyer makes a written claim for indemnification against the Seller pursuant to Section 8.5 by delivering a Claim Notice below within such survival period, then, subject to Article 9 hereof, the Seller agrees to indemnify the Buyer from and against the entirety of any Adverse Consequences the Buyer may suffer resulting from, arising out of, or caused by the breach, subject to the limitations contained in Section 9.1 hereof.
- (a)

- Subject to the limitations contained in Section 9.1 hereof, the Seller agrees to indemnify the Company and the Buyer from and against the entirety of any Adverse Consequences which the Company or the Buyer may suffer resulting from, arising out of or caused by any Liability of the Company for any Taxes (other than taxes which are accrued for in the June 30 Financial Statements, disclosed in the Disclosure Schedule, or incurred in the Ordinary Course of the Business of the Company after June 30, 2009) with respect to any Tax period (or portions thereof) of the Company ending on or before the Closing Date.
- (b)

8.3 Indemnification Provisions for Benefit of the Seller.

In the event the Buyer breaches any of its representations, warranties, and covenants contained herein, and, if there is an applicable survival period pursuant to Section 8.1 above, provided that any of the Seller makes a written claim for indemnification against the Buyer pursuant to Section 8.5 below within such survival period by delivering a Claim Notice, then the Buyer agrees to indemnify the Seller from and against the entirety of any Adverse Consequences the Seller may suffer resulting from, arising out of, relating to, in the nature of, or caused by the breach.

8.4 Deemed Adjustments.

All indemnification payments under this Article 8 shall be deemed adjustments to the Purchase Price.

8.5 Claim Notice; Notice of a Disputed Claim.

- A Party hereto (the "Indemnified Party") may deliver to the other Party (the "Indemnifying Party") a written notice ("Claim Notice") that the Indemnified Party has suffered Adverse Consequences resulting from a breach of a representation, warranty or covenant and providing the facts alleged as the basis for such claim and the section or sections of this Agreement alleged to have been violated and the estimated total dollar amount of the Adverse Consequences claimed. In the event that the Indemnifying Party disputes liability for or the amount of the Adverse Consequences set forth in the Claim Notice (a "Disputed Claim"), the Indemnifying Party shall notify the Indemnified Party in writing of such dispute ("Notice of a Disputed Claim") and specify the amount disputed and basis therefor and the amount the Indemnifying Party believes to be the correct amount, if any, within thirty (30) days after receipt of the Claim Notice. The failure by the Indemnifying Party to deliver a Notice of a Disputed Claim to the Indemnified Party within thirty (30) days after receipt by the Indemnifying Party of the Claim Notice shall constitute the Indemnifying Party's acceptance of the item(s) in the Claim Notice.
- (a)

- If a written Notice of a Disputed Claim is sent pursuant to paragraph (a) above, the Parties shall during the thirty (30) days following the date of such delivery negotiate in good faith to resolve the Disputed Claim and reach a resolution of the matter on an expedited basis. If, after such resolution period, the Parties are unable to reach agreement, the Indemnified Party may pursue such Disputed Claim pursuant to arbitration.
- (b)

ARTICLE 9
LIMITATIONS ON INDEMNIFICATION

9.1 Limitations on Indemnification

- Except as hereinafter provided, the Buyer shall not be entitled to make any claim for indemnification against the Seller pursuant to Section 8.2 unless and until the amount of the Adverse Consequences incurred by the Buyer as a result of all misrepresentations, breaches of warranties and breaches of covenants contained in this Agreement is equal to \$50,000 (the "Threshold Amount").
- (a) If the Buyer has incurred Adverse Consequences in an aggregate amount at least equal to the Threshold Amount, then the Seller will be liable to the Buyer for the full amount of all Adverse Consequences that the Buyer may suffer resulting from or arising out of any such breaches, minus the Threshold Amount.
- (b) Notwithstanding any other provision of this Agreement, the maximum aggregate liability of the Seller for any and all claims by the Buyer for indemnification in respect of Adverse Consequences resulting from or arising out of any and all breaches of representations and warranties will be limited to \$100,000.00 (the "Limitation of Liability").

ARTICLE 10
MISCELLANEOUS

10.1 Press Releases and Public Announcements.

No Party shall issue any press release or make any public announcement relating to the subject matter of this Agreement prior to or following the Closing without the prior written approval of the other Party, which approval will not be unreasonably withheld or delayed, it being understood that both Parties shall cooperate on the timing of their respective releases to ensure compliance with applicable law or any listing requirements of any securities exchanges.

10.2 No Third-Party Beneficiaries.

This Agreement shall not confer any rights or remedies upon any Person other than the Parties and their respective successors and permitted assigns.

