

BOS BETTER ONLINE SOLUTIONS LTD
Form 20-F/A
November 28, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1
TO

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission file number 001-14184

B.O.S. BETTER ONLINE SOLUTIONS LTD.

(Exact name of Registrant as specified in its charter)

ISRAEL

(Jurisdiction of incorporation or organization)

20 Freiman Street, Rishon LeZion, 75100, Israel

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act: Ordinary Shares, nominal value NIS 4.00 per share

Securities registered or to be registered pursuant to Section 12(g) of the Act: NONE

Edgar Filing: BOS BETTER ONLINE SOLUTIONS LTD - Form 20-F/A

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: NONE

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 6,744,798 Ordinary Shares, nominal value NIS 4.00 per share, as of December 31, 2006; and 8,492,213 Ordinary Shares, nominal value NIS 4.00 per share, as of April 30, 2007.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check-mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

EXPLANATORY NOTE

This Amendment No. 1 to the Annual Report on Form 20-F for the year ended December 31, 2006, of B.O.S Better Online Solutions Ltd. (the Registrant) is filed in order to correct and supplement the description of a claim brought against the Registrant by BosaNova EURL in France. In particular, in the Registrant's previous description, it was mistakenly reported that the claim was filed in March 2005, for the amount of 1.4 million Euros whereas the claim was served on the Registrant in April 2006, for approximately 3.3 million Euros and additional remedies.

This Amendment No. 1 contains item 8 and the Company's Consolidated Financial Statements, in which a corresponding revision was made in Notes 14.b.3 and 20.b, and which also include an updated auditors report. Except as described above, this Amendment No. 1 to the Form 20-F continues to speak as of June 5, 2007 and no other changes have been made to the Annual Report. This Amendment No. 1 does not amend or update any other information set forth in the Annual Report and we have not updated disclosures contained therein to reflect any events that occurred at a date subsequent to the filing of the Annual Report.

- 2 -

Item 8: Financial Information.**8A. Consolidated Statements and Other Financial Information***Consolidated Financial Statements*

See Item 18.

Sales Outside Israel

The total amount of export revenues of the Company has been as follows:

Year	export revenues	% of all revenues
2006	\$ 6,040,000	29%
2005	\$ 10,693,000	44%
2004	\$ 4,552,000	66%

Legal Proceedings

In April 2006, BOSNOVA EURL, a French company and former distributor of the Company, served the Company with a claim filed with the French Trade Tribunal alleging breach of exclusive distributor rights in France and asserting ownership to certain intellectual property rights in the Company's products. The plaintiff seeks an amount of approximately 3.3 million Euros and additional remedies. This claim follows a previous motion for temporary injunctive relief that was filed against the Company's new French distributor, said motion ultimately denied by French Trade Tribunal. On September 18, 2007, the French Trade Tribunal rejected the Company's assertion that jurisdiction is with the Israeli courts, and the Company has appealed this decision. The Company assesses the prospect of the claimant to prevail and recover a significant amount as remote. The Company's financial statements include a provision in this respect.

On May 10, 2006 the Company received a written demand from IDEAL Software GmbH (IDEAL), a German corporation, in which it claims that the Company owes it for unpaid license fees. On June 11, 2006 the Company filed with the Haifa District Court in Israel a claim against IDEAL. Recently, we announced that we entered into a settlement of this dispute with IDEAL, pursuant to which, on December 21, 2006, we paid IDEAL an amount of 110,000 Euros, and we agreed to withdraw the claim we filed in Israel.

Dividend Policy

The Company does not currently have a dividend policy. The declaration and payment of any cash dividends in the future will be determined by the Board of Directors in light of the conditions existing at that time. This will include our earnings and financial condition. We may only pay cash dividends in any fiscal year, out of profits, as defined under Israeli law. Any dividends paid out of Approved Enterprise earnings (i.e. tax exempt income) will be liable to tax. As we cannot currently distribute dividends, no provision has been made for this additional tax in our Financial Statements.

- 3 -

8B. Significant Changes

Not applicable.

Item 19: Exhibits

The following exhibits are filed as part of this Annual Report:

1.1

Item 19: Exhibits

Edgar Filing: BOS BETTER ONLINE SOLUTIONS LTD - Form 20-F/A

Memorandum of Association, as amended (incorporated by reference to Exhibit 1.1 of the Company's Annual Report on Form 20-F filed with the SEC on June 28, 2006).

