

September 22, 2003 - Emblaze Ltd ("Emblaze" or "the Group"), a provider of media services and delivery solutions over wireless and broadband networks today announces interim results for the six months ended 30 June 2003.

## SUMMARY

- Results for the six months ended 30 June 2003 reflect the dwindling momentum of the telecom sector downturn that has prevailed over the past three years, mixed with global signs of potential market "reawakening",
- Revenues of \$3.8 million for H1 (2002 H1: \$3.0 million) are in line with Group's expectations. Strong pipeline of deals in all four business units.
- Strong Balance Sheet with \$267 million of cash portfolio and no debt. The Group continues to maintain an efficient cost control programme.
- Net loss of \$25 million (2002 H1: \$45 million)
- Initial deals and deployments were successfully executed in Europe and the Far-East providing positive indications for the future.
- Emblaze Semiconductor and UK's TTP communications today announced they are developing an integrated platform to provide brand name and OEM/ODM handset makers with a fully featured multimedia mobile phone solution.
- The Board has permission to buy back up to 13% of shares (approx. 3% purchased to date) and will continue to do so as and when appropriate

### Eli Reifman, Chief Executive Officer of Emblaze, said:

"We are pleased with the progress all four business units have made in the first half this year. Our strategic decision to continue investing in R&D and sales & marketing to maintain our position and business relationships despite the downturn and until the point the market returns - is being proven correct. All four businesses are recognised among market leaders, having innovative products that add value and have won contracts and are in a number of final stages of tenders. This is a long haul patience game. We have been maintaining our position for the past three years keeping awareness to our group and its offerings at all times in order to become the vendor of choice once markets turn around and telcos start spending money again.

We are finding that the network operators and telecom companies have begun investing again in new markets and technology and are in the process of testing new infrastructure and terminals. More and more of them are turning into actual deployments and commercial launches of handsets and services globally. We hope to soon experience a positive impact of a market reawakening on our businesses. Despite the uncertainties that still cloud some aspects of market development we see that the market is almost there and the Group is well placed to take advantage of it".

### Enquiries:

**Emblaze** + 972 9 769 9302

Eli Reifman

Doron Cohen

Hagit Gal

**Brunswick** + 44 207 404 5959

Harry Chathli

Chi Lo

# CHAIRMAN'S STATEMENT



**Naftali Shani**  
Chairman

The results for the six months ended 30 June 2003 reflect a mixture of the difficult market conditions faced by the global telecommunications sector in 2002 and some optimism that there are plans by global operators to renew investment into new markets and technology.

In 2002 the Board decided to invest heavily in R&D and sales & marketing in order to continue developing innovative products that would add value to our customers and create a better user experience. This strategy has borne fruit with all four business units of the Group maintaining leading market positions by winning contracts, entering into significant partnerships or being in the final stages of tenders.

As we indicated previously, our customers are still in the pre market stage. For Emblaze Group to be successful in the rich media personal communications market it needs telecom and cellular operators to invest in infrastructure and the terminals but above all investment to upgrade the networks is needed. 2.5G networks are now operating in almost all of the key European, Asian and US markets. The network operators are now focusing on the infrastructure and beginning to invest in it. Full commercial trials are being carried out and some operators have already had commercial launches and begun to generate revenues from mobile media services. New handsets and smartphones are being developed that support the services but we expect that the introduction to the market will be slow. All this continues to impact Emblaze's ability to convert early stage contracts and commercial pilots into consistent revenue flow in a predictable timeframe.

## RESULTS

Turnover for the six-month period was \$3.8 million compared with \$3.0 million for the same period last year. There was a net loss of \$25.2 million for the period (2002 H1: \$45.2 million loss).

Net cash used in operating activities amounted to \$20.2 million (2002 H1: \$19.8 million). Operating expenses include cost of \$15.6 million for R&D expenses, \$8.5 million for sales & marketing expenses, \$4.3 million for general and administrative expenses and \$2.9 million from amortization of intangible assets. The Group has a strong balance sheet with \$289 million in total shareholders' equity, \$267 million of cash portfolio and no debt.

