



VIZRT Reports First Half 2004 Results Revenue up 24% reaching \$US13.0 M

Bergen, Norway, August 4, 2004, **Vizrt** Ltd. (Prime Standard: VIZ) announced its financial results for the first half of 2004 with yet another record revenue, showing a growth of 24% compared to the first half of 2003.

Q2 2004 highlights:

- ✓ **Improved operating results for the seventh quarter, net profit at \$US 0.9M.**
- ✓ **Revenue increased by 25% to US\$ 6.7M in Q2 2004 compared to Q2 2003.**
- ✓ **EBITDA for Q2 2004 was US\$ 1.2M compared to US\$ 0.9M in Q2 2003.**
- ✓ **11 new customers signed up during Q2 2004 accounting for 33% of Q2 2004 revenue.**

Business highlights in the first half of 2004 (H1) include the continued significant 116% growth in revenues in the Americas and the further expansion into the European market, confirming Vizrt's leading position in Europe.

The new character generator, viz|trio, has proven to be a revenue generator and strengthened **Vizrt's** leadership in Europe. This development was followed by the lately reported biggest ever deal with ORF, the Austrian public broadcaster, totaling approximately \$US 2.8M, and ensuring a record high backlog to date of \$US 6.8 M.

Financial highlights for the six months ended June, 30 2004

- Consolidated revenues in H1 2004 increased by 24% to US\$ 13.0M compared to US\$ 10.5M in H1 2003.
- Gross margin at 71% in H1 2004 compared to 69% in H1 2003.
- US\$ 1.8M net profit in H1 2004 compared to a net profit of US\$ 1.1M in H1 2003.
- EBITDA (excluding taxes, interest, depreciation and deferred stock compensation) for H1 2004 was US\$ 2.3M compared to US\$ 1.5M in H1 2003.
- Basic earnings per share for H1 2004 was US\$ 0.13 compared to US\$ 0.08 for H1 2003.

"The most important achievement this quarter was the definite break through for viz|trio, the company's character generator. We started to develop it just a little over a year ago and the fact that 45 customers have already chosen us after thorough reviews of all the CG's on the market proves that our approach to the CG market is the right one. The continued growth in the US, the major break through in China and keeping our market leading position in key European markets like Germany, UK and Scandinavia, is also very important", says Bjarne Berg, President and CEO of **Vizrt**.

"Vizrt has grown organically at an annual rate of over 20% since 2002, with a positive annual cash flow in excess of \$US 3M in 2003. Consequently, the company has a cash position and a balance sheet sufficient to support the organic development of the company in the foreseeable

future, and we are now also in a comfortable position to evaluate upcoming strategic opportunities to take a leading role in a consolidating market”, concluded Mr. Berg.

Financial highlights for the three months ended 30th of June, 2004

- Consolidated revenues for Q2 2004 increased by 25% to US\$ 6.7M compared to US\$ 5.3M in Q2 2003 and US\$ 6.4M in Q1 2004.
- Gross margin at 69% in Q2 2004 compared to 73% in Q2 2003.
- US\$ 0.9M net profit in Q2 2004 compared to a net profit of US\$ 0.8M in Q2 2003.
- EBITDA (excluding taxes, interest, depreciation and deferred stock compensation) for Q2 2004 was US\$ 1.2M compared to US\$ 0.9M in Q2 2003.
- Basic earnings per share for Q2 2004 was US\$ 0.06 compared to US\$ 0.05 for Q2 2003.

Financial details

Revenue highlights:

- In the first half of 2004 **Vizrt** successfully continued its growing presence in the Americas with a 116% revenue growth and Europe with a 28% revenue growth, compensating for the 24% decrease in revenues in Asia Pacific. The company expects that the decline in the Far East after a period of strong growth was of temporary nature and applying measures to achieve revenue growth again in the Asia Pacific market. Total revenue growth in H1 2004 compared to H1 2003 was 24%.
- Geographic breakdown of revenue was:

Territories (In US\$ thousands)	H1/04	H1/03	Q2/04	Q2/03	Q1/04
The Americas	3,752	1,738	2,038	708	1,714
Europe	5,913	4,622	3,325	2,874	2,588
Asia Pacific	2,621	3,449	985	1,616	1,636
Other	762	715	327	146	435
Total	\$13,048	\$10,524	\$6,675	\$5,344	\$6,373

Gross Margin

The gross margin for the period ended June 30, 2004, was 71% compared to 69% for the period ended June 30, 2003. The increase in gross margin is in line with **Vizrt's** policy for higher portion of SW in revenues along with the market general trend.

