

BluePhoenix Solutions Ltd.

Q4/2010

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Operator: Ladies and gentlemen, thank you for standing by. Good morning, and welcome to the BluePhoenix fourth quarter financial results conference call. All participants have been placed in a listen-only mode, and the floor will be open for questions and comments following the presentation. At this time I would like to turn the floor over to our host, Nir Peles, chief financial officer of BluePhoenix. Please go ahead, sir.

Nir Peles: Thank you. Good morning and thank you for joining us for today's conference call to discuss our fourth quarter 2010 financial results for the period ending December 31, 2010. 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 that 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 An archived version of the conference call will shortly be accessible at our website at www.bphx.com. At this time, I would like to introduce Arik Kilman, chief executive officer of BluePhoenix. Arik, the floor is yours.

Arik Kilman: Thank you, Nir. And thank you, everyone, for joining us today. In a moment, I will ask Nir to review the details of our financial results for the fourth quarter period. First I would like to start with a quick summary of our results for the quarter. Revenues came at the high end of our

expectation, at \$12 million. Our non-GAAP operating income was \$87,000. During the quarter, we continued to execute on our plan which focuses on cash generation and profitability. Our cash flow from operation was negative \$1.1 million, compared to negative \$4.2 million in the previous quarter. Cash flow includes payment related to our cost savings plan and payments associated with the U.K. based customer, upon completion of a large-scale project. This project took three years, and experienced several delays, as previously disclosed to you. The project is now completed and it is behind us. We continue to reduce head count, which is now 560 people, down from 734 people at the end of 2009. We plan to continue and reduce our head count to a level of 470 people, with a major focus on low-cost areas. As a result, around 50% of our employees will be based in our offshore location in St. Petersburg and in Bucharest. We have a detailed plan how to get there. A result of the reduction in the expenses platform, we will be able to reach a 2011 annual expense run rate of \$38 million, and start generating sustainable cash flow from operation. During the quarter, we managed to reduce our DSO to a level of 124 days. We will continue our focus on reduction of our DSO, as it remains a top priority for us. In Q4 we continued to focus on our core business and divert from the non-core business such as we announced that we sold our ASNA subsidiary. During this period of time we had several notable wins of new deals including related database and language modernization. In addition, we have won 4 new customers in our knowledge management line of business, and we are working on several other opportunities in that space. Alongside our expenses platform adjustment we will focus on restarting the growth in our business. In legacy modernization space, we believe that there are

specific areas like COBOL to Java migration, which our tools and expertise enable us to be ahead of the competition. In the knowledge management, our partnerships with key players enable us to have a global reach. And we are in the midst of sales processes around the world. In addition, we plan to refocus the company on new growth areas related to our migration tools. I'm going now to turn the call over to Nir to discuss the financial results of the third 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. Revenues for the quarter were at \$12 million. The revenue breakup geographically for the quarter was 47% Europe, 15% North America and 38% in rest of the world. 34% of our revenues were attributed to the financial and insurance industry. 66% were attributed to government and other sectors. Gross margins for the quarter were 45% compared to 53% in the previous quarter. Our operating income was \$87,000. We had net financial expenses of \$238,000. Net loss was \$335,000. EPS for the quarter was minus one cent per share. The EPS is calculated based on a 23.7 million shares outstanding. I would like to spend a moment on the difference between our GAAP and our non-GAAP results. The total differences for the quarter was \$14.4 million. This consists of the following: \$4 million relates to loss on the sale of ASNA, a former subsidiary; \$3.6 million relates to our one-time loss from a prolonged projected in the U.K. that was completed in Q4. The loss was due to Q4 payments with the customer, and is completely over now. \$3.3 million related mainly to BluePhoenix terminated employees and subcontractors.

Such employees and subcontractors have been given notice and will be leaving the company in the next few months. \$1.6 million related to amortization of intangibles. \$0.8 million related to vacation payments, due to employees whose employment had been stopped. \$445,000 for bad debt expense; \$594,000 related to different items such as subcontractors, one-time professional fees, office rent, etc. \$245,000 for stock based compensation expense, and minus \$123,000 related to the reevaluation of warrants. As expected in the last quarter, our DSO for the fourth quarter decreased from 178 to 124 days. This is due to the completion of projects and accelerated collection. Since that, I'll now turn the call back over to Arik for some additional comments. Arik, go ahead.

Arik Kilman: Thank you, Nir. Our main goals for 2011 are as follows. Goal number 1, generate sustainable cash from operation; 2, stabilize the expense structure at a run rate of \$38 million per annum. We expect to reach this goal in Q2 this year. In order to reach such a level of expenses, we are going to continue and reduce our head count to about 470 people. As such, we are going to take a one-time restructuring GAAP charge in Q1, which will affect the redundancy being made. As a result of the sale of ASNA, we currently expect 2011 revenues to be between \$39 and \$44 million and non-GAAP EPS to be between 4 to 10 cents. We expect a positive cash flow from operation of 3 million and return to growth during 2012. Our guidance for Q1 2011 revenues is \$10 to \$10.5 million, with a non-GAAP EPS of minus 2 to 3 cents. At this stage, I would like to open the floor for questions. Operator?

Operator: Thank you, gentlemen. Ladies and gentlemen, at this time we will begin the question and answer session. If you have a question, please press *1. If you wish to cancel your request, please press *2. If you are using

speaker equipment, kindly lift the handset before pressing the numbers. Your questions will be polled in the order they are received. Please stand by while we poll for your questions. I repeat, if you have a question, please press *1. There are no questions at this time. Before I turn the call over to Mr. Kilman for the concluding statement, I would like to remind participants that a replay of this call will be available in 2 hours. In the U.S., please call 1-888-782-4291. In Israel, please call 03-925-5921. Internationally, please call 972-3-925-5921. Mr. Kilman, would you like to make your concluding statement?

Arik Kilman: I would like to thank everyone for participating in our conference call, and we'll talk to you in our next conference call while we have Q1 results. Thank you very much and have a nice day.

Operator: Thank you ladies and gentlemen. This concludes the BluePhoenix Solutions Ltd. fourth quarter 2010 results conference call. Thank you all for your participation. You may go ahead and disconnect.
(End of conference call)