

BLUEPHOENIX SOLUTIONS, #4294975
BLUEPHOENIX SOLUTIONS TO ANNOUNCE 2010 FIRST
QUARTER FINANCIAL RESULTS
May 26, 2010, 8:30 AM ET
Chairperson: Nir Peles (Mgmt.)

Operator: Good morning and welcome to the BluePhoenix First Quarter Financial Results Conference Call. All participants have been placed in a listen-only mode and the call will be open for questions and comments following the presentation.

At this time, I would like to turn the floor over to your host, Nir Peles, Chief Financial Officer of BluePhoenix. Nir, you may begin.

Nir Peles: Thank you. Good morning and welcome to the BluePhoenix First Quarter Financial Results conference call. Apparently, our service provider is having technical difficulties and [unintelligible].

Before we begin, I would like to point out that, during the course of the conference call, there may be statements made relating to future results of the Company which are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Actual results, performance or achievements could differ materially from those anticipated in such forward-looking statements as the result of certain factors, including those set forth in the Company's filings with the Securities and Exchange Commission.

An [inaudible] version of the conference call will be shortly accessible [unintelligible].

At this time, I would like to introduce Arik Kilman, Chief Executive Officer of BluePhoenix. Arik, the floor is yours.

Arik Kilman: Thank you and thank you, everyone, for joining us today. Before I begin, I would like to welcome Nir Peles as our new CFO. I am sure that he will be a big asset to the Company. I also would like to take the opportunity to thank our former CFO, Varda Sagiv, for contribution and hard work for the Company. In addition, I am happy to be back as the CEO and look forward to putting the Company back on the growth track.

In a moment, I will ask Nir to review the financial results for the first quarter period. First, let me provide an overview of our business. Let me start with our financial performance for the quarter. Revenues were \$17.2 million. Our non-GAAP EPS was \$0.01. Our non-GAAP operating profit was \$944,000 or 5% of revenues. Backlog is \$82 million, pipeline approximately \$330 million.

Let me start by saying that we are disappointed with our financial performance for the quarter. The main reason for the reduced revenue is a couple of large deals that we expected to be signed were put on hold or transferred [ph]. For example, we did a major deal with a tier one [inaudible] financial institution, which you

were informed that we won, and right before contract signing, the department was restructured and the project was put on hold.

Our business consists of two lines of business, legacy knowledge mobilization, software and fixed-price [ph] project, in addition to [inaudible] professional services related to legacy mobilization. We see the increased interest in our knowledge management business, and recently we were awarded our first international deal in a large telecom operator to a major system integrator. In addition, we are seeing stability in our professional services business with channel travel [ph] in the [inaudible] sector.

Over the last several weeks, we have changed our management team and nominated new board of director mandates. The new team has created [inaudible] with the goal of resuming sequential revenue growth no later than the end of the year. This plan has created [ph] measurable steps that will allow our shareholders to see how we are performing against our plan. Let me lay out the plan.

We are evaluating selling certain non-core, less profitable activities, while maintaining the focus on higher margin legacy and knowledge mobilization, at the same time strengthening our balance sheet. In addition, we intend to put our increased emphasis on cash flow from operations for continued expense control, as well as improving contractual terms. We expect to be back at positive cash flow from operations no later than the fourth quarter.

Finally, and perhaps more importantly, we will focus on relationships with strategic technology and system integration partners. We believe that teaming up with large partners can open the door to most of the major potential customers in the world, and we'll change our business model to sell more licenses with our tools and [inaudible] services. We expect to close at least one major deal with a large partner before year end. We believe that this strength will allow us to see improved backlog no later than the third quarter, with sequential revenue growth no later than the fourth quarter.

I'm going now to turn the call over to Nir to discuss financial results for the first quarter. After that, I will make a few closing comments. Nir?

Nir Peles:

Thank you, Arik. Please note that all references to our earnings numbers, unless stated otherwise, will be to our non-GAAP figures. Please refer to our press release for a reconciliation of our GAAP to non-GAAP figures.

