

Submission Data File

General Information	
Form Type*	DEFA14A
Contact Name	Edgar Agents, LLC
Contact Phone	732-780-5036
Filer File Number	
Filer CIK*	0001029581 (BLUEPHOENIX SOLUTIONS LTD)
Filer CCC*	*****
Confirming Copy	No
Notify via Website only	No
Return Copy	No
Investment Company Type	
Is Investment Company	No
SROS*	NASD
(End General Information)	

Document Information	
File Count*	4
Document Name 1*	f8k100814_bluephoenix.htm
Document Type 1*	DEFA14A
Document Description 1	Current Report
Document Name 2*	f8k100814ex10i_bluephoenix.htm
Document Type 2*	EX-10.1
Document Description 2	First Amendment to Loan and Security Agreement
Document Name 3*	f8k100814ex99i_bluephoenix.htm
Document Type 3*	EX-99.1
Document Description 3	Press Release
Document Name 4*	logo.jpg
Document Type 4*	Graphic
Document Description 4	Graphic
(End Document Information)	

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported) October 8, 2014

BLUEPHOENIX SOLUTIONS LTD.

(Exact name of registrant as specified in its charter)

ISRAEL	333-06208	N/A
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)
601 Union Street, Suite 4616, Seattle WA		98101
(Address of principal executive offices)		(Zip Code)

Registrant's telephone number, including area code (206) 395-4152

Not Applicable.

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 1 4a- 12 under the Exchange Act (17 CFR 240.1 4a- 12)
 - Pre-commencement communications pursuant to Rule 1 4d-2(b) under the Exchange Act (17 CFR 240.1 4d-2(b))
 - Pre-commencement communications pursuant to Rule 1 3e-4(c) under the Exchange Act (17 CFR 240.1 3e-4(c))
-
-

Item 1.01 Entry into a Material Definitive Agreement

The information set forth in Item 2.03 below is incorporated by reference herein

Item 2.03 Creation of a Direct Financial Obligation or an Obligation Under an Off-Balance Sheet Arrangement

On October 8, 2014, Modern Systems Corporation (f/k/a BluePhoenix Solutions USA, Inc.), a Delaware corporation (“Modern Systems”) and an indirect, wholly-owned subsidiary of BluePhoenix Solutions Ltd. (“BluePhoenix,” NASDAQ:BPHX), and BP-AT Acquisition Corporation, a Delaware corporation and a direct, wholly-owned subsidiary of Modern Systems entered into First Amendment to Loan and Security Agreement, Joinder and Modification of Loan Documents with Comerica Bank, dated September 25, 2014 (the “Amendment”).

The Amendment amended Modern System’s Loan and Security Agreement dated October 2, 2013 to: increase the non-formula revolving line up to the amount of \$2 million backed by guarantees; increase the borrowing base revolving line amount up to \$1.5 million upon the close of the proposed merger of Sophisticated Business Systems, Inc. (“ATERAS”) and Modern Systems; and extend the loan maturity date to December 31, 2015. The Amendment has a financial covenant for a minimum liquidity ratio effective upon the close of the proposed merger. Modern System’s obligations under the Amendment are secured by a security interest in Modern System’s copyrights, trademarks and patents. The remaining substantive provisions of the facility are not materially changed by the Amendment.

A copy of the Amendment is attached as Exhibit 10.1 and is incorporated herein by reference. The foregoing description of the Amendment is qualified in its entirety by reference to the full text of the Amendment.

Item 8.01. Other Events.

On October 10, 2014, Modern Systems released a press release which provided an update on the expected timing of its proposed merger with ATERAS and announced the terms of the Amendment described above. The press release is attached hereto as Exhibit 99.1 and incorporated herein by reference.

