

BluePhoenix Solutions Ltd.

NON-GAAP CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

Three months Ended March 31, Year Ended
December 31,

	2007 Non-GAAP	2007 Adj.	2006 GAAP	2006 Non-GAAP	Adj.
REVENUES	20,065		20,065	16,029	
OPERATING EXPENSES					
Cost of revenue	6,522		6,522	5,142	
Software development costs, net	4,930		4,930	3,772	
Selling, General and Administrative expenses	6,128		6,128	5,236	
Amortization of intangible assets, net	(149)		(149)	(34)	
Depreciation of property	199		199	194	
Stock-based compensation		37		37	10
Total Operating Expenses	17,580		87	17,667	14,150 170
OPERATING INCOME	2,485	(87)	2,398	1,879	(170)
OPERATING MARGIN %	12%		12%	12%	
Financial expenses, net	(371)	(1,635)	(2,006)	(493)	(280)
Other income, net			14		
INCOME BEFORE TAXES	2,114	(1,722)	392	1,400	(450)
Taxes on Income	118		118	45	
	1,996	(1,722)	274	1,355	(450)
Minority interest	(1)	(148)	(149)	51	(7)
NET INCOME	1,995	(1,870)	125	1,406	(457)
EARNINGS PER SHARE:					
Basic	0.13		0.01	0.10	
Diluted	0.13		0.01	0.10	
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING :					
Basic	14,874		14,874	13,699	
Diluted	15,565		15,565	14,122	

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NON-GAAP CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

Three months Ended March 31, Year Ended
December 31,

2006 2006 2006

	GAAP	Non-GAAP	Adj.	GAAP
REVENUES	16,029	68,004		68,004
OPERATING EXPENSES				
Cost of revenue	5,142	21,343		21,343
Software development costs, net	3,772	16,941		16,941
Selling, General and Administrative expenses	5,236	21,130		21,130
Amortization of intangible assets, net	(34)	(369)	(369)	
Depreciation of property	194		979	979
Stock-based compensation	10		40	40
Total Operating Expenses	14,320	59,414	650	60,064
OPERATING INCOME	1,709	8,590	(650)	7,940
OPERATING MARGIN %		11%	13%	12%
Financial expenses, net	(773)	(2,301)	(1,214)	(3,515)
Other income, net	14	282		282
INCOME BEFORE TAXES	950	6,571	(1,864)	4,707
Taxes on Income	45	(282)		(282)
	905	6,853	(1,864)	4,989
Minority interest	44	(282)	(35)	(317)
NET INCOME	949	6,571	(1,899)	4,672
EARNINGS PER SHARE:				
Basic	0.07	0.47		0.34
Diluted	0.07	0.46		0.33
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING :				
Basic	13,699	13,889		13,889
Diluted	14,122	14,371		14,371

BluePhoenix Solutions Ltd.

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

March 31, 2007 December 31, 2006

ASSETS

Current Assets:

Cash and cash equivalents	\$15,321	\$11,627
Marketable securities	607	1,053
Trade accounts receivable	26,275	26,489
Other current assets	3,827	3,096
Total Current Assets	46,030	42,265

Non-Current Assets:

Long-term trade receivable	1,024	1,390
Property, net	2,143	2,147
Other assets, net	81,928	81,664
Total Non-Current Assets	85,095	85,201
TOTAL ASSETS	\$131,125	\$127,466

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:

Short-term credit from banks	\$625	\$609
Current portion of long term convertible debentures	6,491	4,482
Trade accounts payable	5,072	4,594
Deferred revenue	7,690	7,790
Other current liabilities	6,936	6,929
Total Current Liabilities	26,814	24,404

Non-Current Liabilities

Convertible debentures	9,209	14,049
Accrued severance pay, net	2,036	1,718
Provision for losses in formerly-consolidated subsidiary	1,971	1,971
Loans from banks and others	19,932	20,027
Minority interests	5,497	5,348
Total Non-Current Liabilities	38,645	43,113

Shareholders' Equity	65,666	59,949
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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$131,125	\$127,466
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BluePhoenix Solutions Ltd.

CONDENSED CONSOLIDATED CASH FLOWS STATEMENTS

(In thousands)

	Three months ended March 31, 2007	Year ended December 31, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$125	\$4,672
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interests in profits of subsidiaries	149	317
Depreciation and amortization	2,346	8,481
Increase in accrued severance	318	409

pay, net		
Gain on sale of property	(3)	(32)
Change in value of long term-loans and liabilities	1,223	1,853
Stock - based compensation	37	40
Deferred income taxes, net	-	13
Changes in operating assets and liabilities:		
Decrease (increase) in marketable securities	446	(715)
Decrease (increase) in trade receivables	580	(9,731)
Increase in other current assets	(731)	(909)
Increase in trade payables	478	1,390
Increase in other accounts payable	422	4,186
Net cash provided by operating activities	5,390	9,974
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property	(201)	(676)
Proceeds from sale of property	8	161
Capitalization of software development and other costs	(2,200)	(8,259)
Purchase of minority interest in subsidiaries and purchase of activity	(306)	(1,118)
Investment in newly-consolidated subsidiaries and purchase of newly-activity	--	(13,224)
Net cash used in investing activities	(2,699)	(23,116)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term bank credit, net	(152)	(14,013)
Repayment of long-term loans	(34)	(1,149)
Receipt of long-term loans	--	14,391

Issuance of convertible debentures and warrants	--	14,140
Debentures issuance costs	--	(655)
Exercise of employee share options and warrants	1,189	730
Sale of shares held by a subsidiary		534
Net cash provided by financing activities	1,003	13,978
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,694	836
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	11,627	10,791
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$15,321	\$11,627