

BOS BETTER ONLINE SOLUTIONS LTD

Form F-3/A

January 12, 2006

As filed with the Securities and Exchange Commission on January 12, 2006

Registration No. 333-130048

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**AMENDMENT NO. 1**

**TO**

**FORM F-3**

**REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933**

**B.O.S BETTER ONLINE SOLUTIONS LTD.**

*(Exact name of Registrant as specified in its charter)*

**Israel**

*(State or other jurisdiction of  
incorporation or organization)*

**Not Applicable**

*(I.R.S. Employer  
Identification No.)*

Beit Rabin, Teradyon Industrial Park,  
Misgav, 20179, Israel  
(+972) 4-990-7555

*(Address and Telephone Number of Registrant's principal executive offices)*

Corporation Service Company  
1133 Avenue of the Americas, Suite 3100  
New York, NY 10036  
Tel: (212) 299-9100

*(Name, address and telephone number of agent for service)*

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**972-3-561-5268**

**Approximate date of commencement of proposed sale to the public:** From time to time after this registration statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

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If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, please check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.C. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.C. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

### CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Ordinary Shares, nominal value NIS 4.00 per share	953,698(1)(2)	\$2.42(3)	\$2,307,949(3)	\$247
Ordinary Shares, nominal value NIS 4.00 per share	572,219(2)(4)	\$3.03(5)	\$1,733,824(5)	\$186
Ordinary Shares, nominal value NIS 4.00 per share	625,000(6)	\$4.04(5)	\$2,525,000(5)	\$270
Total	2,150,917	-	\$6,566,773	\$703 (7)

- (1) Represents ordinary shares registered for resale by the selling shareholders.
- (2) Pursuant to Rule 416 of the Securities Act of 1933, as amended, this Registration Statement also includes additional ordinary shares issuable upon stock splits, stock dividends or similar transactions.
- (3) Estimated solely for the purpose of determining the registration fee pursuant to Rule 457(c) of the Securities Act on the basis of the average of the high and low sales prices of the Registrant's ordinary shares on The Nasdaq National Market on November 29, 2005.
- (4) Represents shares issuable upon exercise of warrants that were issued to the selling shareholders. The exercise price under the warrants is \$2.50 per ordinary share during the first year from the issuance, and increasing to \$2.75 per ordinary share and \$3.03 per ordinary share, on the first and second anniversaries of the issuance, respectively.
- (5) Calculated pursuant to Rule 457(g) of the Securities Act.
- (6) Represents 487,013 shares issuable upon conversion of \$1.5 million in principal amount of the Registrant's Secured Convertible Term Note due September 29, 2008 (the Note) at a fixed conversion price (subject to adjustments) of \$3.08 per shares, 64,935 shares issuable upon conversion of interest thereon solely to the extent of the mandatory interest conversion feature set forth in Section 2.1(b) of the Note, at a fixed conversion price (subject to adjustments) of \$3.08 per share and 73,052 shares issuable upon exercise of warrants that were issued to the purchaser of the Note, at an exercise price of \$4.04 per ordinary share.
- (7) Previously paid in connection with the filing of the original registration statement on December 1, 2005.

Pursuant to Rule 429 under the Securities Act, this Registration Statement contains a combined prospectus that also relates to: (a) 130,000 ordinary shares issuable upon exercise of a warrant that was issued to the purchaser of the Registrant's note in a private placement transaction on June 10, 2004; and (b) 357,143 ordinary shares issued in a private placement transaction on December 14, 2003. These shares were registered pursuant to the Registrant's Registration Statement on Form F-3 (File No. 333- 117529). The Filing fee associated with these shares was previously paid with such earlier registration statement.

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The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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**THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. NO SELLING SHAREHOLDER MAY SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.**

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SUBJECT TO COMPLETION, DATED January 12, 2006

PROSPECTUS

### **B.O.S BETTER ONLINE SOLUTIONS LTD.**

#### **Up to 2,638,060 Ordinary Shares**

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The selling shareholders identified in this prospectus, may offer to sell up to an aggregate of 2,638,060 of our ordinary shares, consisting of the following:

953,698 ordinary shares that were issued to the selling shareholders in a private placement in June 2005.