Forward-Looking Statements

This Form 8-K and the exhibits attached hereto may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are based on BluePhoenix’s management’s beliefs and assumptions and on information currently available to BluePhoenix’s management. All statements other than statements of historical facts are “forward-looking statements” for purposes of these provisions, including those relating to future events or our future financial performance and financial guidance. In some cases, you can identify forward-looking statements by terminology such as “may,” “might,” “will,” “should,” “expect,” “plan,” “anticipate,” “project,” “believe,” “estimate,” “predict,” “potential,” “intend” or “continue,” the negative of terms like these or other comparable terminology, and other words or terms of similar meaning in connection with any discussion of future operating or financial performance. These statements are only predictions. All forward-looking statements included in this document are based on information available to BluePhoenix on the date hereof, and BluePhoenix assumes no obligation to update any such forward-looking statements. Any or all forward-looking statements in this document may turn out to be wrong. Actual events or results may differ materially. Forward-looking statements can be affected by inaccurate assumptions BluePhoenix might make or by known or unknown risks, uncertainties and other factors. These risks and uncertainties include but are not limited to: the risk that the businesses may not be combined successfully or in a timely and cost-efficient manner; the possibility that the transaction will not close, including, but not limited to, due to the failure to obtain shareholder approval or the failure to obtain any required governmental or third-party approval; and the risk that business disruption relating to the merger with ATERAS may be greater than expected; and such other risks and uncertainties as identified in BluePhoenix’s most recent Annual Report on Form 10-K and other reports filed by it with the SEC. All names and trademarks are their owners’ property

Where You Can Find More Information

This Form 8-K and the exhibits attached hereto may be deemed to be solicitation material in respect of the proposed merger with ATERAS. This Form 8-K and the exhibit attached hereto should not be read alone, but should instead be read in conjunction with the other information regarding the companies and the merger with ATERAS that will be contained in, or incorporated by reference into, the proxy statement that Foreign Parent will be filing in connection with shareholder approval of the merger with ATERAS, as well as in the Forms 10-K, Forms 10-Q and other filings that Foreign Parent makes with the Securities and Exchange Commission (“SEC”). The proxy statement will be mailed or otherwise made available to shareholders and shareholders and investors will be able to obtain the proxy statement free of charge when it becomes available at www.sec.gov and <http://bphx.com/our-company/investor-info/>. **INVESTORS AND SHAREHOLDERS ARE URGED TO READ THE PROXY STATEMENT REGARDING THE PROPOSED TRANSACTION AND ANY OTHER RELEVANT DOCUMENTS WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION.**

Participants in Solicitation

The directors and executive officers of BluePhoenix and other persons may be deemed to be participants in the solicitation of proxies in respect of the proposed transaction. Information regarding BluePhoenix's directors and executive officers is available in its proxy statement filed with the SEC by BluePhoenix on November 22, 2013. Other information regarding the participants in the proxy solicitation and a description of their direct and indirect interests, by security holdings or otherwise, will be contained in the proxy statement and other relevant materials regarding the merger with ATERAS to be filed with the SEC (when they become available). These documents can be obtained free of charge from the sources indicated above.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

10.1	First Amendment to Loan and Security Agreement, Joinder and Modification of Loan Documents dated September 25, 2014
99.1	Press Release, dated October 10, 2014, entitled "Modern Systems Corporation Continues Merger Progress, Secures New Debt Financing"

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BLUEPHOENIX SOLUTIONS LTD

(Registrant)

Date October 10, 2014

By /s/ Rick Rinaldo

Rick Rinaldo
Chief Financial Officer

Exhibit Number	Description
10.1	First Amendment to Loan and Security Agreement, Joinder and Modification of Loan Documents dated September 25, 2014
99.1	Press Release, dated October 10, 2014, entitled "Modern Systems Corporation Continues Merger Progress, Secures New Debt Financing"

**FIRST AMENDMENT TO
LOAN AND SECURITY AGREEMENT, JOINDER, AND MODIFICATION TO LOAN DOCUMENTS**

This First Amendment to Loan and Security Agreement, Joinder and Modification to Loan Documents (this "Amendment") is entered into as of September 25, 2014, by and among MODERN SYSTEMS CORPORATION, a Delaware corporation, formerly known as BluePhoenix Solutions USA, Inc., a Delaware corporation ("Modern") and BP-AT Acquisition Corporation, a Delaware corporation ("BP-AT"), and collectively with Modern, "Borrowers", and each individually, a "Borrower", and COMERICA BANK ("Bank").

