

Emblaze Ltd. (Emblaze or the Group)

Interim results for six months ended 30 June 2006

Highlights

- Results are significantly ahead of management expectations;
- Total revenues from operations are up 16 fold to \$260.9m (H1 2005: \$16.1m);
- Net profit of \$11m (H1 2005: \$10m);
- EPS amounted to \$0.08 (H1 2005: \$0.08);
- Total assets for the Group at 30 June 2006 were \$253m (\$291m at 31 December 2005);
- Europe becomes the largest market for Emblaze Mobile with 90% of sales in to the region and over 60 operators and distributors clientele;
- Emblaze Mobile appointed as ODM supplier to Virgin Mobile for its exclusive Lobster mobile phone range;
- Established new sales channels ideally suited for prepaid propositions;
- On track to deliver further growth for full year 2006;
- Fast growing and strong trading performance across all Group companies

Commenting on the results Eli Reifman, Chief Executive Officer of Emblaze, said: "We are very pleased with our progress in Emblaze Mobile which is now a significant player in Europe. We still maintain significant investment in R&D for our next generation mobile devices and technologies that we believe will lead to new major contracts and a significant increase in profit margins. As current main business keeps strong growth and is on track to increased profitability we intend to use our resources to further expand the group via internal developments as well as acquisitions to realize our vision of becoming one of the world's largest and most significant groups for technology, software, IT and innovative solutions."

Overview

The Group is pleased to report that it has maintained a strong operational performance during the first half led primarily by the Emblaze Mobile division. Revenues for the six months ended 30 June 2006 were up 16 fold to \$260.9m (H1 2005: \$16.1m).

In addition to the above, in March 2006, Emblaze sold its entire shareholding in Adamind and recorded a capital gain of \$15.9m. According to accounting standard SFAS144, Adamind business has been treated as discontinued operation in the financial statements for all periods reported.

Operational Highlights

These results are vindication of Emblaze's strategy as it has continued in its vision to build itself into a global business by assembling companies specializing in technology, telecommunications, software and products.

Emblaze Mobile

As indicated, Emblaze Mobile (EM) was the highest contributor to the Group revenues (99%). European Telecom has been fully integrated into Emblaze Mobile and is beginning to deliver results ahead of management's expectations. EM has now positioned itself as an end-to-end mobile business with particular focus on delivery of device, content and applications with a view to deliver increased ARPU and reduce churn for operators globally. In H1 2006 its revenues were primarily from wireless devices trading and as an Original Device Manufacturer (ODM) virtual manufacturer. Earlier in the year, Emblaze Mobile was appointed as ODM supplier to Virgin Mobile for its exclusive Lobster mobile phone range.

EM has also established and developed a number of new sales channels ideally suited for prepay propositions. It was appointed as an official distributor of one of world's largest mobile operators' pay as you talk products. It was selected to contribute to the operator's drive to broaden sales of pay as you talk handsets and services across the dealer and retail community.

The company now expands to move into additional mobile value added services to increase the overall offering around mobile devices. Such services will include mobile content, airtime and many other complementary technologies, services and customized solutions that will further strengthen EM position in the marketplace as a value added mobile device vendor. Management expects such services to become a more significant part of the business in 2007 and contribute to an increase in gross profits and further growth. Most of EM's handsets (around 90%) are sold in Europe and UK accounts for approximately 30%.

EM continues to invest in the development of breakthrough technologies and next generation mobile devices that are planned to provide an advantage over potential competition over the next five years period. Such technologies and products are aimed at changing the very essence of mobile device usage from the current voice centric approach to a new breed of devices that will allow any user to conduct most their daily lives and basic functions via their mobile device. The company is currently negotiating significant contracts with top tier operators over the development and delivery of such Emblaze next generation products.

In addition, the group maintains investments in advanced technologies that can significantly contribute to its mobile handset business while having a strong merit as independent services to a global audience. Examples of such developments are emoze and SmartContent.

emoze

In April 2006, Emblaze launched emoze, the world's first free and secure "push" email and PIM service providing Blackberry like solution to most of all other mobile devices. With emoze Personal Edition, anyone with a compatible mobile phone can receive work or home emails and Personal Information Manager (PIM) data such as contacts and diary scheduling on their mobile phone or PDA on the move, anywhere in the world.