- 1.2 Articles of Association, as amended (incorporated by reference to Exhibit 1.2 of the Company's Annual Report on Form 20-F filed with the SEC on June 28, 2006).
- 4.1 Form of Indemnification Agreement between the Company and its officers and directors, as amended (incorporated by reference to Exhibit 4.1 of the Company's Annual Report on Form 20-F filed with the SEC on June 28, 2006).
- 4.2 Share Purchase Agreement, dated as of February 23, 2003, and Option Agreement and Registration Rights Agreement, dated as of March 30, 2003, by and between Catalyst Investments L.P. and the Registrant (incorporated by reference to the Company's Annual Report on Form 20-F filed on June 17, 2004).
- 4.3 Services Agreement, dated as of April 15, 2003, between Cukierman & Co. Investment House Ltd., BOScom Ltd. and the Registrant (incorporated by reference to the Company's Annual Report on Form 20-F filed on June 17, 2004).
- 4.4 M&A Addendum to the Service Agreement, as of August 22, 2004, between Cukierman & Co. Investment House Ltd., BOScom Ltd. and the Registrant (incorporated by reference to the Company's Annual Report on Form 20-F filed on June 27, 2005).
- 4.5 Securities Purchase Agreement and Master Security Agreement and Registration Rights Agreement, dated as of June 10, 2004, by and between Laurus Master Fund Ltd. and the Registrant (incorporated by reference to the Company's Annual Report on Form 20-F filed on June 17, 2004), and Amendment no. 1 to the Securities Purchase Agreement dated as of November 16, 2004 (incorporated by reference to the Company's Registration Statement on Form F-3 no. 333-117529).
- 4.6 Securities Purchase Agreement and Master Security Agreement, dated as of September 29, 2005, by and between Laurus Master Fund Ltd. and the Registrant (incorporated by reference to Exhibit 4.1 of the Company's Annual Report on Form 20-F filed with the SEC on June 28, 2006; the Secured Convertible Term Note, Ordinary Shares Purchase Warrant and Registration Rights Agreement are incorporated by reference to the Company's Registration Statement on Form F-3 no. 333-130048).
- 4.7* Securities Purchase Agreement and Master Security Agreement, dated as of August 16, 2006, by and between Laurus Master Fund Ltd. and the Registrant (the Secured Convertible Term Note, Ordinary Shares Purchase Warrant and Registration Rights Agreement are incorporated by reference to the Company's Registration Statement on Form F-3 no. 333-137153)

- 4 -

-
- 4.8 Distribution Agreement, dated as of January 15, 2003, by and between BOScom Ltd. and BOSaNOVA Inc. (incorporated by reference to the Company's Annual Report on Form 20-F/A filed on January 6, 2005).
 - 4.9 Asset Purchase Agreement, dated as of September 29, 2004, by and between Quasar Communication Systems Ltd. and the Registrant (incorporated by reference to the Company's Registration Statement on Form F-3 no. 333-117529).
 - 4.10 Share Purchase Agreement, dated as of November 2, 2004, by and between Jacob and Sara Neuhof, Odem Electronic Technologies 1992 Ltd. and the Registrant (incorporated by reference to the Company's Registration Statement on Form F-3 no. 333-117529).
 - 4.11 Agreement, dated as of September 29, 2005, by and between Jacob and Sara Neuhof and the Registrant, for the purchase of the shares of Odem Electronic Technologies 1992 Ltd. held by the Jacob and Sara Neuhof (incorporated by reference to Exhibit 4.1 of the Company's Annual Report on Form 20-F filed with the SEC on June 28, 2006).
 - 4.12 Share Purchase Agreement, dated as of May 24, 2005, by and between certain investors and the Registrant (incorporated by reference to the Company's Annual Report on Form 20-F filed on June 27, 2005).
 - 4.13 Asset Purchase Agreement and Amendments no. 1 and 2 to Agreement, dated as of July 18, 2005, August 31, 2005 and September 25, 2005, respectively, by and between BOSCom, Consist Technologies Ltd. and Consist International Inc., and Escrow Agreement and Amendment no. 1 to Escrow Agreement between the parties, dated as of July 18, 2005 and August 31,

Edgar Filing: BOS BETTER ONLINE SOLUTIONS LTD - Form 20-F/A

2005, respectively (incorporated by reference to Exhibit 4.1 of the Company's Annual Report on Form 20-F filed with the SEC on June 28, 2006).