RECITALS

WHEREAS, BluePhoenix Solutions USA, Inc. and Bank entered into a Loan and Security Agreement dated as of October 2, 2013 (as it may be amended from time to time, "Agreement");

WHEREAS, on August 7, 2014, BluePhoenix Solutions USA, Inc. filed a Certificate of Amendment of Certificate of Incorporation, whereby changing its name to Modern Systems Corporation, a Delaware corporation (the "Name Change Amendment");

WHEREAS, notwithstanding any provisions of the Loan Documents to the contrary, Borrower has requested that Bank consent to the Name Change Amendment and refrain from exercising its rights and remedies under the Loan Documents. Bank hereby consents to the Amendment, subject to the terms and conditions set forth below;

WHEREAS, Modern owns one hundred percent (100%) of the ownership interests of BP-AT and BP-AT desires to become a party to the Agreement and certain Loan Documents (as defined in the Agreement) under the terms and conditions set forth herein;

WHEREAS, the parties desire to amend the Agreement further in accordance with the terms of this Amendment.

NOW, THEREFORE, the parties agree as follows:

1. Incorporation by Reference. The Recitals and the documents referred to therein are incorporated herein by this reference. Except as otherwise noted, the terms not defined herein shall have the meaning set forth in the Loan Documents.
2. Modification to the Loan Documents. Subject to the satisfaction of the conditions precedent as set forth herein, the Loan Documents are hereby modified as set forth below:
 - (a) Wherever the name BluePhoenix Solutions USA, Inc., a Delaware corporation, is used in the Loan Documents, it shall hereafter mean Modern Systems Corporation, a Delaware corporation.
3. Joinder.
 - (a) By execution and delivery of this Agreement, BP-AT shall, and does hereby, become a Borrower (as defined in the Agreement) under the Agreement and the applicable Loan Documents as if an original signatory thereto.
 - (b) BP-AT further: (i) acknowledges and agrees that it has read the Agreement and the Loan Documents, (ii) consents to all of the provisions of the Agreement and the Loan Documents relating to a Borrower; and (iii) acknowledges and agrees that this Amendment and the Agreement have been freely executed without duress and after an opportunity was provided to BP- AT for review of this Amendment by competent legal counsel of their choice.

(c) The parties hereto agree that all references to "Borrower" shall mean and refer to Modern and BP-AT individually and collectively.

4. Amendments to Agreement.

(a) Exhibit A to the Agreement is amended by adding (in the appropriate alphabetical order) or amending and restating, as applicable, the following defined terms to read in their entirety as follows:

" 'BP-AT' means BP-AT Acquisition Corporation, a Delaware corporation, and its successors and assigns."

" 'Liquidity' means the sum of Borrowers' Cash at Bank plus eighty percent (80%) of Eligible Accounts."

" 'Merger' means the transactions contemplated under the Agreement and Plan of Merger dated as of August 5, 2014 among Borrowers, Sophisticated Business Systems, Inc. ('SBS'), Parent, Scott Miller, as Stockholder Representative, and certain stockholders of SBS."

" 'Modern' means Modern Systems Corporation, a Delaware corporation, and its successors and assigns."

" 'Non-Formula Revolving Line' means a Credit Extension of up to Two Million Dollars (\$2,000,000)."

" 'Non-Formula Revolving Line Maturity Date' means December 31, 2015."

" 'Revolving Line' means a Credit Extension of up to (a) Five Hundred Thousand Dollars (\$500,000) and (b) upon the Revolving Line Increase Effective Date, and provided no Event of Default has occurred and is continuing, One Million Five Hundred Thousand Dollars (\$1,500,000)."