Revenue for the quarter was \$17.3 million. Revenues from legacy and knowledge mobilization represented 55% of our revenue, including 16% from maintenance, 10% from software license and 29% from [inaudible]. The remaining 45% are generated from professional services which are based on time and material [ph]. The revenue break-out geographically for the quarter were 45% Europe, 31% in North America and 24% in rest of the world. Forty-one percent of our revenues were attributed to the financial and insurance industries; 59% were attributed to government and other sectors.

Gross margin for the quarter was 53% this quarter compared to 55% in the previous quarter. Overall expenses were \$16.4 million this quarter compared to \$17.8 million in the prior quarter. Other operating profit was \$944,000 or 5% of revenues. We had net financial expenses of \$915,000, including \$550,000 of foreign exchange losses. Net income was \$170,000. EPS for the quarter was a profit of \$0.01 per diluted share. The EPS is calculated based on 23.6 million shares outstanding.

Turning to the balance sheet, we completed the first quarter with \$17.5 million in cash. Cash flow from operating—operations was [inaudible] \$1.3 million, excluding payments relating to our cost saving plan. Our total headcount as of the end of the quarter was 746. Our DSOs for the first quarter was 132 days. Our goal is to bring the DSO down to 115 by the end of the year.

With that, I will now turn the call back over to Arik for some additional comments. Arik, go ahead [inaudible].

Arik Kilman: Thank you, Nir. First, I would like to apologize to you for the line that we have. I believe that our service provider has technical difficulties and if you won't hear us well, I really apologize.

Now let me speak to our outlook. As you know, approximately half of our revenues is coming from Europe, of which significant portions is from Italy, Spain and Central [ph] Greece. The turmoil in Europe would influence our presence [ph] in two ways. The first one is very significant drop in the euro and other European currencies versus the US dollars, which would [inaudible] by approximately \$1 million in revenue in Q2 versus Q1. The second is much on the sales cycle as a result of the turmoil. Accordingly, we expect Q2 revenues to be between \$15.5 million to \$16.5 million, essentially flattish with Q1 revenues, excluding [unintelligible], with non-GAAP EPS between minus \$0.02 to positive \$0.02. We are not giving guidance for the year but, clearly, with our results in Q1 and our guidance for Q2 and the fact that we have significant business in Europe, we expect to be significantly below our previous guidance for the year.

With that, I will open the call to any questions you may have. Operator?

Operator: Thank you, sir. If any participant would like to ask a question, please press the star, followed by the one on your telephone. If you would like to cancel that request, please press the star, followed by the two. Your questions will be polled in the order they are received and there will be a short pause whilst participants register.

The first question comes from Nathan Schneiderman from Roth Capital. Please go ahead, sir.

Nathan Schneiderman: Hi, Arik and Nir. Thanks for taking my questions. I'm not sure if it's just me but the sound quality was really horrible, at least on my line, so some of the questions I'm going to ask are going to be repeats of information you've given, but hopefully, I can—I hear the information; maybe someone else that missed it

can hear as well. What was the backlog and pipeline data that you gave during the call?

Arik Kilman: The backlog which I gave was 82 million, which is the final figures [ph] if you take the configuration, the time to [inaudible]. And the pipeline is \$330 million. I hope that you heard it.

Nathan Schneiderman: Did—I'm still having a hard time hearing it. Did you say 83 million of backlog and 230 on the pipe?

Arik Kilman: I said 82 million, 8 2, and 330 million of pipeline.

Nathan Schneiderman: Three hundred thirty million, okay, great. And when did you say—you had mentioned in the call that you expected to be cash flow positive and you mentioned a certain quarter but I didn't catch it.

Arik Kilman: I expected to be cash flow positive no later than Q3 2010.

Nathan Schneiderman: Q3?

Arik Kilman: No later than Q3 2010.