10.3 Entire Agreement.

This Agreement (including the documents referred to herein) constitutes the entire agreement among the Parties and supersedes any prior understandings, agreements, or representations by or among the Parties, written or oral, to the extent they relate in any way to the subject matter hereof.

10.4 Succession and Assignment.

This Agreement shall be binding upon and inure to the benefit of the Parties named herein and their respective successors and permitted assigns. No Party may assign either this Agreement or any of its rights, interests, or obligations hereunder without the prior written approval of the other Party; provided, however, that Buyer may assign this Agreement to an entity that is wholly owned by the Buyer or is controlled by the same persons that currently control the Buyer, or to a person or entity in connection with a merger, reorganization or sale of substantially all of the assets of the Buyer. In the event of such assignment, CriticalControl Solutions Corp. will guarantee all obligations of the entity which becomes the Buyer hereunder, and will execute a guarantee agreement in form acceptable to the Seller, acting reasonably.

10.5 Counterparts.

This Agreement may be executed in one or more counterparts and by facsimile, each of which shall be deemed an original but all of which together will constitute one and the same instrument. The Parties agree to deliver signed originals of this Agreement to each other within five business days after the Closing if this Agreement is executed by facsimile counterparts.

10.6 Headings.

The section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

10.7 Notices.

All notices, requests, demands, claims, and other communications hereunder will be in writing. Any notice, request, demand, claim, or other communication hereunder shall be deemed duly given if (and then two business days after) it is sent by registered or certified mail, return receipt requested, postage prepaid, and addressed to the intended recipient as set forth below:

If to the Seller:

BPOMS, Inc.
1290 North Hancock, Street
Suite 202
Anaheim, California 92807

Attn: Jim Cortens, President

With a copy to :

BPOMS, Inc.
7301 North State Highway 161
Suite 300
Irving, Texas 75039

Attn: J. Brent Webb, SVP & General Counsel

If to the Buyer:

CriticalControl Solutions Corp.
1100, 840 - 7th Ave S.W.
Calgary, Alberta T2P 3G2
Canada
Attention: Alykhan Mamdani

With a copy to:

Joe Brennan
Shea Nerland Calnan LLP
2800, 715 - 5th Avenue S.W.
Calgary, Alberta T2P 2X6
Canada
Tel: (403) 299 9600
Fax: (403) 299 9601

Any Party may send any notice, request, demand, claim, or other communication hereunder to the intended recipient at the address set forth above using any other means (including personal delivery, expedited courier, messenger service, telecopy, ordinary mail, or electronic mail), but no such notice, request, demand, claim, or other communication shall be deemed to have been duly given unless and until it actually is received by the intended recipient. Any Party may change the address to which notices, requests, demands, claims, and other communications hereunder are to be delivered by giving the other Parties notice in the manner herein set forth.

10.8 Governing Law.

This Agreement shall be governed by and construed and interpreted in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein. Any controversy or claim arising out of or relating to this Agreement, or any breach thereof shall be settled by final and binding arbitration governed by the laws of Alberta. The arbitration shall be conducted in the English language, and the proceeding held in a mutually agreed location. Unless the parties agree otherwise at the time, the arbitration proceeding shall be governed by the arbitration rules contained in the Alberta International Commercial Arbitration Act.

10.9 Amendments and Waivers.

No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by the Buyer and the Seller. No waiver by any Party of any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

10.10 Severability.

Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction.

10.11 Expenses.

Each of the Parties will bear its costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby.

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the date first above written.

CRITICALCONTROL SOLUTIONS CORP.

Per: _____

BPOMS, INC.

Per: _____

CERTIFICATION

I, Patrick A. Dolan, certify that:

1. I have reviewed this Form 10-Q of BPO Management Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to affect ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 13, 2009

/s/ Patrick A. Dolan
Patrick A. Dolan,
Chief Executive Officer
(principal executive officer)

CERTIFICATION

I, Ronald Herbert, certify that:

1. I have reviewed this Form 10-Q of BPO Management Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 13, 2009

/s/ Ronald K. Herbert
Ronald K. Herbert,
Chief Financial Officer
(principal financial officer)

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND
CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of BPO Management Services, Inc. (the "Company") for the quarter ended September 30, 2009 (the "Report"), the undersigned hereby certify in their capacities as Chief Executive Officer and Chief Financial Officer, respectively, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 13, 2009

By: /s/ Patrick A. Dolan

Patrick A. Dolan
Chief Executive Officer

Dated: November 13, 2009

By: /s/ Ronald K. Herbert

Ronald K. Herbert
Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signatures that appear in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.