" 'Revolving Line Increase Effective Date' means the date on which Bank receives evidence satisfactory to it of the closing of the Merger."

" 'Revolving Line Maturity Date' means December 31, 2015."

- (b) The first paragraph of Section 6.2 of the Agreement is amended and restated to read in its entirety as follows:

“6.2 Financial Statements, Reports, Certificates. Borrower shall deliver to Bank: (i) as soon as available, but in any event within thirty (30) days after the end of each calendar month, a company prepared consolidated and consolidating balance sheet and income statement covering Modern’s and each Subsidiaries’ operations during such period, prepared in accordance with GAAP, and in a form reasonably acceptable to Bank and certified by a Responsible Officer; (ii) as soon as available, but in any event within one hundred fifty (150) days after the end of each fiscal year of Borrower, company prepared consolidated and consolidating financial statements of Borrower, together with a balance sheet and income statement covering Modern’s and each Subsidiaries’ operations during such period, prepared in accordance with GAAP, and in a form reasonably acceptable to Bank and certified by a Responsible Officer; (iii) as soon as available, but in any event within one hundred fifty (150) days after the end of each fiscal year of Parent, commencing with the fiscal year ending December 31, 2014, company prepared consolidating financial statements of Parent, together with a balance sheet and income statement covering Parent’s and each Subsidiaries’ operations during such period, prepared in accordance with GAAP, and in a form reasonably acceptable to Bank and certified by an officer of Parent; (iv) as soon as available, but in any event within one hundred fifty (150) days after the end of Parent’s fiscal year, audited consolidated financial statements of Parent prepared in accordance with GAAP, consistently applied, together with an opinion which is unqualified (including no going concern comment or qualification) or otherwise consented to in writing by Bank on such financial statements of an independent certified public accounting firm reasonably acceptable to Bank; (v) if applicable, copies of all statements, reports and notices sent or made available generally by Borrower to its security holders or to any holders of Subordinated Debt and all reports on Forms 10-K and 10-Q filed with the Securities and Exchange Commission; (vi) promptly upon receipt of notice thereof, a report of any legal actions pending or threatened against Borrower or any Subsidiary that could result in damages or costs to Borrower or any Subsidiary of Two Hundred Fifty Thousand Dollars (\$250,000) or more; (vii) as soon as available, but in any event not later than January 31 of each year, Borrower’s financial and business projections and budget for the then current or immediately following (as applicable) year, with evidence of approval thereof by Borrower’s board of directors; (viii) such budgets, sales projections, operating plans or other financial information generally prepared by Borrower in the ordinary course of business as Bank may reasonably request from time to time; and (ix) within thirty (30) days of the last day of each fiscal quarter, a report signed by Borrower, in form reasonably acceptable to Bank, listing any applications or registrations that Borrower has made or filed in respect of any Patents, Copyrights or Trademarks and the status of any outstanding applications or registrations, as well as any material change in Borrower’s Intellectual Property Collateral, including but not limited to any subsequent ownership right of Borrower in or to any Trademark, Patent or Copyright not specified in Exhibits A, B, and C of any Intellectual Property Security Agreement delivered to Bank by Borrower in connection with this Agreement.”

- (c) Section 6.7 of the Agreement is amended and restated to read in its entirety as follows:

“6.7 Financial Covenants. Borrower shall maintain the following financial ratios and covenants:

(a) Bank Debt Liquidity Coverage. Tested monthly as of the last day of each month, commencing on the Revolving Line Increase Effective Date, a ratio of Liquidity to all Indebtedness, other than Indebtedness that is guaranteed, to Bank of at least 1.10 to 1.00.”

- (d) New Article 14 is added to the Agreement immediately after Article 13 thereof to read in its entirety as follows:

“14. CO-BORROWER PROVISIONS.