Up to 572,219 ordinary shares issuable upon the exercise of warrants which were issued to the selling shareholders in the abovementioned private placement transaction.

Up to 625,000 ordinary shares issuable upon the conversion of a convertible note due September 29, 2008 and upon the exercise of a warrant, both of which were issued by BOS to the selling shareholder, Laurus Master Fund, in a private placement transaction on September 29, 2005 and shares that are to be issued in lieu of cash interest payments on the convertible note solely pursuant to the mandatory interest conversion feature of such note.

Up to 130,000 ordinary shares issuable upon the exercise of a warrant, which was issued to Laurus Master Fund in connection with a private placement offering on June 10, 2004.

357,143 ordinary shares that were issued to the selling shareholders in a private placement completed in December 2003.

BOS is filing the registration statement of which this prospectus is a part at this time primarily to fulfill a contractual obligations to do so, which the company undertook at the time of the sale of the shares and warrants.

Our ordinary shares are traded on the Nasdaq National Market, or NMS, under the symbol **BOSC** and on the Tel-Aviv Stock Exchange under the symbol **BOSC**. On November 29, 2005, the last reported sale price of our ordinary shares on the NMS was \$2.42 per share. You are urged to obtain current market quotations for the ordinary shares.

We will not receive any of the proceeds from the sale of these ordinary shares other than the exercise price payable to us upon the exercise of the warrants held by the selling shareholders. We have agreed to bear all of the expenses in connection with the registration and sale of these ordinary shares other than underwriting discounts and sales commissions.

You should read both this prospectus and any prospectus supplement, together with the additional information described under the heading **Incorporation of Certain Documents by Reference** before you decide to invest in our ordinary shares.

**INVESTING IN OUR ORDINARY SHARES INVOLVES A HIGH DEGREE OF RISK. SEE RISK FACTORS BEGINNING ON PAGE 5 OF THIS PROSPECTUS TO READ ABOUT FACTORS YOU SHOULD CONSIDER BEFORE PURCHASING OUR ORDINARY SHARES.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is \_\_\_\_\_, 2006

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You should rely only on the information contained or incorporated by reference in this prospectus or any supplement. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and any underwriter or agent is not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

## PROSPECTUS SUMMARY

### ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the United States Securities and Exchange Commission, or the SEC, utilizing a shelf registration process. Under this shelf process, the selling shareholders may offer up to a total of 2,638,060 ordinary shares, from time to time, in one or more offerings in any manner described under the section in this prospectus entitled Plan of Distribution.

This prospectus does not contain all of the information set forth in the registration statement, certain parts of which are omitted in accordance with the rules and regulations of the SEC. Accordingly, you should refer to the registration statement and its exhibits for further information about us and our ordinary shares. Copies of the registration statement and its exhibits are on file with the SEC. Statements contained

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in this prospectus concerning the documents we have filed with the SEC are not intended to be comprehensive, and in each instance we refer you to copy of the actual document filed as an exhibit to the registration statement or otherwise filed with the SEC.

We have not authorized anyone to provide you with information different from that contained or incorporated by reference in this prospectus. The selling shareholders are offering to sell, and seeking offers to buy, our ordinary shares only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of ordinary shares.

Unless the context otherwise requires, all references in this prospectus to BOS, we, our, our company, us and the Company refer to Better Online Solutions Ltd. and its consolidated subsidiaries.

All references in this prospectus to ordinary shares refer to our ordinary shares, nominal value NIS 4.00 per share.

All references in this prospectus to dollars or \$ are to United States dollars.

All references in this prospectus to shekels or NIS are to New Israeli Shekels.

### THE COMPANY

We were incorporated in Israel in 1990 and are subject to the Israel Companies Law 1999 5759. We design, integrate and test our products in our facilities in three locations in Israel. Our headquarters and manufacturing facilities are located at Teradyon Industrial Zone, Misgav 20179 Israel. The facilities of our subsidiaries, Odem Electronic Technologies 1992 Ltd. and Quasar Telecom (2004) Ltd., are located in the center of Israel.

Our telephone number is 972-4-990-7555 and our website address is [www.boscorporate.com](http://www.boscorporate.com). The information contained on, or linked from, our website is not a part of this prospectus.