- 4.14 Asset Purchase Agreement, Amendment no. 1 to the Agreement and Amendment no. 2 to the Agreement, dated as of October 26, 2005, November 2, 2005, and December 31, 2005, respectively, by and between Qualmax, Inc., BOScom Ltd. and the Registrant; Loan Agreement dated as of December 31, 2005, by and between Qualmax Ltd. and the Registrant; Registration Rights Agreement, dated as of December 31, 2005, by and between Qualmax Inc. and the Registrant; and Form of warrant dated as of December 31, 2005, issued by Qualmax Inc. to the Registrant (incorporated by reference to Exhibit 4.1 of the Company's Annual Report on Form 20-F filed with the SEC on June 28, 2006).
- 4.15 Letter agreement among New World Brands, Inc., Qualmax, Inc., IP Gear, Ltd., P&S Spirit, LLC and B.O.S Better Online Solutions Ltd., dated December 31, 2006 (incorporated by reference to Exhibit 10.17 to the Company's Registration Statement on Form F-1/A filed with the SEC on February 12, 2007).
- 4.16 The Registrant's Israeli 2003 Share Option Plan (incorporated by reference to the Company's Registration Statement on Form S-8 No. 333-11650).
- 8.1 List of subsidiaries (incorporated by reference to Item 4C of this Annual Report on Form 20-F).
- 11* Statement of Computation of Earnings Per Share
- 12.1** Certification by Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.

- 5 -

-
- 12.2** Certification by Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
- 13.1** Certification by Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934.
- 23.1** Consent of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global.
- 23.2* Consent of Kesselman & Kesselman, a member of PricewaterhouseCoopers International Limited.

* Previously filed.

** Filed herewith.

- 6 -

Signatures

The Registrant hereby certifies that it meets all of the requirements for filing on Amendment No. 1 to the Form 20-F and that it has duly caused and authorized the undersigned to sign this Amendment No. 1 to the annual report on its behalf.

B.O.S. Better Online Solutions Ltd.

By: /s/ Shmuel Koren

By: /s/ Eyal Cohen

Shmuel Koren
President and Chief Executive Officer

Eyal Cohen
Chief Financial Officer

Signatures

5

Date: November 28, 2007

- 7 -

**B.O.S. BETTER ONLINE SOLUTIONS LTD.
AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2006
U.S. DOLLARS IN THOUSANDS
INDEX**

	<u>Page</u>
<u>Reports of Independent Registered Public Accounting Firms</u>	F-2 F-3
<u>Consolidated Balance Sheets</u>	F-4 F-5
<u>Consolidated Statements of Operations</u>	F-6
<u>Statements of Changes in Shareholders' Equity</u>	F-7 - F-8
<u>Consolidated Statements of Cash Flows</u>	F-9 F-10
<u>Notes to Consolidated Financial Statements</u>	F-11 F-50

n **Kost Forer Gabbay & Kasierer** n Phone: 972-3-6232525
3 Aminadav St. Fax: 972-3-5622555
Tel-Aviv 67067, Israel

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of

B.O.S. BETTER ONLINE SOLUTIONS LTD.

We have audited the accompanying consolidated balance sheets of B.O.S Better Online Solutions Ltd. (the Company) and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the December 31, 2004 financial statements of Odem Electronic Technologies 1992 Ltd. (Odem), a subsidiary whose statements reflect total revenues for the period from November 18, 2004 (date of acquisition of Odem) to December 31, 2004 constituting 23.5% of the related consolidated total revenues. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for Odem, is based solely on the reports of the other auditors. Those auditors expressed an unqualified opinion on those statements in their report dated March 25, 2005.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2t to the consolidated financial statements, effective January 1, 2006, the Company adopted the provision of Statement of Financial Accounting Standard No. 123(R), Shared-Based Payment .