14.1 Primary Obligation. This Agreement is a primary and original obligation of each Borrower and shall remain in effect notwithstanding future changes in conditions, including any change of law or any invalidity or irregularity in the creation or acquisition of any Obligations or in the execution or delivery of any agreement between Bank and any Borrower. Each Borrower shall be liable for existing and future Obligations as fully as if all of all Credit Extensions were advanced to such Borrower. Bank may rely on any certificate or representation made by any Borrower as made on behalf of, and binding on, all Borrowers, including without limitation Disbursement Request Forms, Borrowing Base Certificates and Compliance Certificates. Furthermore, the successful operation of each Borrower is dependent on the continued successful performance of the integrated group of Borrowers, such that each Borrower will benefit from any Credit Extensions Bank makes to another Borrower.

14.2 Enforcement of Rights. Borrowers are jointly and severally liable for the Obligations and Bank may proceed against one or more of the Borrowers to enforce the Obligations without waiving its right to proceed against any of the other Borrowers.

14.3 Borrowers as Agents. Each Borrower appoints the other Borrower as its agent with all necessary power and authority to give and receive notices, certificates or demands for and on behalf of both Borrowers, to act as disbursing agent for receipt of any Credit Extensions on behalf of each Borrower and to apply to Bank on behalf of each Borrower for Credit Extensions, any waivers and any consents. This authorization cannot be revoked, and Bank need not inquire as to each Borrower's authority to act for or on behalf of Borrower.

14.4 Subrogation and Similar Rights. Notwithstanding any other provision of this Agreement or any other Loan Document, each Borrower irrevocably waives all rights that it may have at law or in equity (including, without limitation, any law subrogating the Borrower to the rights of Bank under the Loan Documents) to seek contribution, indemnification, or any other form of reimbursement from any other Borrower, or any other Person now or hereafter primarily or secondarily liable for any of the Obligations, for any payment made by the Borrower with respect to the Obligations in connection with the Loan Documents or otherwise and all rights that it might have to benefit from, or to participate in, any security for the Obligations as a result of any payment made by the Borrower with respect to the Obligations in connection with the Loan Documents or otherwise. Any agreement providing for indemnification, reimbursement or any other arrangement prohibited under this Section 14.4 shall be null and void. If any payment is made to a Borrower in contravention of this Section 14.4, such Borrower shall hold such payment in trust for Bank and such payment shall be promptly delivered to Bank for application to the Obligations, whether matured or unmatured.

14.5 Waivers of Notice. Except as otherwise provided in this Agreement, each Borrower waives notice of acceptance hereof; notice of the existence, creation or acquisition of any of the Obligations; notice of an Event of Default; notice of the amount of the Obligations outstanding at any time; notice of intent to accelerate; notice of acceleration; notice of any adverse change in the financial condition of any other Borrower or of any other fact that might increase the Borrower's risk; presentment for payment; demand; protest and notice thereof as to any instrument; default; and all other notices and demands to which the Borrower would otherwise be entitled. Each Borrower waives any defense arising from any defense of any other Borrower, or by reason of the cessation from any cause whatsoever of the liability of any other Borrower. Bank's failure at any time to require strict performance by any Borrower of any provision of the Loan Documents shall not waive, alter or diminish any right of Bank thereafter to demand strict compliance and performance therewith. Nothing contained herein shall prevent Bank from foreclosing on the Lien of any deed of trust, mortgage or other security instrument, or exercising any rights available thereunder, and the exercise of any such rights shall not constitute a legal or equitable discharge of any Borrower. Each Borrower also waives any defense arising from any act or omission of Bank that changes the scope of the Borrower's risks hereunder.

14.6 Subrogation Defenses. Each Borrower hereby waives any defense based on impairment or destruction of its subrogation or other rights against any other Borrower and waives all benefits which might otherwise be available to it under California Civil Code Sections 2799, 2808, 2809, 2810, 2815, 2819, 2820, 2821, 2822, 2838, 2839, 2845, 2847, 2848, 2849, 2850, 2899 and 3433 and California Code of Civil Procedure Sections 580a, 580b, 580d and 726, as those statutory provisions are now in effect and hereafter amended, and under any other similar statutes now and hereafter in effect.