Email on the go has become the battleground for major vendors around the world. With the success of Research in Motion, the Blackberry has changed the way corporate users communicate on a day to day basis but it is still the privilege of "elitist few". Emblaze believes that mobile push email and PIM data should become a commodity service - a given - just like a voice call. Anyone from corporate users to individuals should have access to this basic service as part of their day to day communications. This is the background and reason for the development and introduction of emoze to the world, a free Push Email and PIM service to anyone, anywhere and on any device.

Smart Content

In January 2006, Emblaze announced that it has entered into an agreement to acquire majority interest in Israeli based software technology company, Smart Content, developer of highly advanced technology for Content-Push over wireless and IP networks to mobile devices and personal computers.

Emblaze believes that a significant part of the solution will be formalized in a manner of personalized push of user specific content. Push technology was regarded as the industry "Holy Grail" before the tech boom but was never implemented in a manner that created mass adoption.

Smart Content's technology is considered to be the "missing link" that will allow users to receive real-time personalized content directly on their devices personal computers. Their current FreeMate technology automatically collects information from the web, routes, and "pushes" a variety of digital content pre-defined as relevant by any mobile or PC user. Such technologies are essential as content and vital information are converging into everyday lives and devices as users demand relevant content to be present and directly available to them at all times without thinking or doing anything in order to actually get it. The trend is towards receiving quick updates, accurate information and personalized content at work, at home and on the move.

Emblaze intends to drive the FreeMate technology roadmap to be adapted into the mobile environment and physically embedded into Emblaze Mobile devices over the coming year which will create a significant advantage of its devices over potential competition and will create a new class of terminals that address the mobile needs beyond a regular voice call.

Financial Highlights

Group revenue increased to \$260.9m (H1 2005: \$16.1m) of which, \$261.7m from business operations that were offset by equity losses of affiliated company. Growth was primarily due to demand for Emblaze Mobile handsets. Interim net profits were \$11m against a profit of \$10m in the first half of 2005.

Operating expenses include cost of 248.5m for cost of revenues, \$4.2m for R&D expenses, \$10.1m for sales & marketing expenses and \$6.8m for general and administrative expenses.

Cash investments portfolio of \$158.1m is presented in the balance sheet under the following breakdown:

| | 30 June 2006 |
|---|---------------|
| | \$m |
| Cash and cash equivalents | 8.3 |
| Short-term deposits, marketable securities* and accrued interest | 49.4 |
| Long-term (over 1 year to maturity) marketable securities*, deposits and other long term investments | 136.7 |
| <u>Bank credit and short-term loans</u> | <u>(36.3)</u> |
| Total: | 158.1 |

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

The decrease in cash portfolio (\$239m at 31 December 2005) was mainly due to the share buyback program.

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

| | December 31, 2005 | June 30, 2006 <u>Unaudited</u> |
|--|----------------------|--------------------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 23,233 | \$ 8,287 |
| Short-term bank deposits | 217 | 3,000 |
| Deposits in escrow | 5,526 | - |
| Restricted deposit | - | 1,995 |
| Accrued interest | 1,917 | 1,433 |
| Short-term marketable securities | 32,315 | 43,075 |
| Trade receivables | 14,484 | 10,033 |
| Other receivables and prepaid expenses | 12,428 | 22,634 |
| Inventories | 4,536 | 11,535 |
| Short-term assets of discontinued operations | 22,437 | - |
| <u>Total</u> current assets | <u>117,093</u> | <u>101,992</u> |
| LONG-TERM INVESTMENTS: | | |
| Long-term marketable securities | 145,198 | 91,664 |
| Restricted long-term marketable securities | - | 38,383 |
| Restricted deposits | 3,751 | 1,788 |
| Other long-term investments | 3,990 | 10,676 |
| Severance pay fund | 1,436 | 1,490 |
| Long-term assets of discontinued operations | 12,712 | - |
| <u>Total</u> long-term investments | <u>167,087</u> | <u>144,001</u> |
| PROPERTY AND EQUIPMENT, NET | <u>1,966</u> | <u>2,115</u> |
| GOODWILL | <u>1,710</u> | <u>1,714</u> |
| INTANGIBLE ASSETS, NET | <u>2,864</u> | <u>2,775</u> |
| <u>Total</u> assets | <u>\$ 290,720</u> | <u>\$ 252,597</u> |

