

VIRYANET LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
U.S. dollars in thousands

	December 31,	
	2005	2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,040	\$ 736
Trade and unbilled receivables ,net	1,322	1,045
Other accounts receivable and prepaid expenses	785	622
<u>Total</u> current assets	4,147	2,403
SEVERANCE PAY FUND	795	830
PROPERTY AND EQUIPMENT, NET	295	163
CUSTOMER RELATIONSHIP, NET	1,099	875
OTHER INTANGIBLE ASSETS AND DEBT ISSUANCE COST, NET	1,072	660
GOODWILL	7,048	7,088
<u>Total</u> assets	\$ 14,456	\$ 12,019

VIRYANET LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
U.S. dollars in thousands

	December 31,	
	2005	2006
 LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term bank credit	\$ 253	\$ 1,187
Current maturities of long-term bank loans	698	574
Trade payables	1,074	702
Deferred revenues	3,193	2,361
Other accounts payable and accrued expenses	2,241	1,834
Loan from related party	285	115
Short-term Convertible note	407	-
	<u>8,151</u>	<u>6,773</u>
 LONG-TERM LIABILITIES:		
Long-term bank loan, net of current maturities	1,293	718
Long-term Convertible note	3,592	568
Accrued severance pay	1,237	1,276
	<u>6,122</u>	<u>2,562</u>
 COMMITMENTS AND CONTINGENT LIABILITIES		
 SHAREHOLDERS' EQUITY:		
Share capital	1,769	2,672
Additional paid-in capital	112,789	115,900
Deferred stock compensation	(135)	-
Accumulated other comprehensive loss	(435)	(314)
Accumulated deficit	(113,805)	(115,574)
	<u>183</u>	<u>2,684</u>
 Total liabilities and shareholders' equity	<u>\$ 14,456</u>	<u>\$ 12,019</u>

VIRYANET LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
U.S. dollars in thousands, except share and per share data

	Three months ended		Year ended December 31	
	December 31			
	2005	2006	2005	2006
	Unaudited	Unaudited		
Revenues				
Software licenses	\$ 231	\$ 620	\$ 1,720	\$ 1,520
Maintenance and services	2,877	2,790	12,487	12,340
Total revenues	3,108	3,410	14,207	13,860
Cost of revenues:				
Software licenses	100	73	358	356
Maintenance and services	1,857	1,523	7,855	6,831
Total cost of revenues	1,957	1,596	8,213	7,187
Gross profit	1,151	1,814	5,994	6,673
Operating expenses:				
Research and development	513	514	2,504	2,121
Selling and marketing	1,067	821	5,214	3,692
General and administrative	940	627	3,004	2,735
Total operating expenses	2,520	1,962	10,722	8,548
Operating loss	(1,369)	(148)	(4,728)	(1,875)
Financial income (expenses), net	(202)	107	(1,330)	106
Net loss	<u>\$ (1,571)</u>	<u>(41)</u>	<u>\$ (6,058)</u>	<u>\$ (1,769)</u>
Basic and diluted net loss per share	<u>\$ (1.08)</u>	<u>\$ (0.02)</u>	<u>\$ (4.68)</u>	<u>\$ (0.95)</u>
Weighted average number of shares used in computing basic and diluted net loss per Ordinary share (*)	<u>1,459,097</u>	<u>2,181,316</u>	<u>1,294,834</u>	<u>1,857,217</u>

(*) All per share data is reported after the effect of the 1 for 5 reverse split that occurred on January 17, 2007