Nathan Schneiderman: Okay, thank you. Arik, of the 17 million or so of revenue that you reported this quarter, if you no longer owned these non-core businesses that you're hoping to get out of, what would your revenue have been, kind of on a pro forma basis?

Arik Kilman: I would say that this issue is still in initial stages of discussion so I can't tell you the numbers. However, if we're talking about non-core or some professional services businesses, we see lower margin that will enable us to focus on the core business of legacy and knowledge mobilization.

Nathan Schneiderman: Which—could you reference the acquisitions you made in the past that are represented in these non-core businesses that you have to get out of?

Arik Kilman: I'm sorry, I couldn't hear you. Can you repeat the question?

Nathan Schneiderman: Sure. If—you've made a number of acquisitions over the past five, six years. Which of these acquisitions created businesses that you're now looking to get out of?

Arik Kilman: This is a—that question is—I really hate to talk about it now because it's the—some sensitive issues [unintelligible] but [unintelligible] unless we get the right price, is actually [unintelligible] to focus on our future in legacy mobilization and knowledge management and to strengthen our balance sheet against the [inaudible].

Nathan Schneiderman: Okay. Hey, a final question for you. You referenced expense reductions. Can you share with us the magnitude of the reduction to the cost structure you're hoping to achieve and by which quarter you hope to achieve that? Thanks very much.

Arik Kilman: Okay, [unintelligible] expense [inaudible] of 16.5 a quarter. Our [inaudible], which today are below 16, and which as between the—also on the [unintelligible] average euro there is an exchange of 137.8 [ph] [unintelligible] with 156 and now the rates are much lower. So I calculated this number based on the current rate but definitely be well below 16 in the quarter.

Operator: Thank you. The next question comes from Jeff Van Rhee from Craig-Hallum. Please go ahead, sir.

Jeff Van Rhee: Thank you. Just a few questions. On the cash flow side, Arik, the—first, in the cash from investing, there's two items, consideration for acquired subsidiaries of 1.8 use [ph] and investment in a newly consolidated activity, 700,000. Can you just clarify what those two are?

Arik Kilman: The—they are—one was a contingent consideration that we had to pay, which was about 1.8 million, and I have to say that this—there's another 1 million to pay in January 2011 in the [inaudible] for the contingent consideration. The second one was the last payment of a knowledge management, which was acquired in Q4 and this [inaudible] was 700,000.

Jeff Van Rhee: Okay. And I think I heard most of that but on the contingent consideration there, I think you said there's another million more to go in January 2011. Are there any other earn-out or payments related to historical acquisitions remaining, other than that 1 million?

Arik Kilman: There are no earn-outs on these [inaudible] conditions.

Jeff Van Rhee: Okay. And a last question then, as you look at the cash flows, I think you had said you were hoping to get to cash flow break even no later than Q3, if I heard that right; so if that's right, just confirm that. And then the other part is, can you give us at least a sense of magnitude of what kind of drawdown you expect is reasonable where you think the cash balance may bottom?

Arik Kilman: Well, [inaudible], I heard your first question, which is do we expect to be cash flow neutral to positive [unintelligible] during 2010. I didn't hear your last question.

Jeff Van Rhee: I was—on the last one, I was asking, the cash flow drawdown, what kind of cash burn do you expect between here and cash flow break even, or even a range, if you could?

Arik Kilman: I would say between zero to \$2 million.

Jeff Van Rhee: Zero to \$3 million?

Arik Kilman: Two million.

Jeff Van Rhee: Two, 2 million, okay. Okay, thank you.

Arik Kilman: Actually, you're welcome.

Operator: Thank you. Once again, if you would like to ask a question, please press the star, followed by the one on your telephone.

And there appear to be no further questions at this time, sir. Please continue.

Arik Kilman: Thanks, everyone, for being here with us today and we'll talk again in our next conference call, which will be in August 2010. Thank you, everyone, [unintelligible].

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.

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