Tel-Aviv, Israel
March 26, 2007, except as to
Note 14b(3), as to which
the date is November 27, 2007

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of

ODEM ELECTRONIC TECHNOLOGIES 1992 LTD.

We have audited the consolidated balance sheets of Odem Electronic Technologies 1992 Ltd. (the Company) and its subsidiaries as of December 31, 2003 and 2004 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the years ended on those dates. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Israel and the standards of the Public Company Accounting Oversight Board (United States), including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2003 and 2004 and the consolidated results of operations, changes in shareholders' equity and cash flows for each of the years ended on those dates, in conformity with accounting principles generally accepted in the United States of America.

Jerusalem, Israel
March 25, 2005

Kesselman & Kesselman
Certified Public Accountants (Israel)
A member of PricewaterhouseCoopers International Limited

F-3

**B.O.S. BETTER ONLINE SOLUTIONS LTD.
AND ITS SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

U.S. dollars in thousands

	December 31,	
	2006	2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,033	\$ 2,232
Marketable securities (Note 5)	-	1,333
Trade receivables (net of allowance for doubtful accounts of \$23 and \$3 at December 31, 2006 and 2005, respectively)	5,632	4,844
Other accounts receivable and prepaid expenses (Note 3)	858	504
Inventories (Note 4)	4,017	3,320

Edgar Filing: BOS BETTER ONLINE SOLUTIONS LTD - Form 20-F/A

<u>Total</u> current assets	12,540	12,233
	<u> </u>	<u> </u>
LONG-TERM ASSETS:		
Severance pay fund	741	907
Investment in other companies (Note 6)	8,082	5,412
	<u> </u>	<u> </u>
<u>Total</u> long-term assets	8,823	6,319
	<u> </u>	<u> </u>
OTHER ASSETS		
	65	49
	<u> </u>	<u> </u>
PROPERTY, PLANT AND EQUIPMENT, NET (Note 7)	520	667
	<u> </u>	<u> </u>
GOODWILL (Note 9)	952	952
	<u> </u>	<u> </u>
CUSTOMER LIST, NET (Note 8)	1,629	1,836
	<u> </u>	<u> </u>
ASSETS RELATED TO DISCONTINUED OPERATIONS (Note 1d)	-	590
	<u> </u>	<u> </u>
	<u>\$ 24,529</u>	<u>\$ 22,646</u>

The accompanying notes are an integral part of the consolidated financial statements.

**B.O.S. BETTER ONLINE SOLUTIONS LTD.
AND ITS SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2006	2005
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Short-term bank loans (Note 10)	\$ 2,931	\$ 2,271
Current maturities of long-term bank loans and convertible note	1,157	354
Trade payables	3,844	3,073
Employees and payroll accruals	460	709
Deferred revenues	103	258
Accrued expenses and other liabilities (Note 11)	999	1,406
Total current liabilities	9,494	8,071
LONG-TERM LIABILITIES:		
Long-term bank loans (net of current maturities) (Note 12)	-	17
Convertible note (net of current maturities) (Note 13)	1,171	921
Deferred taxes	362	422
Accrued severance pay	916	1,157
Other long-term liabilities	237	-
Total long-term liabilities	2,686	2,517
LIABILITIES RELATED TO DISCONTINUED OPERATIONS (Note 1d)	-	792
COMMITMENTS AND CONTINGENT LIABILITIES (Note 14)		
SHAREHOLDERS EQUITY (Note 15):		
Share capital		
Ordinary shares of NIS 4.00 parvalue: Authorized: 35,000,000 shares at December 31, 2006 and 2005; Issued and outstanding: 6,744,798 and 6,589,385 shares at December 31, 2006 and 2005, respectively;	6,571	6,432
Additional paid-in capital	48,330	47,588
Deferred share-based compensation	-	(112)
Accumulated other comprehensive income	19	21
Accumulated deficit	(42,571)	(42,663)
Total shareholders equity	12,349	11,266
Total liabilities and shareholder s equity	\$ 24,529	\$ 22,646

Edgar Filing: BOS BETTER ONLINE SOLUTIONS LTD - Form 20-F/A

The accompanying notes are an integral part of the consolidated financial statements.