Operating Expenses

Total operating expenses (including sales and marketing expenses (S&M), research and development expenses (R&D) and general and administrative expenses (G&A), in H1 2004 amounted to US\$ 7.3M. (excluding \$136K compensation expenses).

The following table represents the total expenses:

Expenses (In US\$ thousands)	H1/04	H1/03	Q2/04	Q2/03	Q1/04
S&M Expenses	4,112	3,190	2,050	1,589	2,062
G&A Expenses	1,301	1,390	601	746	700
R&D Expenses	1,899	1,590	928	827	971
Operating Expenses	\$7,312	\$6,170	\$3,579	\$3,162	\$3,733

- S&M expenses increased by 29% in H1 2004 compared to H1 2003. The increase follows the company's policy of establishing presence worldwide with new representatives in new locations on the globe. A time lap of six months usually occurs before revenues are generated in new locations. S&M expenses are at 32% of H1 2004 revenue compared to 30% of H1 2003 revenue.
- G&A expenses decreased by 6% in H1 2004 compared to H1 2003. G&A expenses are at 10% of H1 2004 revenue compared to 13% of H1 2003 revenue.
- R&D expenses increased by 19% in H1 2004 compared to H1 2003. The increase was mainly due to the company's policy and increased efforts to expedite R&D developments of new products, some of which were released during the last months. The new products were well received by the market, corresponding to revenue growth. R&D expenses remain at 15% to revenue.
- Total operating expenses in H1 2004 increased by 19% or US\$ 1.1M compared to H1 2003.

Cash Position

As of June 30, 2004 the company had a balance of US\$12.7M in cash and short-term deposits (including a \$US 0.6M bank credit line as a long-term loan) compared with US\$12.6M as of December 31, 2003. The low cash increase is mainly due to increase in receivables, of which \$US 2.8M have been cashed to date.

Outlook

The company continues its policy to expand into new territories worldwide, along with increased R&D efforts to expedite and improve products in order to enable scalability. Our strategy for capturing new regions by placing local presence in key locations will continue. Therefore **Vizrt** plans to open new offices as well as sign up new dealers and partners all over the world during the coming years. This strategy follows the signs that the broadcast market is picking up after two years of slowdown, mainly due to changes from analogue to digital and HD as well.

A conference call will be held at 02:00 p. m. (CEST) today to offer analysts, investors and media the opportunity to directly discuss the results and recent developments with Bjarne Berg, CEO, and Ofra Brown, CFO of the company. Please contact our investor relations' agency Schwarz Financial Communication to receive the dial-in-number.

About **Vizrt**:

Vizrt is a public company traded on the Frankfurt Prime Standard: VIZ, ISIN: IL0010838154. **Vizrt** develops, markets and supports a complete range of scalable, graphics-based software systems for the real-time creation, management and delivery of rich visual content for TV broadcast, public display, feature films and the Web. The company specializes in visualization for all platforms. Products include real time on-air 3D systems, virtual studio systems and global 3D map databases. The company's tools deliver improved workflow and productivity with a consistent high quality on-air look. The company has a strong reputation for user-friendly software, time saving template graphics linked to **Vizrt**'s own asset management and automation system. **Vizrt** systems are frequently used in News, Sports, Financial, weather and other programs where speed of graphical rendering is paramount.

For further information please refer to www.vizrt.com

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This press release contains forward-looking statements with respect to the business, financial condition and results of operations of Vizrt and its subsidiaries. These statements are based on the current expectations or beliefs of Vizrt's management and are subject to a number of risks and uncertainties that could cause actual results or performance of the Company to differ materially from those contemplated in such forward-looking statements.

VIZRT LTD.
CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	June 30, 2004	December 31, 2003
	Unaudited	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,673	\$ 10,645
Short-term deposit	6,022	2,000
Trade receivables, net	5,770	3,673
Other accounts receivable and prepaid expenses	793	879
Inventory	1,268	1,105
TOTAL CURRENT ASSETS	20,526	18,302
SEVERANCE PAY FUND	575	592
PROPERTY AND EQUIPMENT, NET	962	942
	\$ 22,063	\$ 19,836