14.7 Right to Settle, Release.

(a) The liability of Borrowers hereunder shall not be diminished by (i) any agreement, understanding or representation that any of the Obligations is or was to be guaranteed by another Person or secured by other property, or (ii) any release or unenforceability, whether partial or total, of rights, if any, which Bank may now or hereafter have against any other Person, including another Borrower, or property with respect to any of the Obligations.

(b) Without affecting the liability of any Borrower hereunder, Bank may (i) compromise, settle, renew, extend the time for payment, change the manner or terms of payment, discharge the performance of, decline to enforce, or release all or any of the Obligations with respect to a Borrower, (ii) grant other indulgences to a Borrower in respect of the Obligations, (iii) modify in any manner any documents relating to the Obligations with respect to a Borrower, (iv) release, surrender or exchange any deposits or other property securing the Obligations, whether pledged by a Borrower or any other Person, or (v) compromise, settle, renew, or extend the time for payment, discharge the performance of, decline to enforce, or release all or any obligations of any guarantor, endorser or other Person who is now or may hereafter be liable with respect to any of the Obligations.

14.8 Subordination. All indebtedness of a Borrower now or hereafter arising held by another Borrower is subordinated to the Obligations and the Borrower holding the indebtedness shall take all actions reasonably requested by Lender to effect, to enforce and to give notice of such subordination.”

(e) Notwithstanding anything to the contrary set forth in the Agreement, Borrowers acknowledge and agree that Eligible Accounts shall not include any Accounts owing to BP-AT, or any successor in interest to BP-AT, until Bank receives an audit of Accounts, the results of which are satisfactory to Bank.

(f) Exhibit E to the Agreement is deleted and replaced with Exhibit E attached hereto.

5. Borrowers acknowledge and agree that upon the closing of the Merger, they shall promptly execute and deliver to Bank all documents (including without limitation, an amendment to the Agreement) and provide to Bank all information reasonably requested by Bank in connection therewith.

6. No course of dealing on the part of Bank or its officers, nor any failure or delay in the exercise of any right by Bank, shall operate as a waiver thereof, and any single or partial exercise of any such right shall not preclude any later exercise of any such right. Bank’s failure at any time to require strict performance by any Borrower of any provision shall not affect any right of Bank thereafter to demand strict compliance and performance. Any suspension or waiver of a right must be in writing signed by an officer of Bank.

7. Unless otherwise defined, all initially capitalized terms in this Amendment shall be as defined in the Agreement. The Agreement, as amended hereby, shall be and remain in full force and effect in accordance with its respective terms and hereby is ratified and confirmed in all respects. Except as expressly set forth herein, the execution, delivery, and performance of this Amendment shall not operate as a waiver of, or as an amendment of, any right, power, or remedy of Bank under the Agreement, as in effect prior to the date hereof.

8. Each Borrower represents and warrants that the representations and warranties contained in the Agreement are true and correct in all material respects as of the date of this Amendment except to the extent such representation or warranty expressly relates to an earlier date, and that (except as set forth in the waiver letter between Borrowers and Bank dated as of the date hereof) no Event of Default has occurred and is continuing.

9. As a condition to the effectiveness of this Amendment, Bank shall have received, in form and substance satisfactory to Bank, the following:

- (a) this Amendment, duly executed by each Borrower;
- (b) a Certificate of the Secretary of each Borrower with respect to incumbency and resolutions authorizing the execution and delivery of this Amendment;
- (c) an amended and restated guaranty, executed by Columbia Pacific Opportunity Fund, L.P.;
- (d) a guaranty, executed by Prescott Group Aggressive Small Cap Master Fund;
- (e) resolutions and incumbency certifications executed by each guarantor;
- (f) all reasonable Bank Expenses incurred through the date of this Amendment, which may be debited from any of Borrower’s accounts with Bank; and
- (g) such other documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate.

10. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, and, with respect to BP-AT, intending to be legally bound by the terms of the Agreement and any of other documents executed in connection therewith, Borrowers and Bank have executed and delivered this First Amendment to Loan and Security Agreement and Joinder as of the date first set forth above.

MODERN SYSTEMS CORPORATION, a Delaware corporation, formerly known as BluePhoenix Solutions USA, Inc.

By: /s/ Rick Rinaldo

Printed Name: Rick Rinaldo

Title: CFO

BP-AT ACQUISITION CORPORATION, a Delaware corporation

By: /s/ Rick Rinaldo

Printed Name: Rick Rinaldo

Title: CFO

COMERICA BANK

By: /s/ Michael Fishback

Printed Name: Michael Fishback

Title: Vice President



Modern Systems Corporation Continues Merger Progress, Secures New Debt Financing

New products and partnerships anticipated to drive growth

SEATTLE, WA, OCTOBER 10, 2014 –Modern Systems Corporation, an indirect, wholly-owned subsidiary of BluePhoenix Solutions, Ltd. (NASDAQ: BPHX), provided an update on the expected timing of its proposed merger with Sophisticated Business Systems, Inc. (“ATERAS”) and announced new debt financing from Comerica Bank.

The merger is an all stock transaction in which BluePhoenix will issue approximately 6.2M shares to ATERAS shareholders in exchange for 100 percent of ATERAS’ shares. ATERAS will become a wholly-owned subsidiary of Modern Systems Corporation, subject to the satisfaction of the conditions to closing the merger, such as BluePhoenix shareholder approval. A meeting of the BluePhoenix shareholders is scheduled for November 18, 2014 to vote on the proposed merger and related transactions. If approved, this merger is expected to close prior to December 2014.

On a pro-forma basis, we estimate that the revenue for the combined entities in 2013 would have been \$14.3M, if the merger with ATERAS had been completed on January 1, 2013. ATERAS’ Operating Loss in 2013 was nearly break-even at (\$264K). Operational efficiencies and savings are anticipated to be realized through the merger as the new combined entity will continue to progress towards break-even cash flow. Pro forma financial information is for informational purposes only and is not necessarily indicative of what BluePhoenix’s financial results would have been had BluePhoenix completed the merger with ATERAS on January 1, 2013.

The merger will make Modern Systems one of the largest independent legacy modernization firms in the world, extending coverage in the US and offering a wider set of products.

The merger will also extend the company’s sales channels, broadening partnerships with IBM, Dell, HP and Fujitsu. BluePhoenix recently extended a service agreement with IBM assisting in legacy system modernization with a large US government agency, and completed a successful project with UK financial services firm Moorcroft Debt Services.



Modern Systems' new products, which accelerate the transition from legacy systems to the cloud, have attracted the attention of analysts from Gartner and 451 Research.

"Our customers, partners and those covering the legacy modernization market are excited by the merger and our growth plan," says Modern Systems CEO Matt Bell. "New products and partnerships, along with the combined resources of both companies will enable us to provide modernization services to companies across the globe."

"Legacy modernization has become a top CIO priority," says Bell. "Modernizing legacy systems is necessary to fully reap the benefits of mobile, cloud and big data. It's no surprise companies are mobilizing to address this growing need."

Modern Systems also announced that it had entered into an amendment to its existing loan agreement with Comerica Bank to: increase the non-formula revolving line up to the amount of \$2 million backed by guarantees; increase the borrowing base revolving line amount up to \$1.5 million upon the closing of the ATERAS merger; and extend the loan maturity date to December 31, 2015. The amendment has a financial covenant for a minimum liquidity ratio effective upon the close of the ATERAS merger. BluePhoenix's obligations under the Amendment are secured by a security interest in BluePhoenix's copyrights, trademarks and patents. The remaining substantive provisions of the credit facility are not materially changed by this amendment.