March 26, 2007

Date of approval of the financial statements

Shmuel Koren
President and
Chief Executive Officer
F-5

Eyal Cohen
Chief Financial Officer

**B.O.S. BETTER ONLINE SOLUTIONS LTD.
AND ITS SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31,		
	2006	2005	2004
Revenues	\$ 20,917	\$ 24,099	\$ 6,919
Cost of revenues	16,200	17,854	3,659
Gross profit	4,717	6,245	3,260
Operating costs and expenses:			
Research and development	486	893	669
Sales and marketing	2,019	2,425	1,015
General and administrative (including share-based compensation expense of \$727, \$348 and \$117 in 2006, 2005 and 2004, respectively)	3,268	2,667	1,271
Total operating costs and expenses	5,773	5,985	2,955
Operating income (loss)	(1,056)	260	305
Financial expenses, net (Note 17a)	(626)	(448)	(158)
Other income, net (Note 1d)	-	355	-
Income (loss) before taxes on income	(1,682)	167	147
Tax benefit (taxes on income) (Note 16)	89	(204)	(20)
Net income (loss) after taxes on income	(1,593)	(37)	127
Equity in losses of an affiliate	-	(1,750)	(308)
Minority interest in earnings of a subsidiary	-	(223)	(17)
Loss from continuing operations	(1,593)	(2,010)	(198)
Income (loss) from to discontinued operations (Note 1d)	1,685	(1,595)	(1,855)
Net income (loss)	\$ 92	\$ (3,605)	\$ (2,053)
Basic and diluted loss per share from continuing operations (Note 17b)	\$ (0.24)	\$ (0.36)	\$ (0.04)
Basic and diluted net earnings (loss) per share from discontinued operations (Note 17b)	\$ 0.25	\$ (0.28)	\$ (0.40)

Basic and diluted net earnings (loss) per share (Note 17b)

	<u> </u>	<u> </u>	<u> </u>
\$	0.01	\$ (0.64)	\$ (0.44)
	<u> </u>	<u> </u>	<u> </u>

The accompanying notes are an integral part of the consolidated financial statements.

F-6

**B.O.S. BETTER ONLINE SOLUTIONS LTD.
AND ITS SUBSIDIARIES**

STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

U.S. dollars in thousands, except share data

	Ordinary shares	Share capital	Additional paid in capital	Deferred share-based compensation	Accumulated other comprehensive income	Treasury shares	Accumulated deficit	Total comprehensive loss	Total shareholders equity
Balance at January 1, 2004	4,167,509	\$ 4,309	\$ 43,247	\$ -	\$ -	\$ (150)	\$ (36,865)		\$ 10,541
Deferred share-based compensation	-	-	179	(179)	-	-	-		-
Amortization of deferred share-based compensation	-	-	-	5	-	-	-		5
Issuance of shares related to the acquisitions of Quasar and Odem, net	570,149	514	784	-	-	150	(140)		1,308
Share-based compensation related to warrants issued to service providers	-	-	117	-	-	-	-		117
Warrants related to a convertible note issued to lenders	-	-	99	-	-	-	-		99
Other comprehensive loss:									
Net loss	-	-	-	-	-	-	(2,053)	\$ (2,053)	(2,053)
Unrealized gain on available-for-sale marketable securities	-	-	-	-	5	-	-	5	5
Foreign currency translation adjustments	-	-	-	-	26	-	-	26	26
Total comprehensive loss							\$ (2,022)		
Balance at December 31, 2004	4,737,658	4,823	44,426	(174)	31	-	(39,058)		10,048
Amortization of deferred share-based compensation	-	-	-	62	-	-	-		62
Conversion of convertible note	640,293	570	1,046	-	-	-	-		1,616
Issuance of shares related to acquisition of Odem, net	232,603	202	330	-	-	-	-		532
Issuance of shares related to the private placement, net	953,743	815	1,225	-	-	-	-		2,040
Issuance of Ordinary shares for options exercised	25,088	22	28	-	-	-	-		50
Share-based compensation related to warrants issued to	-	-	348	-	-	-	-		348

Edgar Filing: BOS BETTER ONLINE SOLUTIONS LTD - Form 20-F/A

service providers									
Warrants related to a convertible note issued to lenders	-	-	185	-	-	-	-	-	185
Other comprehensive loss:									
Net loss	-	-	-	-	-	-	(3,605)	\$ (3,605)	(3,605)
Loss on available-for-sale marketable securities	-	-	-	-	(4)	-	-	(4)	(4)
Foreign currency translation adjustments	-	-	-	-	(6)	-	-	(6)	(6)
Total comprehensive loss							\$	(3,615)	

Balance at December 31, 2005	6,589,385	6,432	47,588	(112)	21	-	(42,663)		11,266
------------------------------	-----------	-------	--------	-------	----	---	----------	--	--------

The accompanying notes are an integral part of the consolidated financial statements.

