

Orca Interactive Ltd

**Preliminary Results
for the year ended 31 December 2005**

Ra'anana, Israel, 24 March 2006 – Orca Interactive Ltd ("Orca"), a global leader in the IPTV middleware market, announces its preliminary results for the year ended 31 December 2005.

Financial Highlights:

- ❖ Revenue of \$5.3 million (2004: \$5.2 million)
- ❖ Gross profit increased by 18.8% to \$4.7 million (2004: \$3.9 million)
- ❖ Gross margin at 87.9% (2004: 75.7%)
- ❖ Healthy balance sheet with net cash of \$21.3 million at year end
- ❖ 3 year order book of \$5.8m at year end

Operational Highlights:

- ❖ New deals signed with Lucent, Jazztel, a tier one operator in the Americas, Dansk Bredbånd, Chunghwa Telecom and one of the world's leading media companies during the year
- ❖ Partnership agreements signed with Lucent, IBM and Tata Consultancy Services in 2005
- ❖ Significant product investment during 2005 – including the launch of the Home Media application, a new Flash SUI (Subscriber User Interface) and a Flash based SUI SDK (Software Development Kit) and RiGHTv version 4.5, introducing an IPTV SDP (Service Delivery Platform) to enable true open platform capabilities

Haggai Barel, Orca's CEO, said:

"2005 was a year of further significant operational progress for Orca, as we saw further contract wins, partner agreements and product development. However, our reported financial performance failed to match our expectations underlining the nascent nature of the IPTV market and the difficulties we face in accurately predicting revenues for our business."

"Even so, we remain confident that we are strongly positioned to benefit from this market opportunity and our pipeline of opportunities gives us confidence that we can effectively leverage our leading product and strong market position over the coming years. To this end, the board believes that expectations for the year to December 2006 remain a realistic target."

Enquiries:**Orca Interactive Ltd**

Haggai Barel, Chief Executive Officer

+972 9 769 9400

Financial Dynamics

James Melville -Ross / Cass Helstrip

+44 20 7831 3113

About Orca Interactive

Orca Interactive (LSE: [ORCA](#)) is a leading provider of IPTV middle ware and applications for broadband network operators and service providers. Orca enables triple-play providers to deliver a full array of attractive video-over-IP services that generate new revenue streams and strengthen customer loyalty. Leveraging a flexible telco-grade middleware platform, Orca empowers operators to deliver broadcast TV, video on demand (VOD), personal video recording (PVR), home media and other compelling interactive services. Orca's SI-enabled solutions are designed for easy outsourcing of integration services by an operator's preferred systems integrator. Orca has formed strategic partnerships with leading players across the IPTV value chain to ensure best-of-breed solutions with low total cost of ownership. For more information, please visit www.orcainteractive.com.

Analyst conference call:

A conference call for analysts will be held at 9.30am today. Please use the following dial-in details:

UK international no:	+44 (0)1452 556 640
US number:	+1 866 434 1089

Chief Executive's Review**Overview**

2005 was a year of further significant operational progress for Orca. During our first full year as a listed company, we made significant strides in consolidating our position as one of the leading suppliers of IPTV middleware to the world's ever-evolving communications market.

New contracts were signed with service providers across all the regions in which we are active, namely the Americas, EMEA and APAC, and we also saw a number of blue chip vendors signing up to our partner programme.

One of these Partner agreements, with Lucent, as well as a notable increase in interest from operators in the North and South American market, encouraged us to commit resources to address the American market in the middle of the year. Since then we have seen significant interest for our offering in this region.

Perhaps the most disappointing element of our performance in 2005 was the fact that we missed our revenue expectations for the year. Whilst it is clear that there is a very significant market for IPTV, the timing for this market is uncertain and it remains a challenge to accurately predict our financial performance going forward. The contract extensions and roll-outs that we had predicted coming from our existing customers failed to materialise during 2005 and we have become increasingly reliant on new customer wins to support revenue growth.