We currently manage our operation through our two wholly-owned subsidiaries:

BOScom Ltd. that is engaged in connectivity solutions; and

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Odem Electronic Technologies 1992 Ltd. that is engaged in the supply of electronic components and solutions.

Through our wholly owned subsidiaries, our activities are focused on two divisions:

**Connectivity division**, with products marketed under the BOSaNOVA brand name. These products deliver instant and transparent connectivity from IBM iSeries computers to personal computers, thin clients and browsers.

**Electronic Components division**, based on Odem Electronic Technologies 1992 Ltd., providing solutions in RFID, semiconductors, electronic components, CCD, imaging, networking, telecom and automation.

An additional focus has been on the **Communications division**, providing easy to install and affordable VoIP and cellular gateways solutions for businesses. The Company sold its Communications Division's assets and liabilities in December 2005. See Recent Developments below.

### THE OFFERING

This prospectus relates to 2,638,060 ordinary shares that may be offered for sale by the selling shareholders, as follows:

953,698 ordinary shares that were issued to the selling shareholders in a private placement in June 2005. The ordinary shares were issued at a price per share of \$2.30.

Up to 572,219 ordinary shares are issuable upon the exercise of warrants, which were issued by BOS to the selling shareholders in the above mentioned private placement. The warrants are exercisable for three years from their date of issuance. The exercise price is \$2.50 per ordinary share during the first year from the issue date, and increasing to \$2.75 per ordinary share and \$3.03 per ordinary share, on the first and second anniversaries of the issue date, respectively. The warrant exercise price is subject to proportional adjustment in the event of combinations, subdivisions of the ordinary shares or if dividend is paid on the ordinary shares in ordinary shares.

Up to 625,000 ordinary shares are issuable upon the conversion of a convertible note due September 29, 2008 and upon the exercise of warrants, both of which were issued by BOS to Laurus Master Fund in a private placement transaction on September 29, 2005, and shares that are to be issued in lieu of cash interest payments on the convertible note solely pursuant to the mandatory interest conversion feature of such note. For additional details see Selling Shareholders .

Up to 130,000 ordinary shares are issuable upon the exercise of a warrant which was issued by BOS to Laurus Master Fund in a private placement transaction on June 10, 2004. The exercise price of the warrant is \$4.04 per share, and it is subject to proportional adjustment in the event of combinations, subdivisions of the ordinary shares or if dividend is paid on the ordinary shares in ordinary shares.

357,143 ordinary shares that were issued to the selling shareholders in a private placement completed in December 2003.

BOS is filing the registration statement of which this prospectus is a part at this time primarily to fulfill its contractual obligations to do so. Registration of the ordinary shares does not necessarily mean that all or any portion of such ordinary shares will be offered for sale by the selling shareholders.

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## RISK FACTORS

*You should carefully consider the risks described below and all the information contained or incorporated by reference into this prospectus before making an investment decision regarding our ordinary shares. The risks described below are not the only risks facing our company. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The trading price of our ordinary shares could decline due to any of these risks, and you may lose all or part of your investment.*

Risks related to our business:

***The sales of our connectivity products in the US depend on one master distributor. In the event that we encounter problems working with the master distributor, we may experience an interruption in sales until an alternative source of distribution can be found, which may have a material adverse effect on our business.***

Up until the fourth quarter of 2002, we marketed our BOScom products in the USA through a US subsidiary (the BOS US division of PacInfo). Currently, we market our products in the USA through one master distributor. In 2004 and the first nine months of 2005, sales of our BOScom products in the US market accounted for 39% and 10%, respectively, of our sales. In the event that we cease working with the master distributor, we may experience an interruption in sales until an alternative source of distribution can be found, which may have a material adverse effect on our business.

***A significant part of the revenues generated by our wholly owned subsidiary, Odem Electronic Technologies 1992 Ltd. ( Odem ), is from one major customer. An interruption in our business relationship with such customer would adversely impact our financial results.***

One of Odem s major customers accounted for 11% of our revenues in the first nine months of 2005. An interruption in our business relationship with such customer would result in a write-off of inventory and would have an adverse effect on our business and results of operations.