**B.O.S. BETTER ONLINE SOLUTIONS LTD.
AND ITS SUBSIDIARIES**

STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

U.S. dollars in thousands, except share data

	Ordinary shares	Share capital	Additional paid in capital	Deferred share-based compensation	Accumulated other comprehensive income	Treasury shares	Accumulated deficit	Total comprehensive income	Total shareholders equity
Balance at January 1, 2006	6,589,385	6,432	47,588	(112)	21	-	(42,663)		11,266
Reversal of deferred share-based compensation	-	-	(112)	112	-	-	-		-
Issuance of Ordinary shares for options exercised	68,747	61	74	-	-	-	-		135
Share-based compensation expense	21,666	20	411	-	-	-	-		431
Share-based compensation related to warrants issued to service providers	65,000	58	238	-	-	-	-		296
Warrants related to a convertible note issued to lenders	-	-	131	-	-	-	-		131
Other comprehensive income:									
Net income	-	-	-	-	-	-	92	\$ 92	92
Loss on available-for-sale marketable securities	-	-	-	-	(2)	-	-	(2)	(2)
Total comprehensive income							\$ 90		
Balance at December 31, 2006	6,744,798	\$ 6,571	\$ 48,330	\$ -	\$ 19	\$ -	(42,571)		\$ 12,349

The accompanying notes are an integral part of the consolidated financial statements.

**B.O.S. BETTER ONLINE SOLUTIONS LTD.
AND ITS SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2006	2005	2004
Cash flows from operating activities:			
Net income (loss)	\$ 92	\$ (3,605)	\$ (2,053)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Loss (income) from discontinued operations	(1,685)	1,595	1,855
Depreciation and amortization	378	474	311
Amortization of premium and accretion of accrued interest on available-for-sale marketable securities	-	35	47
Impairment of investment	39	-	-
Severance pay, net	(75)	(75)	8
Equity in losses of an affiliate	-	1,750	308
Minority interest in earnings of a subsidiary	-	223	17
Share-based compensation related to warrants issued to service providers	296	59	5
Capital gain from sale of product line	-	(273)	-
Net loss from decrease in value of Put options	-	8	-
Capital loss from sale of property and equipment	-	3	5
Share-based compensation related to employees	431	244	121
Financial expenses related to warrants issued in connection with long-term convertible note	162	120	78
Increase in trade receivables	(788)	(547)	(118)
Decrease in deferred taxes	(70)	(88)	(47)
Decrease (increase) in other accounts receivable and prepaid expenses	(595)	86	160
Increase in inventories	(697)	(1,971)	357
Increase (decrease) in trade payables	790	(172)	531
Decrease in employees and payroll accruals, deferred revenues, accrued expenses and other liabilities	(231)	(123)	(111)
Net cash provided by (used in) operating activities from continuing operations	(1,953)	(2,257)	1,474
Net cash used in operating activities from discontinued operations	(446)	(1,647)	(2,593)
Net cash used in operating activities	(2,399)	(3,904)	(1,119)
Cash flows from investing activities:			
Purchase of property and equipment	(24)	(245)	(214)
Proceeds from sale of property and equipment	-	13	38
Proceeds from sale of product line	-	257	-
Investment in long-term marketable securities	-	(607)	(1,247)
Proceeds from redemption of marketable securities	1,331	2,316	1,000
Investment in other companies	(676)	-	-
Acquisitions, net of cash acquired (a)	-	(1,124)	(1,385)
Net cash provided by (used in) investing activities from continuing operations	631	610	(1,808)
Net cash used in investing activities from discontinued operations	(221)	(1,087)	(58)