Cash investments portfolio of \$267 million is presented in the balance sheet under the following breakdown:

	30 June 2003
	\$ m
Cash and cash equivalents	51
Short-term bank deposits and marketable securities	78
Long-term (over 1 year to maturity) marketable securities*	138
Total	<u>267</u>

\* Marketable securities are mainly comprised of US Government Treasuries and other agencies and highly rated corporate debentures.

The Israeli Court has approved the Company's request to repurchase up to 13% of the issued ordinary shares of the Company. To date Emblaze purchased approximately 3% of the ordinary share capital.

We will continue to regularly review costs in relation to our view on how our markets are developing.

## **OPERATING REVIEW**

### **Emblaze Systems (E-Sys)**

Emblaze Systems provides the back end systems (servers) and front end solutions (software) to network and cellular operators for delivery of rich media value added services.

UCnGO, acquired in July 2002, has been successfully integrated into E-Sys. Today, over 40% of all Multimedia Messaging Services (MMS) installations globally have an E-Sys's solution component EMcoder in them for which Emblaze has already received significant royalties. As the MMS market is growing rapidly and bringing additional revenues to network operators, E-Sys sees potential in direct sales of transcoding solutions to operators.

Also, in the first six months of year, E-Sys's end-to-end solution met with great approval in the commercial pilot conducted by mmO2. E-Sys also signed a deal worth over one million dollars with a Far East cellular operator.

Going forward, E-Sys is finding itself in the final three of most tenders put out by network operators. The market for E-Sys products is amongst those network operators in Europe, Far East and Australasia who are looking to gain market share in their respective countries by commercially launching rich media services to their subscribers. Portugal's Optimus was one such win and we hope to make similar announcements in latter half of this year or early next year.

### **Emblaze Semiconductor Ltd. (Emblaze Semi)**

Emblaze Semiconductor is a FABless chip design and research company specialising in multi-media components for mass-market consumer electronics.

Emblaze Semi and UK's TTP communications today announced they are developing an integrated platform to provide brand name and OEM/ODM handset makers with a fully featured multimedia mobile phone solution.]

Emblaze Semi main target market remains mobile phones, PDAs and smart phones enabled for MMS, video clip and MP3 download and playback. Emblaze Semi is also expanding into other consumer markets requiring the delivery of moving pictures in products such as wireless video monitoring devices.

### **Alphacell Wireless 2001 Ltd.**

Alphacell designs white label next generation multimedia phones.

As provider of white label customised phones, Alphacell's target markets are network operators and companies who are brand building or wish to use phones to reinforce their established brands.

Alphacell launched its first product, M5, in February 2003. It is currently going through final stages of relevant approvals. It has already received the key stage GCF approval. In December 2002, Alphacell signed a Memorandum of Understanding for the design and manufacture of an advanced rich media smartphone, planned for launch into the Israeli market in 2003. It is on track to ship the smartphones in the latter part of this year.

### **Orca Interactive Ltd. (Orca)**

Orca is a provider of broadband and content management solutions to broadband TV networks, telcos, cable and cellular operators alike.

In March 2003, Orca launched a full commercial service of Chunghwa Telecom's Multimedia on Demand to 20,000 households in Taipei. Chunghwa Telecom has over one million ADSL subscribers, which positions Orca to roll out services to further households.

Orca, through its relationship with Nokia is getting through to telcos in European, Asian and Latin American countries primarily and is in final stages of many tenders to provide video on demand and TV over broadband. Earlier in September 2003 it signed a similar agreement with HP, which is a global market leader in developing applications for interactive television. This relationship will see Orca be invited into further tenders in other parts of the world.

## **OUTLOOK**

All four business units of the Emblaze Group have worked towards establishing themselves as key players in their market although the freeze in capex expenditure from 2002 continued through to the first half of 2003. The tactical decision to invest heavily in R&D and sales & marketing to maintain our position and business relationships until the point the market returns is being proven correct. All four businesses are recognised as having innovative products that add value and have won contracts and are in a number of final stages of tenders.