VIZRT LTD.
CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	June 30, 2004	December 31, 2003
	Unaudited	
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term loan	\$ 563	\$ 750
Trade payables	1,548	1,691
Deferred revenues	1,251	949
Employees and payroll accruals	1,498	1,567
Other accounts payable and accrued expenses	911	802
TOTAL CURRENT LIABILITIES	5,771	5,759
LONG-TERM LIABILITIES:		
Accrued severance pay	764	783
Long term loan	-	188
	764	971
SHAREHOLDERS' EQUITY:		
Share capital	34	34
Additional paid-in capital	96,761	95,904
Note receivable	(41)	-
Deferred stock compensation	(206)	(130)
Accumulated other comprehensive income	327	424
Accumulated deficit	(81,347)	(83,126)
TOTAL SHAREHOLDERS' EQUITY	15,528	13,106
	\$ 22,063	\$ 19,836

VIZRT LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS (Cost of Sales method)

U.S. dollars in thousands (except per share data)

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December 31,
	2004	2003	2004	2003	2003
	Unaudited		Unaudited		
Revenues	\$ 13,048	\$ 10,524	\$ 6,675	\$ 5,344	\$ 22,483
Cost of revenues	3,800	3,220	2,048	1,430	6,658
Gross profit	9,248	7,304	4,627	3,914	15,825
Operating expenses:					
Research and development, net	1,899	1,590	928	827	3,645
General and administrative	1,301	1,390	601	746	2,677
Selling and marketing	4,112	3,190	2,050	1,589	6,503
Compensation expenses in respect of restricted shares	136	30	123	15	60
<u>Total operating expenses</u>	<u>7,448</u>	<u>6,200</u>	<u>3,702</u>	<u>3,177</u>	<u>12,885</u>
Operating income	1,800	1,104	925	737	2,940
Financial income (expenses), net	50	103	(12)	68	183
Income before taxes	1,850	1,207	913	805	3,123
Taxes on income	71	96	30	49	226
Net income	<u>\$ 1,779</u>	<u>\$ 1,111</u>	<u>\$ 883</u>	<u>\$ 756</u>	<u>\$ 2,897</u>
Basic net income per share	<u>\$ 0.13</u>	<u>\$ 0.08</u>	<u>\$ 0.06</u>	<u>\$ 0.05</u>	<u>\$ 0.21</u>
Diluted net income per share	<u>\$ 0.11</u>	<u>\$ 0.08</u>	<u>\$ 0.06</u>	<u>\$ 0.05</u>	<u>\$ 0.19</u>
Weighted average number of shares used in computing basic net income per share	<u>14,042,555</u>	<u>13,757,934</u>	<u>14,072,652</u>	<u>13,773,773</u>	<u>13,789,251</u>
Weighted average number of shares used in computing diluted net income per share	<u>15,722,828</u>	<u>14,473,983</u>	<u>15,684,481</u>	<u>14,592,572</u>	<u>15,110,950</u>

VIZRT LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
U.S. dollars in thousands (except share data)

	Ordinary shares	Share capital	Additional paid-in capital	Deferred Stock compensation	Accumulated deficit	Other comprehensive income	Notes receivables	Comprehensive Income	Total shareholders' equity
Balance as of December 31, 2002	14,129,665	\$ 34	\$ 95,424	\$ (190)	\$ (86,023)	\$ 68	\$ (38)		\$ 9,275
Exercise of options	2,970	-	-						-
Release of escrow shares related to the acquisition of Peak			480						480
Consideration of restricted shares							38		38
Foreign Currency Translation Adjustments						326		326	326
Unrealized gain from hedging instruments						30		30	30
Amortization of deferred stock compensation				60					60
Net Income					2,897			2,897	2,897
Total Comprehensive income								3,253	
Balance as of December 31, 2003	14,132,635	\$ 34	\$ 95,904	\$ (130)	\$ (83,126)	\$ 424	\$ -		\$ 13,106
Exercise of options, net	164,095	*)	604						604
Cancellation of restricted shares granted to employees			(7)	7					-
Issuance of restricted shares to employees	61,600	*)	260	(219)			(41)		-
Foreign Currency Translation Adjustments						(51)		(51)	(51)
Net unrealized loss from hedging instruments						(46)		(46)	(46)
Amortization of deferred stock compensation				136					136
Net Income					1,779			1,779	1,779
								1,682	
Balance as June 30, 2004 (Unaudited)	14,365,330	\$ 34	\$ 96,761	\$ (206)	\$ (81,347)	\$ 327	\$ (41)		\$ 15,528