Edgar Filing: BOS BETTER ONLINE SOLUTIONS LTD - Form 20-F/A

Net cash provided by (used in) investing activities	410	(477)	(1,866)
	<u> </u>	<u> </u>	<u> </u>
Cash flows from financing activities:			
Repayment of short-term and long-term bank loans	(26)	(55)	(93)
Proceeds from short-term bank loans	686	933	-
Proceeds from long-term convertible note and warrants, net of issuance expenses	1,319	1,246	1,787
Payment of long-term convertible note	(438)	(55)	(80)
Proceeds from exercise of options	135	2,090	-
	<u> </u>	<u> </u>	<u> </u>
Net cash provided by financing activities	1,676	4,159	1,614
	<u> </u>	<u> </u>	<u> </u>
Decrease in cash and cash equivalents	(313)	(222)	(1,371)
Increase (decrease) in cash and cash equivalents from discontinued operations	114	163	(208)
Effect of exchange rate changes on cash and cash equivalents	-	(13)	11
Cash and cash equivalents at the beginning of the year	2,232	2,304	3,872
	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents at the end of the year	\$ 2,033	\$ 2,232	\$ 2,304
	<u> </u>	<u> </u>	<u> </u>

The accompanying notes are an integral part of the consolidated financial statements.

**B.O.S. BETTER ONLINE SOLUTIONS LTD.
AND ITS SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2006	2005	2004
<u>Supplemental disclosure of cash flow activities:</u>			
(i) Net cash paid during the year for:			
Interest	\$ 532	\$ 126	\$ 129
Income tax	\$ 180	\$ 309	\$ -
(ii) <u>Non-cash activities:</u>			
Conversion of convertible note into shares	\$ -	\$ 1,614	\$ -
Sale of the communication segment in consideration for shares in Qualmax	\$ 958	\$ 4,690	\$ -
Conversion of Qualmax's debt into New World Brand's shares	\$ 1,480	\$ -	\$ -
<u>Sale of PrintBOS:</u>			
Consideration, net	\$ -	\$ 275	\$ -
Disposal of fixed assets	-	(28)	-
Disposal of liability	-	100	-
Related expenses	-	(74)	-
Capital gain	\$ -	\$ 273	\$ -
<u>Sale of the communication segment:</u>			
Consideration, net	\$ 2,437	\$ 3,690	\$ -
Disposal of tangible and intangible assets	(752)	(2,425)	-
Related expenses	-	(486)	-
Capital gain	\$ 1,685	\$ 779	\$ -
(a) <u>Acquisition of Odem:</u>			
Fair value of net tangible assets acquired (excluding cash and cash equivalents) and liabilities assumed at acquisition date	\$ -	\$ 1,020	\$ 1,366
Fair value of net intangible assets acquired at acquisition date	-	718	927
Less -	-	-	-

Edgar Filing: BOS BETTER ONLINE SOLUTIONS LTD - Form 20-F/A

Amount acquired by issuance of shares	-	532	769
Payables	-	219	139
Add-	-		
Cancellation of Put and Call options	-	137	-
	<u> </u>	<u> </u>	<u> </u>
	\$ -	\$ 1,124	\$ 1,385
	<u> </u>	<u> </u>	<u> </u>

The accompanying notes are an integral part of the consolidated financial statements.

F-10

**B.O.S. BETTER ONLINE SOLUTIONS LTD.
AND ITS SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except for share and share data)

NOTE 1: GENERAL

- a. B.O.S. Better Online Solutions Ltd. is an Israeli corporation (together with its subsidiaries the Company).

The Company manages its operations through two wholly-owned subsidiaries:

- BOScom Ltd. (BOScom) is engaged in the software solutions segment of the Company s business. BOScom was involved in cross platform printing solutions answering a demand for central printing and output management solutions in organizations which were sold during 2005 (see c); and
- Odem Electronic Technologies 1992 Ltd. (Odem) is engaged in the supply chain solutions segment of the Company s business. In September and November 2005, the Company purchased an additional 23.9% and 12.3%, respectively, of the outstanding shares of Odem. Following these purchases, the Company owns 100% of Odem. Odem is a solutions supplier of electronic components and systems to the technologies sector (see b).

BOS communication segment (the communication segment) included: BOScom s business of communication solutions which provide multi-path, intelligent routin