The pre-market stage of development of networks is almost in place with most of the developed world operating 2.5G systems. We are finding that the network operators and telecom companies have begun investing again in new markets and technology and are in the process of testing new infrastructure and terminals. How soon this impacts on our businesses is still uncertain. However, there is enough visibility in the pipeline to support our hopes for improvement in sales in the second half of the financial year and a beginning of renewed growth in revenues.



**Naftali Shani**

CHAIRMAN

Emblaze Ltd.

22 September 2003

**EMBLAZE LTD. AND ITS SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

U.S. dollars in thousands

	June 30, 2003	December 31, 2002
	<u>Unaudited</u>	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 51,469	\$ 57,562
Short-term marketable securities and accrued interest	78,039	57,327
Trade receivables	1,776	1,356
Other receivables and prepaid expenses	4,320	5,893
Inventories	<u>2,669</u>	<u>2,744</u>
Total current assets	<u>138,273</u>	<u>124,882</u>
<b>MARKETABLE SECURITIES AND OTHER LONG-TERM INVESTMENTS AND BANK DEPOSITS</b>	<u>138,180</u>	<u>179,729</u>
<b>SEVERANCE PAY FUNDS</b>	<u>2,536</u>	<u>2,201</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>11,982</u>	<u>12,545</u>
<b>GOODWILL, NET</b>	<u>2,738</u>	<u>2,738</u>
<b>INTANGIBLE ASSETS, NET</b>	<u>16,587</u>	<u>19,445</u>
	<u>\$ 310,296</u>	<u>\$ 341,540</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Trade payables	\$ 2,872	\$ 4,705
Deferred revenues	538	611
Other payables and accrued expenses	<u>12,389</u>	<u>15,087</u>
Total current liabilities	<u>15,799</u>	<u>20,403</u>
<b>ACCRUED SEVERANCE PAY</b>	<u>3,615</u>	<u>3,203</u>
<b>LONG-TERM RESTRUCTURING ACCRUAL</b>	<u>1,961</u>	<u>2,247</u>
<b>SHAREHOLDERS' EQUITY:</b>		
Share capital	412	412
Additional paid-in capital	464,957	464,798
Deferred stock compensation	(750)	(1,200)
Treasury stock, at cost	(5,702)	(2,909)
Accumulated other comprehensive income	611	19
Accumulated deficit	<u>(170,607)</u>	<u>(145,433)</u>
Total shareholders' equity	<u>288,921</u>	<u>315,687</u>
	<u>\$ 310,296</u>	<u>\$ 341,540</u>

The accompanying notes are an integral part of the consolidated financial statements.

**EMBLAZE LTD. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

U.S. dollars in thousands, except per share data

	Six months ended June 30,		Year ended December 31,
	2003	*) 2002	2002
	<u>Unaudited</u>		
Revenues	\$ 3,795	\$ 2,980	\$ 6,839
Cost of revenues	<u>2,700</u>	<u>2,013</u>	<u>5,922</u>
Gross profit	<u>1,095</u>	<u>967</u>	<u>917</u>
Operating expenses:			
Research and development, net	15,586	12,603	29,224
Sales and marketing	8,531	10,536	21,413
General and administrative	4,321	5,040	9,998
Amortization of intangible assets	<u>2,858</u>	<u>1,898</u>	<u>3,930</u>
Total operating expenses	<u>31,296</u>	<u>30,077</u>	<u>64,565</u>
Operating loss before other operating expenses	(30,201)	(29,110)	(63,648)
Other operating expenses	<u>-</u>	<u>-</u>	<u>(11,721)</u>
Operating loss	(30,201)	(29,110)	(75,369)
Financial income and other expenses, net	<u>5,027</u>	<u>7,221</u>	<u>7,647</u>
Loss before equity in losses of an affiliate	(25,174)	(21,889)	(67,722)
Equity in losses of an affiliate	<u>-</u>	<u>(229)</u>	<u>(229)</u>
Net loss from continuing operations, before cumulative effect of a change in an accounting principle	(25,174)	(22,118)	(67,951)
Net loss from cumulative effect of a change in an accounting principle	<u>-</u>	<u>(23,055)</u>	<u>(23,055)</u>
Net loss	<u>\$ (25,174)</u>	<u>\$ (45,173)</u>	<u>\$ (91,006)</u>
Basic net loss per share:			
From continuing operations	\$ (0.19)	\$ (0.16)	\$ (0.49)
From cumulative effect of a change in an accounting principle	<u>\$ -</u>	<u>\$ (0.17)</u>	<u>\$ (0.17)</u>
Basic net loss per share	<u>\$ (0.19)</u>	<u>\$ (0.33)</u>	<u>\$ (0.66)</u>
Number of shares used in computing basic and diluted net loss per share	<u>135,820,135</u>	<u>137,937,600</u>	<u>137,452,524</u>