*) Represent an amount less than \$1

	<u>Ordinary shares</u>	<u>Share capital</u>	<u>Additional paid-in capital</u>	<u>Deferred Stock compensation</u>	<u>Accumulated deficit</u>	<u>Other comprehensive income</u>	<u>Notes Receivables</u>	<u>Comprehensive Income</u>	<u>Total shareholders' equity</u>
Balance as of December 31, 2002	14,129,665	\$ 34	\$ 95,424	\$ (190)	\$ (86,023)	\$ 68	\$ (38)		\$ 9,275
Exercise of options	1,260	-	-						-
Release of escrow shares related to the acquisition of Peak			480						480
Consideration of restricted shares							38		38
Foreign Currency Translation Adjustments						176		176	176
Unrealized loss from hedging instruments						(16)		(16)	(16)
Amortization of deferred compensation				30					30
Net Income					1,111			1,111	1,111
Balance as of June 30, 2003 (Unaudited)	<u>14,130,925</u>	<u>\$ 34</u>	<u>\$ 95,904</u>	<u>\$ (160)</u>	<u>\$ (84,912)</u>	<u>\$ 228</u>	<u>\$ -</u>	<u>1,271</u>	<u>\$ 11,094</u>

VIZRT LTD.
CONSOLIDATED STATEMENT OF CASH FLOW
U.S. dollars in thousands

	Six months ended June 30,		Year Ended December 31,
	2004	2003	2003
	<u>unaudited</u>		
<u>Cash flows from operating activities:</u>			
Net Income	\$ 1,779	\$ 1,111	\$ 2,897
Adjustments required to reconcile net income to net cash provided by operating activities:			
Amortization of deferred compensation	136	30	60
Depreciation	356	395	855
Decrease (increase) in accounts receivable	(2,067)	297	(339)
Decrease (increase) in inventory	(196)	33	(47)
Increase (decrease) in deferred revenue	295	880	(25)
Increase (decrease) in accounts payable	(62)	(164)	462
Net cash provided by operating activities	<u>241</u>	<u>2,582</u>	<u>3,863</u>
<u>Cash flows from investing activities:</u>			
Purchase of property and equipment	(388)	(182)	(446)
Net cash used in investing activities	<u>(388)</u>	<u>(182)</u>	<u>(446)</u>
<u>Cash flows from financing activities:</u>			
Repayment of loan from bank	(375)	(188)	(562)
Exercise of stock options, net	604	-	-
Issuance of restricted shares	-	38	38
Net cash provided by (used in) financing activities	<u>229</u>	<u>(150)</u>	<u>(524)</u>
Effect of exchange rate changes on cash and short term deposits	(32)	63	163
Increase in cash and short-term deposits	50	2,313	3,056
Cash and short-term deposits at the beginning of the period	<u>12,645</u>	<u>9,589</u>	<u>9,589</u>
Cash and short-term deposits at the end of the period	<u>\$ 12,695</u>	<u>\$ 11,902</u>	<u>\$ 12,645</u>

VIZRT LTD.
SUPPLEMENTARY INFORMATION

U.S. dollars in thousands (except per share data)

1. Company shares held by members of the Board of Directors of the Company:

	<u>Number of ordinary shares</u>	<u>Number of stock options (1)</u>
Yaron Sheinman	556,512	120,000
Bjarne Berg	719,992 (2)	60,000
Svein Ove Strommen	770,515	105,000
Yuval Almog	569,823	60,000
Reidar Michaelsen	767,932	60,000
Ehud Miron	8,000	60,000
Ruth Simha	-	60,000

(1) Each convertible to one ordinary share.

(2) On August 19, 2002 the Annual meeting of shareholders approved the issuance of 400,000 restricted shares to Montanus AS, which provides the Company management services through Bjarne Berg who serves as CEO of the company, in consideration of their par value. Some of these shares are subject to a vesting schedule.

2. As of June 30, 2004 the Company employed 110 employees.

3. The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No.25"), and Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation" in accounting for its employee stock option plans. The following table illustrates the effect of net income and earnings per share had the Company applied the fair value recognition provisions of SFAS No. 123:

	Six months ended		Year
	June 30,		ended
	2004	2003	December
	<u>Unaudited</u>		31,
			<u>2003</u>
Net profit as reported	<u>1,779</u>	<u>1,111</u>	<u>2,897</u>
Add: Stock-based compensation expenses included in reported net income	<u>-</u>	<u>-</u>	<u>-</u>
Deduct: stock-based compensation expenses determined to be under the fair value based method	<u>135</u>	<u>329</u>	<u>550</u>
Pro forma net profit	<u>1,644</u>	<u>782</u>	<u>2,347</u>
Pro forma basic net profit per share	<u>0.12</u>	<u>0.06</u>	<u>0.17</u>