Furthermore, reported revenues of \$5.3m were below our expectations of approximately \$6.0m, given at the time of our trading update on 30 December 2005. This shortfall in revenues relates to the contract which we announced on the same date, to supply one of the world's leading media companies with a full video-on-demand service. At the time of the announcement in December, we expected to recognise a small portion of the contract's revenues in the 2005 financial year. However, following further consultation with our auditors, it was yesterday decided that the most appropriate treatment of the revenues was to defer revenues from 2005. We have therefore taken the step of bringing forward our preliminary results statement, in order to update the market on this matter.

We enter 2006 with a stronger orderbook than at any time in the Company's history. I am excited about the opportunities ahead of us as we seek to further consolidate our position in this rapidly evolving marketplace.

Financial performance

Revenue for the year ended 31 December 2005 was \$5.3 million, compared to \$5.2 million in 2004. In terms of regional breakdown, 62.4% of our revenues came from the Americas (2004: 0.7%), 36.5% from Europe & the Middle East (2004: 30.3%) and 1.1% from the Far East (2004: 69.0%). Gross profit for the fiscal year was \$4.7million (2004: \$3.9 million), up 18.8%.

Total operating expenses for the year increased by 48.1% to \$9.0 million (2004: \$ 6.0 million) as we sought to consolidate our market position through additional expenditure on sales and marketing, especially in the US, and product development. Research & Development expenses were \$2.6 million (2004: \$2.0 million).

Our operating loss therefore increased to \$ 4.3 million (2004: \$ 2.1 million) and our net loss increased from \$1.9 million in 2004 to \$3.5 million in 2005. This resulted in a net loss per share of \$0.10 (2004: \$ 0.11 net loss per share).

Commencing on 1 January 2005, the Company adopted IFRS 2, "Share Based Payments". The effect of the adoption of IFRS 2 on the 12 months ended December 2005 and 2004 is an increase in the employee benefits expenses of \$0.3 million and \$0.1 million respectively, with a corresponding increase in additional paid-in capital.

Operating cash outflow during the period was \$2.5 million (2004: \$0.6 million). At 31 December 2005, the Company had cash balances of \$21.3 million.

As at 31 December 2005, the Company had 79 employees, an increase of 44% over the end of 2004.

Partnerships

One of the most significant events of 2005 was the signing of the partnership agreement with Lucent. This deal encouraged us to enter the Americas in June. We believe that the arrangement provides us a high level of exposure through Lucent's first class relationships within the American service provider community, but at the same time, minimizes the investment risk we take in entering this new market. The current signs are positive.

Partnerships were also initiated during 2005 with IBM and Tata Consultancy Services ("TCS"). Our global co-marketing agreement with IBM will help Orca to promote its products in telco tenders worldwide. The arrangement with TCS enables them to offer worldwide IPTV system integration and service development over our RiGHTv IPTV middleware.

License deals

We signed a number of licenses during 2005, including deals with service providers across the three major regions in which we now operate.

As part of our agreement with Lucent, it committed to a multi million dollar license purchase for Orca's RiGHTv middleware solution on behalf of its customers.

Equally significant in terms of scale, was the announcement at the year end that we had signed a \$3.0m license deal with a franchise of one of the world's leading media companies, to become the sole provider to the franchise of a full video-on-demand service. We believe that this deal has the potential to generate substantial further revenues over the coming years. In addition, Orca agreed to acquire a minority stake in the franchise for an investment of \$2.5 million.

We also announced smaller license sales with a range of operators during the year, including Chunghwa Telecom, Jazztel and Dansk Bredbånd. Chunghwa Telecom is Taiwan's largest telecom operator with approximately three million ADSL subscribers.

Our sale to Dansk Bredbånd, a Danish broadband internet services provider, will see us provide our middleware to power their proposed IPTV service, which will initially involve subscribers in the Copenhagen area with planned expansion for over 100,000 subscribers across Denmark and other parts of Scandinavia within three years.

Orca also announced on 18 August that it will provide its RiGHTv middleware to one of Spain's leading telecommunications and broadband providers, Jazztel, as part of a multi-million Euro deal to allow Jazztel to penetrate the residential broadband market. Jazztel has more than one million access lines in operation or 54% of the total of lines in Spain.

Product development

2005 saw our highest level of expenditure on R&D as we sought to further stretch the lead of our technology over that of our competitors. Closing 2005, we believe that Orca's core RiGHTv middleware remains the most scalable, flexible and technologically advanced solution on the market.