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands, except share data

| | December 31, 2005 | June 30, 2006 |
|---|----------------------|-------------------|
| | | <u>Unaudited</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Bank credit and short-term loans | \$ 3,799 | \$ 36,289 |
| Trade payables | 15,732 | 17,079 |
| Advance payment from customers | - | 6,598 |
| Deferred revenues | 822 | 1,113 |
| Other payables and accrued expenses | 15,451 | 14,551 |
| Short-term liabilities of discontinued operations | 18,141 | - |
| <u>Total</u> current liabilities | <u>53,945</u> | <u>75,630</u> |
| ACCRUED SEVERANCE PAY | <u>2,069</u> | <u>2,267</u> |
| LONG-TERM LIABILITIES | <u>3,270</u> | <u>887</u> |
| MINORITY INTERESTS | <u>12,456</u> | <u>11,660</u> |
| SHAREHOLDERS' EQUITY: | | |
| Share capital: | | |
| Ordinary shares of NIS 0.01 par value - | | |
| Authorized: 200,000,000 shares at December 31, 2005 | | |
| and June 30, 2006; Issued: 140,578,154 shares at | | |
| December 31, 2005 and June 30, 2006; Outstanding: 135,872,691 | | |
| and 135,951,191 shares at December 31, 2005 and | | |
| June 30, 2006, respectively | | |
| | 416 | 416 |
| Additional paid-in capital | 463,848 | 396,609 |
| Treasury stock, at cost | (7,381) | (7,257) |
| Accumulated other comprehensive loss | (2,187) | (2,946) |
| Accumulated deficit | (235,716) | (224,669) |
| <u>Total</u> shareholders' equity | <u>218,980</u> | <u>162,153</u> |
| <u>Total</u> liabilities and shareholders equity | <u>\$ 290,720</u> | <u>\$ 252,597</u> |

CONSOLIDATED STATEMENTS OF OPERATIONS

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

| | Year ended | Six months ended | |
|--|--------------------|--------------------|--------------------|
| | December 31, | June 30, | |
| | 2005 | 2005 | 2006 |
| | | Unaudited | |
| Revenues * | 125,998 | 16,711 | 260,957 |
| Costs and expenses: | | | |
| Cost of sales and related services | 108,268 | 478 | 248,506 |
| Research and development, net | 4,898 | 1,967 | 4,205 |
| Selling and marketing | 16,104 | 6,174 | 10,139 |
| General and administrative | 7,615 | 3,222 | 6,837 |
| Amortization of intangible asset | 124 | - | - |
| Restructuring, other charges and impairment of property and equipment, net | (720) | (720) | - |
| <u>Total costs and expenses</u> | <u>136,289</u> | <u>11,121</u> | <u>269,687</u> |
| Operating gain (loss) | (10,291) | 5,590 | (8,730) |
| Financial income, net | 10,197 | 4,215 | 3,895 |
| Income (loss) before tax | (94) | 9,805 | (4,835) |
| Taxes on income | (353) | - | (1,177) |
| Income (loss) before minority interests in losses of subsidiaries | (447) | 9,805 | (6,012) |
| Minority interests in losses of certain subsidiaries | 1,103 | 396 | 1,174 |
| Income (loss) from continuing operations | 656 | 10,201 | (4,838) |
| Income (loss) from discontinued operations | (21,730) | (180) | 15,885 |
| Net income (loss) | <u>\$ (21,074)</u> | <u>\$ 10,021</u> | <u>\$ 11,047</u> |
| Basic and diluted net earnings (loss) per share: | | | |
| From continuing operations | \$ 0.005 | \$ 0.08 | \$ (0.04) |
| From discontinued operations | \$ (0.16) | \$ - | \$ 0.12 |
| Net earnings (loss) | <u>\$ (0.155)</u> | <u>\$ 0.08</u> | <u>\$ 0.08</u> |
| Weighted average number of shares used in computing basic earnings (loss) per share | <u>135,765,992</u> | <u>135,647,025</u> | <u>135,891,998</u> |
| Weighted average number of shares used in computing diluted net earnings (loss) per share | <u>137,069,366</u> | <u>137,640,210</u> | <u>136,172,046</u> |