\*) Includes the retroactive effect of the implementation of SFAS No.142 "Goodwill and Other Intangible Assets" presented as cumulative effect of a change in an accounting principle.

*The accompanying notes are an integral part of the consolidated financial statements.*

# EMBLAZE LTD. AND ITS SUBSIDIARIES

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands

	Share capital	Additional paid-in capital	Deferred stock compensation	Treasury stock	Accumulated other comprehensive income (loss)	Accumulated deficit	Total comprehensive income (loss)	Total
<b>Balance as of January 1, 2002</b>	\$ 411	\$ 463,239	\$ -	\$ (423)	\$ (784)	\$ (54,427)		\$ 408,016
Repurchase of shares	-	-	-	(3,566)	-	-		(3,566)
Re-issuance of shares upon acquisition of assets from UCnGO Ltd. and UCnGo Inc.	-	(139)	-	1,080	-	-		941
Issuance of shares upon exercise of stock options	1	143	-	-	-	-		144
Stock compensation expenses in respect of options which terms have been modified	-	55	-	-	-	-		55
Deferred stock compensation	-	1,500	(1,500)	-	-	-		-
Amortization of deferred stock compensation	-	-	300	-	-	-		300
Comprehensive loss:								
Unrealized income on forward and put-option contracts, net	-	-	-	-	803	-	\$ 803	803
Net loss	-	-	-	-	-	(91,006)	\$ (91,006)	(91,006)
Total comprehensive loss							\$ (90,203)	
<b>Balance as of December 31, 2002</b>	412	464,798	(1,200)	(2,909)	19	(145,433)		315,687
Repurchase of shares	-	-	-	(2,793)	-	-		(2,793)
Issuance of shares upon exercise of stock options	*)	159	-	-	-	-		159
Amortization of deferred stock compensation	-	-	450	-	-	-		450
Comprehensive loss:								
Unrealized income on put-option contracts, net	-	-	-	-	592	-	\$ 592	592
Net loss	-	-	-	-	-	(25,174)	\$ (25,174)	(25,174)
Total comprehensive loss							\$ (24,582)	
<b>Balance as of June 30, 2003 (unaudited)</b>	<b>\$ 412</b>	<b>\$ 464,957</b>	<b>\$ (750)</b>	<b>\$ (5,702)</b>	<b>\$ 611</b>	<b>\$ (170,607)</b>		<b>\$ 288,921</b>

\*) Represents an amount lower than \$ 1

The accompanying notes are an integral part of the consolidated financial statements.

## **EMBLAZE LTD. AND ITS SUBSIDIARIES**

### **CONSOLIDATED STATEMENTS OF CASH FLOWS**

U.S. dollars in thousands

Cash flows from operating activities:

Net loss

Adjustments to reconcile net loss to net cash used in operating activities:

Impairment of acquired technology

Impairment of property and equipment

Depreciation and amortization

Amortization of marketable debt securities premium and accretion of discounts, net

Stock compensation expenses

Net loss (gain) on sales of marketable securities

Equity in losses of an affiliate

Write down of investments in companies

Cumulative effect of a change in an accounting principle, net

Decrease (increase) in trade receivables, other receivables and prepaid expenses,  
inventories and accrued interest income