ORCA INTERACTIVE LTD.

In June, we announced the launch of Home Media, a digital entertainment application that brings digital media content from the PC to the TV. Home Media enables subscribers to view photos and listen to music via the TV, and empowers IPTV operators to gain a bigger share of the large digital entertainment market.

We also launched a Flash-based SUI (Subscriber User Interface) designed to spur the evolution from passive TV watching to active on-demand mode and deliver a new compelling, interactive user experience for the broadband television industry. Along with the new SUI, Orca released a SUI SDK (Software Development Kit) for Flash which incorporates Macromedia Flash™ technology for third-party development of IPTV applications, enabling service providers and system integrators to build branded, feature-packed TV interfaces that provide an optimised user experience.

During the year we also launched RiGHTv version 4.5, introducing an evolution of the middleware's architecture into a Service Delivery Platform (SDP) a service creation and delivery system for accelerating time to market of interactive TV applications and services to enable true open platform capabilities.

Board

In June, we announced a further strengthening of our Board with the appointment of Nina Admoni as a non-executive director of the Company. Nina's career spans four decades of involvement in the international business community, including several senior posts that she held in the service of the Israeli government and on behalf of the United Nations. Recently, she has pursued a career as an independent business consultant and prior to that served as Executive Director of the Israel-America Chamber of Commerce & Industry Ltd.

Outlook

The IPTV market is a nascent market and predicting revenues for our business remains a challenge. Even so, we remain confident that we are strongly positioned to benefit from this market opportunity and our pipeline of opportunities gives us confidence that we can effectively leverage our leading product and strong market position over the coming years.

Given the current level of our orderbook, we believe that our expectations for 2006 remain a realistic target, although we expect the majority of 2006 revenues to be recognised during the second half of the year.

Haggai Barel, CEO

BALANCE SHEETS

U.S. dollars in thousands, except share data

	31 December	
	2004	2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 10,029	\$ 961
Short-term available-for-sale marketable securities	13,550	6,395
Trade receivables and unbilled accounts	1,335	1,568
Other accounts receivable and prepaid expenses	121	511
<u>Total</u> current assets	25,035	9,435
NON-CURRENT ASSETS:		
Long-term available-for-sale marketable securities	1,000	13,938
Severance pay funds	445	578
Property and equipment, net	494	488
<u>Total</u> non-current assets	1,939	15,004
<u>Total</u> assets	\$ 26,974	\$ 24,439
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Trade payables	\$ 343	\$ 480
Deferred revenues	15	599
Other accounts payable and accrued expenses	2,477	2,954
Parent company	875	336
<u>Total</u> current liabilities	3,710	4,369
ACCRUED SEVERANCE PAY	687	844
<u>Total</u> liabilities	4,397	5,213
EQUITY:		
Share capital:		
Ordinary shares of NIS 0.01 par value: Authorized: 55,000,000 shares at 31 December 2004 and 2005, respectively; Issued and outstanding: 35,323,799 shares and 35,477,299 at 31 December 2004 and 2005, respectively	81	81
Additional paid-in capital	45,425	45,755
Net unrealized loss reserve	-	(163)
Accumulated deficit	(22,929)	(26,447)
<u>Total</u> equity	22,577	19,226
<u>Total</u> liabilities and equity	\$ 26,974	\$ 24,439

STATEMENTS OF OPERATIONS

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

	Year ended 31 December	
	2004	2005
Revenues	\$ 5,	\$ 5,325
Cost of revenues	1,26	643
Gross profit	<u>3,940</u>	<u>4,682</u>
Operating expenses:		
Research and development, net	2,039	2,585
Sales and marketing	3,218	4,430
General and administrative	81	1,979
<u>Total operating expenses</u>	<u>6,072</u>	<u>8,994</u>
Operating loss	2,132	4,312
Financial income, net		794
Net loss	<u>\$ 1,932</u>	<u>\$ 3,518</u>
Basic and diluted net loss per share	<u>\$ 0.11</u>	<u>\$ 0.10</u>
Weighted average number of shares used in computing basic and diluted net loss per share	<u>17,145,648</u>	<u>35,412,746</u>