* Revenues include capital gain and other income.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands

| | Share capital | Additional paid-in capital | Treasury Stock at cost | Accumulated other comprehensive income (loss) | Accumulated deficit | Total comprehensive loss | Total |
|--|---------------|----------------------------|------------------------|---|---------------------|--------------------------|------------|
| Balance as of January 1, 2005 | \$ 416 | \$ 465,896 | \$ (8,623) | \$ 1,501 | \$ (214,642) | | \$ 244,548 |
| Issuance of shares upon exercise of stock options | - | 452 | 1,242 | - | - | | 1,694 |
| Debt Security from related party | - | (2,500) | - | - | - | | (2,500) |
| Comprehensive loss: | | | | | | | |
| Unrealized losses from available-for-sale marketable securities, net | - | - | - | (1,857) | - | \$ (1,857) | (1,850) |
| Foreign currency translation adjustments | - | - | - | (1,831) | - | (1,831) | (1,830) |
| Net loss | - | - | - | - | (21,074) | (21,074) | (21,070) |
| <u>Total comprehensive loss</u> | | | | | | \$ (24,762) | |
| Balance as of December 31, 2005 | 416 | 463,848 | (7,381) | (2,187) | (235,716) | | 218,980 |
| Issuance of shares upon exercise of stock options | - | 31 | 124 | - | - | | 155 |
| Bridge loan to related party | - | (70,000) | - | - | - | | (70,000) |
| Repayment of debt security from related party | - | 2,500 | - | - | - | | 2,500 |
| Comprehensive loss: | | | | | | | |
| Unrealized losses from available-for-sale marketable securities, net | - | - | - | (1,092) | - | \$ (1,092) | (1,092) |
| Share based compensation expenses | - | 230 | - | 230 | - | 230 | 230 |
| Foreign currency translation adjustments | - | - | - | 333 | - | 333 | 333 |
| Net Income | - | - | - | - | 11,047 | 11,047 | 11,047 |
| <u>Total comprehensive loss</u> | | | | | | \$ 10,518 | |
| Balance as of June 30, 2006 (unaudited) | \$ 416 | \$ 396,609 | \$ (7,257) | \$ (2,946) | \$ (224,669) | | \$ 162,153 |

CONSOLIDATED STATEMENTS OF CASH FLOW

U.S. dollars in thousands

| | Year ended | Six months ended | |
|--|--------------|------------------|-----------|
| | December 31, | June 30, | |
| | 2005 | 2005 | 2006 |
| | | Unaudited | |
| <u>Cash flows from operating activities:</u> | | | |
| Net income (loss) | \$ (21,074) | \$ 10,021 | \$ 11,047 |
| Less: loss (gain) from discontinued operations | 21,730 | 180 | (15,885) |
| Net income (loss) from continuing operations | 656 | 10,201 | (4,838) |
| Adjustments to reconcile net income (loss) from continuing operations to net cash used in operating activities from continuing operations: | | | |
| Depreciation and amortization | 1,081 | 512 | 644 |
| Amortization of marketable debt securities premium and accretion of discounts, net | 612 | 311 | 316 |
| Stock compensation expenses | - | - | 230 |
| Stock compensation expenses of subsidiary | 248 | 95 | 181 |
| Net gain on sales of marketable securities | (140) | (138) | (56) |
| Equity in losses of affiliated company | 613 | - | 797 |
| Capital loss (gain), net | 3,252 | (13,562) | - |
| Minority interest in losses of subsidiaries | (1,103) | (396) | (1,174) |
| Decrease (increase) in trade receivables, other receivables and prepaid expenses, inventories and accrued interest | 7,672 | (3,472) | (13,321) |
| Increase (decrease) in trade payables, other payables and accrued expenses and accrued severance pay, net | (7,936) | (3,664) | 5,666 |
| Increase in deferred revenues | 794 | 977 | 291 |
| Increase (decrease) in long-term liabilities | (1,289) | (1,290) | 199 |
| Other | (17) | (8) | (96) |
| Net cash provided by (used in) operating activities from continuing operations | 4,443 | (10,434) | (11,161) |
| Net cash provided by (used in) operating activities from discontinued operations | (4,281) | (11,872) | 30,978 |
| Net cash provided by (used in) operating activities | 162 | (22,306) | 19,817 |
| <u>Cash flows from investing activities:</u> | | | |
| Purchase of property and equipment, net | (1,124) | (219) | (568) |
| Proceeds from sale of property and equipment | 123 | 62 | - |
| Investment in short-term bank deposits and deposits in escrow, net | (45) | (154) | - |
| Proceeds from short-term bank deposits and deposits in escrow, net | - | - | 748 |
| Investment in short-term marketable securities | (234,700) | (234,914) | (112,948) |
| Proceeds maturity of short-term marketable securities | 255,366 | 223,810 | 113,988 |
| Investment in long-term marketable securities | (88,145) | (61,382) | (12,994) |
| Proceeds from sales, calls and maturity of long-term marketable securities | 32,851 | 25,844 | 14,968 |
| Investment in long-term bank deposits and restricted deposits | - | - | (2,797) |
| Proceeds from long-term bank deposits and restricted deposits | 51,712 | 53,693 | - |
| Payment for the acquisition of subsidiaries shares | (4,492) | - | - |
| Payment for acquisition of intangible assets from VCON | (1,225) | - | - |
| Other investment | (2,944) | - | (2,756) |
| Net cash provided by (used in) investing activities from continuing operations | 7,377 | 6,740 | (2,359) |
| Net cash used in investing activities from discontinued operations | (41,823) | (26,645) | (102) |
| Net cash used in investing activities | (34,446) | (19,905) | (2,461) |