Increase (decrease) in trade payables, other payables and accrued expenses  
and accrued severance pay, net

Decrease in deferred revenues

Increase (decrease) in long-term restructuring accrual

Other

Net cash used in operating activities

**Cash flows from investing activities:**

Purchase of property and equipment

Proceeds from sale of property and equipment

Proceeds from short-term bank deposits

Investment in short-term marketable securities

Proceeds from maturity of short-term marketable securities

Investment in long-term marketable securities

Proceeds from sales and calls of long-term marketable securities

Short-term loan to a third party, net

Investment in long-term bank deposits

Proceeds from long-term bank deposits

Long-term loan to AlphaCell Wireless 2001 Ltd., net

Payment for acquisition of additional share of a subsidiary, AlphaCell Wireless 2001 Ltd.

Payment for acquisition of assets from UCnGO Ltd. and UCnGO Inc.

Investment in companies

Net cash provided by (used in) investing activities

Cash flows from financing activities:

Repurchase of shares

Proceeds from exercise of stock options

Net cash used in financing activities

Decrease in cash and cash equivalents

Cash and cash equivalents at the beginning of period

Cash and cash equivalents at the end of period

\*) Includes the retroactive effect of the implementation of SFAS No.142 "Goodwill and Other Intangible Assets" presented as cumulative effect of a change in an accounting principle.

*The accompanying notes are an integral part of the consolidated financial statements.*

Six months ended		Year ended
June 30,		December 31,
2003	(*2002)	2002
Unaudited		
\$ (25,174)	\$ (45,173)	\$ (91,006)
-	-	6,104
-	-	634
5,056	3,663	7,698
1,433	1,438	3,135
450	55	355
(108)	(10)	3
-	229	229
-	-	5,419
-	23,055	23,055
2,547	(2,406)	(2,410)
(4,119)	(346)	3,341
(73)	(377)	(396)
(286)	-	2,247
<u>78</u>	<u>18</u>	<u>48</u>
(20,196)	(19,854)	(41,544)
(2,125)	(2,693)	(7,076)
10	26	53
56	10,334	10,334
(3,442)	(17,649)	(35,598)
27,650	65,848	84,389
(31,718)	(95,506)	(98,879)
26,880	3,300	34,102
-	3,386	3,386
(580)	-	-
-	600	1,400
-	13,049	13,049
-	(15,945)	(15,945)
-	-	(2,621)
<u>(21)</u>	<u>-</u>	<u>(979)</u>
16,710	(35,250)	(14,385)
(2,793)	(1,753)	(3,566)
<u>186</u>	<u>318</u>	<u>339</u>
(2,607)	(1,435)	(3,227)
(6,093)	(56,539)	(59,156)
<u>57,562</u>	<u>116,718</u>	<u>116,718</u>
<u>\$ 51,469</u>	<u>\$ 60,179</u>	<u>\$ 57,562</u>

**EMBLAZE LTD. AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1: GENERAL**

Emblaze Ltd. (the "Company") and its subsidiaries provide solutions for rich-media delivery and associated services over wireless and broadband IP networks. The Company's products are marketed worldwide.

The Company has five active subsidiaries: Orca Interactive Ltd. an Israeli corporation, Emblaze Semiconductor Ltd. an Israeli corporation, AlphaCell Wireless 2001 Ltd. an Israeli corporation, Emblaze Systems Inc. a U.S. corporation and Emblaze Systems U.K.

**NOTE 2: INTERIM CONSOLIDATED FINANCIAL STATEMENTS INFORMATION**

The financial statements include the unaudited consolidated balance sheets as of June 30, 2003 and the results of operations and cash flows for the six months ended June 30, 2003 and 2002 and the statements of changes in shareholders' equity for the six months ended June 30, 2003. This unaudited information has been prepared by the Company on the same basis as the audited consolidated financial statements for the year ended December 31, 2002, and, in management's opinion, reflects all adjustments necessary for a fair presentation of the financial information in accordance with generally accepted accounting principles in the United States, for the periods presented.