STATEMENT OF CHANGES IN EQUITY

U.S. dollars in thousands, except share data

	<u>Preferred shares</u>		<u>Ordinary shares</u>		<u>Additional paid-in capital</u>	<u>Net unrealized loss reserve</u>	<u>Accumulated deficit</u>	<u>Total equity</u>	<u>Total recognized income and expenses</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>					
Balance as of 1 January, 2004	12,098,327	29	23,900	**) -	3,003	-	(20,997)	(17,965)	
Effect of adopting IFRS2	-	-	-	-	86	-	(86)	-	
Conversion of convertible loans from Parent Company into Class A Preferred shares	8,968,643	20	-	-	20,286	-	-	20,306	
Conversion of Class A Preferred shares into Ordinary shares upon Initial Public Offering	(21,066,970)	(49)	21,066,970	49	-	-	-	-	
Issuance of Ordinary shares upon Initial Public Offering, net *)	-	-	14,141,414	32	22,025	-	-	22,057	
Issuance of shares upon exercise of employees' share options, net	-	-	91,515	**) -	25	-	-	25	
Net loss	-	-	-	-	-	-	(1,846)	(1,846)	(1,846)
Balance as of 31 December 2004	-	-	35,323,799	81	45,425	-	(22,929)	22,577	(1,846)
Issuance of shares upon exercise of employees' share options, net	-	-	153,500	**) -	42	-	-	42	
Unrealized losses on available-for- sale marketable securities, net	-	-	-	-	-	(163)	-	(163)	(163)
Share-based compensation	-	-	-	-	288	-	-	288	
Net loss	-	-	-	-	-	-	(3,518)	(3,518)	(3,518)
Balance as of 31 December 2005	-	\$ -	35,477,299	\$ 81	\$ 45,	\$ (163)	\$ (26,447)	\$ 19,226	(3,681)

*) Net of issuance costs in the amount of approximately \$ 3,125.

**) Represents an amount lower than \$ 1.

STATEMENTS OF CASH FLOWS
U.S. dollars in thousands

	Year ended 31 December	
	2004	2005
<u>Cash flows from operating activities:</u>		
Net loss	\$ (1,932)	\$ (3,51)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	382	29
Share-based compensation	86	28
Decrease (increase) in trade receivables, unbilled accounts, other accounts receivables and prepaid expenses	168	(62)
Increase in trade payable and other accounts payable and accrued expenses	747	43
Increase (decrease) in deferred revenues	(55)	58
Increase in accrued severance pay, net	11	2
Net cash used in operating activities	<u>(593)</u>	<u>(2,51)</u>
<u>Cash flows from investing activities:</u>		
Investment in short-term available-for-sale marketable securities	(13,550)	
Investment in long-term available-for-sale marketable securities	(1,000)	(14,01)
Proceeds from maturity of short-term available-for-sale marketable securities	-	8,06
Purchase of property and equipment	(48)	(28)
Net cash used in investing activities	<u>(14,598)</u>	<u>(6,23)</u>
<u>Cash flows from financing activities:</u>		
Refundable grants received from Chief Scientist Office Parent Company	200	29
	875	(53)
Issuance of shares upon exercise of employees' share options, net	25	4
Issuance of shares upon Initial Public Offering	25,182	
Issuance expenses	(2,561)	(10)
Convertible loans from Parent Company	1,396	
Net cash provided by (used in) financing activities	<u>25,117</u>	<u>(31)</u>
Increase (decrease) in cash and cash equivalents	9,926	(9,06)
Cash and cash equivalents at the beginning of the year	103	10,02
Cash and cash equivalents at the end of the year	<u>\$ 10,029</u>	<u>\$ 96</u>
<u>Supplemental disclosure of cash flow activities:</u>		
Cash received during the year for:		
Interest, net	<u>\$ 200</u>	<u>\$ 65</u>
Non-cash activities:		
Conversion of convertible loans from Parent Company into shares	<u>\$ 20,306</u>	<u>\$</u>
Issuance expenses payable	<u>\$ 564</u>	<u>\$</u>