CONSOLIDATED STATEMENTS OF CASH FLOW

U.S. dollars in thousands

| | Year ended | Six months ended | |
|--|------------------|------------------|-----------------|
| | December 31, | June 30, | |
| | 2005 | 2005 | 2006 |
| | | Unaudited | |
| <u>Cash flows from financing activities:</u> | | | |
| Debt security from related party | (2,500) | - | 2,500 |
| Short-term borrowings, net | (120) | (262) | 32,727 |
| Long-term borrowing, net | - | (376) | - |
| Short-term loan to related party, net | - | - | (70,000) |
| Proceeds from issuance of Emblaze VCON shares to third parties, net | 1,803 | - | - |
| Proceeds from exercise of subsidiaries stock options, net | 42 | - | - |
| Proceeds from exercise of stock options, net | 2,759 | 2,689 | 155 |
| Net cash provided by (used in) financing activities from continuing operations | 1,984 | 2,051 | (34,618) |
| Net cash provided by financing activities from discontinued operation | 25,502 | 31,718 | - |
| Net cash provided by (used in) financing activities | 27,486 | 33,769 | 34,618 |
| Effect of exchange rate translation adjustments on cash of discontinued operation | - | 101 | 439 |
| Increase (decrease) in cash and cash equivalents from continuing operations | 13,804 | (1,643) | 48,138 |
| Increase (decrease) in cash and cash equivalents from discontinued operations | (20,602) | (6,698) | 31,315 |
| Cash and cash equivalents from continuing operations at beginning of period | 25,533 | 25,533 | 23,233 |
| Cash and cash equivalents from discontinued operations at beginning of period | 6,375 | 6,375 | 1,877 |
| Cash and cash equivalents from continuing operations at the end of period | <u>\$ 23,233</u> | <u>\$ 14,525</u> | <u>\$ 8,287</u> |
| Cash and cash equivalents from discontinued operations at the end of period | <u>\$ 1,877</u> | <u>\$ 9,042</u> | <u>\$ -</u> |
| <u>Payment for acquisition of 51% Global Telecom Distribution PLC.</u> | | | |
| Estimated fair values of assets acquired and liabilities assumed at the date of acquisition: | | | |
| Working capital, excluding cash and cash equivalents | \$ 4,452 | \$ - | \$ - |
| Property and equipment | 477 | - | - |
| Distribution networks | 1,776 | - | - |
| Goodwill | 67 | - | - |
| Investment in affiliates | 360 | - | - |
| Minority interest | (2,640) | - | - |
| | <u>\$ 4,492</u> | <u>\$ -</u> | <u>\$ -</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

Emblaze Ltd. ("Emblaze" or "the Company"), an Israeli corporation, is a holding company. The Company's subsidiaries and affiliated companies provide telecom operators with technologies, products and solutions for next generation services

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the annual financial statements of the Company as of December 31, 2005, are applied consistently in these financial statements.

NOTE 3:- UNAUDITED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six-month period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ended December 31, 2006.

Reclassification:

Certain amounts from prior year have been reclassified to conform to the current period presentation.

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Emblaze LTD.
 1 Emblaze Square
 PO Box 2220
 Ra'anana 43662
 ISRAEL
 T: +972 (0) 9 7699333
 F: +972 (0) 9 7699800
 www.Emblaze.com