

VIRYANET AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	<u>December 31,</u> <u>2008</u>	<u>September 30,</u> <u>2009</u>
		<u>Unaudited</u>
Assets		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 143	\$ 48
Trade receivables	781	702
Other accounts receivable and prepaid expenses	113	160
	<u>1,037</u>	<u>910</u>
NON-CURRENT ASSETS:		
Severance pay fund	961	836
Other	64	59
	<u>1,025</u>	<u>895</u>
PROPERTY AND EQUIPMENT, net	<u>167</u>	<u>115</u>
GOODWILL	7,022	7,156
OTHER INTANGIBLE ASSETS, net		
Customer relationship	367	202
Other	184	111
	<u>7,573</u>	<u>7,469</u>
Total intangible assets		
	<u>7,573</u>	<u>7,469</u>
Total assets	<u>\$ 9,802</u>	<u>\$ 9,389</u>

VIRYANET AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

	<u>December 31,</u> <u>2008</u>	<u>September 30,</u> <u>2009</u> <u>Unaudited</u>
Liabilities and shareholders' equity		
CURRENT LIABILITIES:		
Short-term bank credit	\$ 280	\$ 399
Current maturities of long-term bank loans	450	400
Trade payables	729	563
Deferred revenues	3,367	2,877
Other accounts payable and accrued expenses	1,963	2,209
Loan from related party	78	79
	<u>6,867</u>	<u>6,527</u>
LONG-TERM LIABILITIES:		
Long-term bank loan, net of current maturities	1,289	989
Long-term convertible debt	543	533
Long-term deferred revenues	932	768
Accrued severance pay	1,546	1,371
	<u>4,310</u>	<u>3,661</u>
SHAREHOLDERS' EQUITY:		
Share capital	3,748	3,881
Additional paid-in capital	116,660	116,644
Accumulated other comprehensive income (loss)	(114)	(7)
Accumulated deficit	(121,669)	(121,317)
	<u>(1,375)</u>	<u>(799)</u>
Total shareholders' equity	<u>(1,375)</u>	<u>(799)</u>
Total liabilities and shareholders' equity	<u>\$ 9,802</u>	<u>\$ 9,389</u>

VIRYANET AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three months ended		Nine Months ended	
	September 30		September 30	
	2008	2009	2008	2009
	Unaudited	Unaudited	Unaudited	Unaudited
REVENUES:				
Software licenses	\$ 120	\$ 318	\$ 1,197	\$ 1,330
Maintenance and services	2,419	2,324	7,576	6,680
Total revenues	2,539	2,642	8,773	8,010
COST OF REVENUES:				
Software licenses	45	62	223	163
Maintenance and services	1,380	1,005	4,404	3,016
Total cost of revenues	1,425	1,067	4,627	3,179
GROSS PROFIT	1,114	1,575	4,146	4,831
OPERATING EXPENSES:				
Research and development	417	286	1,474	865
Selling and marketing	727	670	2,315	2,116
General and administrative	574	449	1,813	1,366
Total operating expenses	1,718	1,405	5,602	4,347
INCOME (LOSS) FROM OPERATIONS	(604)	170	(1,456)	484
FINANCIAL EXPENSES, net	108	99	499	133
NET INCOME (LOSS)	\$ (712)	\$ 71	\$ (1,955)	\$ 351
BASIS NET EARNINGS (LOSS) PER SHARE	\$ (0.24)	\$ 0.02	\$ (0.66)	\$ 0.11
WEIGHTED AVERAGE NUMBER OF SHARES USED IN COMPUTATION OF BASIC NET EARNINGS (LOSS) PER SHARE	3,015,640	3,215,346	2,968,819	3,174,072
DILUTED NET EARNINGS (LOSS) PER SHARE	\$ (0.24)	\$ 0.02	\$ (0.66)	\$ 0.10
WEIGHTED AVERAGE NUMBER OF SHARES USED IN COMPUTATION OF	3,015,640	3,578,982	2,968,819	3,537,708

**DILUTED NET EARNINGS (LOSS)
PER SHARE**

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