

VIRYANET LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
U.S. dollars in thousands

	<u>December 31,</u> <u>2005</u>	<u>June 30,</u> <u>2006</u> <u>Unaudited</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,040	\$ 1,153
Trade and unbilled receivables, net	1,322	2,086
Other accounts receivable and prepaid expenses	<u>785</u>	<u>754</u>
<u>Total current assets</u>	<u>4,147</u>	<u>3,993</u>
SEVERANCE PAY FUND	<u>795</u>	<u>784</u>
PROPERTY AND EQUIPMENT, NET	<u>295</u>	<u>239</u>
CUSTOMER RELATIONSHIP, NET	<u>1,099</u>	<u>981</u>
OTHER INTANGIBLE ASSETS AND DEBT ISSUANCE COST, NET	<u>1,072</u>	<u>832</u>
GOODWILL	<u>7,048</u>	<u>7,054</u>
<u>Total assets</u>	<u>\$ 14,456</u>	<u>\$ 13,883</u>

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**CONSOLIDATED BALANCE SHEETS**  
U.S. dollars in thousands

	<b>December 31,</b>	<b>June 30,</b>
	<b>2005</b>	<b>2006</b>
		<b>Unaudited</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Short-term bank credit and loan	\$ 253	\$ 749
Current maturities of long-term bank loans	698	573
Trade payables	1,074	711
Deferred revenues	3,193	2,692
Other accounts payable and accrued expenses	2,241	2,095
Loan from related party	285	173
Short-term Convertible note	407	465
<b>Total current liabilities</b>	<b>8,151</b>	<b>7,458</b>
<b>LONG-TERM LIABILITIES:</b>		
Long-term bank loan, net of current maturities	1,293	1,004
Long-term Convertible note	3,592	1,170
Accrued severance pay	1,237	1,206
<b>Total long-term liabilities</b>	<b>6,122</b>	<b>3,380</b>
<b>SHAREHOLDERS' EQUITY:</b>		
Share capital	1,769	2,448
Additional paid-in capital	112,789	115,088
Deferred stock compensation	(135)	-
Accumulated other comprehensive loss	(435)	(423)
Accumulated deficit	(113,805)	(114,068)
<b>Total shareholders' equity</b>	<b>183</b>	<b>3,045</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 14,456</b>	<b>\$ 13,883</b>

VIRYANET LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
	Unaudited			
Revenues:				
Software licenses	\$ 365	\$ 27	\$ 825	\$ 1,442
Maintenance and services	3,497	3,375	6,997	5,692
<u>Total revenues</u>	<u>3,862</u>	<u>3,402</u>	<u>7,822</u>	<u>7,134</u>
Cost of revenues:				
Software licenses	110	57	196	165
Maintenance and services (1)	1,814	1,958	3,742	3,702
<u>Total cost of revenues</u>	<u>1,924</u>	<u>2,015</u>	<u>3,938</u>	<u>3,867</u>
Gross profit	<u>1,938</u>	<u>1,387</u>	<u>3,884</u>	<u>3,267</u>
Operating expenses:				
Research and development (1)	500	600	1,030	1,380
Selling and marketing (1)	758	1,409	1,926	2,812
General and administrative (1)	695	674	1,392	1,304
<u>Total operating expenses</u>	<u>1,953</u>	<u>2,683</u>	<u>4,348</u>	<u>5,496</u>
Operating loss	(15)	(1,296)	(464)	(2,229)
Financial income (expenses), net (1)	423	(82)	201	(224)
<u>Net income (loss)</u>	<u>408</u>	<u>\$ (1,378)</u>	<u>(263)</u>	<u>\$ (2,453)</u>
Basic and diluted earnings (losses) per share	<u>\$ 0.05</u>	<u>\$ (0.23)</u>	<u>\$ (0.03)</u>	<u>\$ (0.41)</u>
Weighted average number of shares used in computing basic earnings (losses) per share	<u>8,545,365</u>	<u>6,096,626</u>	<u>7,963,962</u>	<u>5,917,068</u>
Weighted average number of shares used in computing diluted earnings (losses) per share	<u>9,641,253</u>	<u>6,096,626</u>	<u>7,963,962</u>	<u>5,917,068</u>
(1) Stock-based compensation expense is included in the following line items:				
Cost of revenues	\$ 2	\$ -	\$ 2	\$ -
Research and development	1	-	1	-
Selling and marketing	9	13	19	24
General and administrative	42	16	81	31
<u>Total</u>	<u>\$ 61</u>	<u>\$ 29</u>	<u>\$ 117</u>	<u>\$ 55</u>