"The new financing terms will help stabilize the company through the merger and lay the foundation for growth," says Bell. "We're fortunate to have a partner like Comerica, who recognizes the needs of our niche and believes in our ability to serve them."



About Modern Systems Corporation

Modern Systems Corporation, an indirect, wholly-owned subsidiary of BluePhoenix Solutions Ltd. (NASDAQ: BPHX), is a leading provider of legacy modernization services. The Modern Systems portfolio includes a comprehensive suite of tools and services for incremental modernization of legacy systems. Leveraging over 20 years of best-practice domain expertise, Modern Systems works closely with customers to minimize risk and provide a clear path from legacy platforms like COBOL, Natural/Adabas and others to modern solutions like SQL, DB2, Java and more. Modern Systems customers come from diverse industries and vertical markets such as automotive, banking and financial services, insurance, manufacturing, and retail. Modern Systems has six offices in the USA, UK, Italy, Romania, and Israel.

Media Contacts

Rick Oppedisano, Vice President of Global R&D and Marketing, Modern Systems

(704) 649-3173

Forward-Looking Statements

This press release may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are based on BluePhoenix's management's beliefs and assumptions and on information currently available to BluePhoenix's management. All statements other than statements of historical facts are "forward-looking statements" for purposes of these provisions, including those relating to future events or our future financial performance and financial guidance. In some cases, you can identify forward-looking statements by terminology such as "may," "might," "will," "should," "expect," "plan," "anticipate," "project," "believe," "estimate," "predict," "potential," "intend" or "continue," the negative of terms like these or other comparable terminology, and other words or terms of similar meaning in connection with any discussion of future operating or financial performance. These statements are only predictions. All forward-looking statements included in this document are based on information available to BluePhoenix on the date hereof, and BluePhoenix assumes no obligation to update any such forward-looking statements. Any or all forward-looking statements in this document may turn out to be wrong. Actual events or results may differ materially. Forward-looking statements can be affected by inaccurate assumptions BluePhoenix might make or by known or unknown risks, uncertainties and other factors. These risks and uncertainties include but are not limited to: the risk that the businesses may not be combined successfully or in a timely and cost-efficient manner; the possibility that the transaction will not close, including, but not limited to, due to the failure to obtain shareholder approval or the failure to obtain any required governmental or third-party approval; and the risk that business disruption relating to the merger may be greater than expected; and such other risks and uncertainties as identified in BluePhoenix's most recent Annual Report on Form 10-K and other reports filed by it with the Securities and Exchange Commission, or SEC. All names and trademarks are their owners' property.



Where You Can Find More Information

This press release may be deemed to be solicitation material in respect of the proposed merger with ATERAS. This press release should not be read alone, but should instead be read in conjunction with the other information regarding the companies and the proposed merger with ATERAS that will be contained in, or incorporated by reference into, the proxy statement that BluePhoenix will be filing in connection with shareholder approval of the proposed merger with ATERAS, as well as in the Forms 10-K, Forms 10-Q and other filings that BluePhoenix makes with the SEC. The proxy statement will be mailed or otherwise made available to our shareholders, and shareholders and investors will be able to obtain the proxy statement free of charge when it becomes available at www.sec.gov and <http://bphx.com/our-company/investor-info/>. **INVESTORS AND SHAREHOLDERS ARE URGED TO READ THE PROXY STATEMENT REGARDING THE PROPOSED TRANSACTION AND ANY OTHER RELEVANT DOCUMENTS WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION.**

BluePhoenix's directors and executive officers and other persons may be deemed to be participants in the solicitation of proxies in respect of the proposed transaction. Information regarding BluePhoenix's directors and executive officers is available in its proxy statement filed with the SEC by us on November 22, 2013. Other information regarding the participants in the proxy solicitation and a description of their direct and indirect interests, by security holdings or otherwise, will be contained in the proxy statement and other relevant materials regarding the proposed merger with ATERAS to be filed with the SEC (when they become available). These documents can be obtained free of charge from the sources indicated above.