***In 2004 we completed the acquisitions of a controlling stake of Odem. In September 2005, we acquired another 23.9% of Odem s shares and in November 2005, we increased our holdings in Odem to 100%. The integration may interrupt the activities of the combined companies and could have an adverse effect on the business, results of operations, financial condition or prospects of BOS.***

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The abovementioned acquisition involves the integration of companies that had previously operated independently. The difficulties of combining the companies' operations included, and continue to be, but are not limited to: the necessity of coordinating geographically separate organizations and integrating personnel with diverse business backgrounds, potential difficulties in retaining employees and the associated adverse effects on relationships with existing partners. The integration may interrupt the activities of the combined companies' businesses and may result in the loss of key personnel. This could have an adverse effect on our business, results of operations, financial condition or prospects.

***We are engaged in a highly competitive industry, and if we are unable to keep up with or ahead of the technology our sales could be adversely affected.***

IBM sells competing products to our own, and can exercise significant customer influence and technology control in the IBM host connectivity market. We may experience increased competition in the future from IBM or other companies, which may adversely affect our ability to continue to market our products and services successfully.

We also compete against various companies that offer computer communications products based on other technologies that in certain circumstances can be competitive in price and performance to our products. There can be no assurance that these or other technologies will not capture a significant part of the existing or potential IBM midrange computer communications market.

The market for our products is also characterized by significant price competition. We may therefore face increasing pricing pressures. There can be no assurance that competitors will not develop features or functions similar to those of our products, or that we will be able to maintain a cost advantage or that new companies will not enter these markets.

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Some of our current and potential competitors have longer operating histories, greater name recognition, access to larger customer bases and significantly greater financial, technical and marketing resources than ours. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or to devote greater resources to the promotion and sale of their products, than us.

***We recently sold our Communication Division to Qualmax in exchange for shares of Qualmax Inc. Common Stock. If Qualmax is not successful in its business, we may lose the value of our investment.***

On December 31, 2005 we closed a transaction for the sale of our Communications Division to Qualmax Ltd., a wholly owned subsidiary of Qualmax Inc. (the Qualmax Transaction). The consideration was comprised mostly of common stock of Qualmax Inc. Qualmax Inc. has a limited operating history on which to judge whether or not this company will be successful. If Qualmax is not successful in its business, we may lose the value of our investment. For additional information on the Qualmax Transaction see Recent Developments below.

***As part of the Qualmax Transaction, we granted Qualmax Ltd. a \$1 million loan for three years. Failure of Qualmax Ltd. to repay the loan would adversely impact our financial results.***

As part of the Qualmax Transaction, we have granted to Qualmax Ltd. a three-year bridge loan in the amount of \$1 million.

In the first 18 months, Qualmax Ltd. shall pay only the interest accrued on the loan and monthly principal and interest payments shall commence thereafter. As a security for the loan, Qualmax Ltd. has granted BOS a second degree-subordinated floating charge on its assets. The loan is also guaranteed by Qualmax Inc. Failure of Qualmax to repay the loan would adversely impact our financial results.

***In late 2002 we decided to wind up the business of our subsidiary, Pacific Information Systems, Inc. ( PacInfo ), due to its severe financial situation. PacInfo has already settled with a majority of its external creditors.***

The wind up process was accompanied by settlements with a majority of PacInfo's creditors, however, there can be no assurance that such a settlement will be reached with the remainder of the creditors, thus resulting in additional costs to the Company.

Furthermore, certain actions involving PacInfo, if occurred before the end of 2003, may have triggered a tax event for PacInfo former owners (the Sellers), who sold PacInfo to the Company in 1998. In such event, we may be obligated, under the purchase agreement, to grant the Sellers a loan on a full recourse basis for certain tax payments the Sellers may be liable for, currently estimated at approximately \$2 million. The purchase agreement provides that the Company is to receive a security interest in shares of the Company that the Sellers hold at the time of the loan with a fair market value as of the date of the loan of at least 125% of the amount of the loan as security for the repayment of the loan. In addition, in the event we are required to loan such sum to the Sellers, we may also be required to reimburse the Sellers for certain interest on taxes that they may owe. It is possible that the windup of PacInfo during 2002 and 2003 may have triggered such a tax event for the Sellers, which would result in

our obligation to loan the Sellers such amount and to reimburse them for interest expenses incidental to the tax event. Such a loan and reimbursement may have a material adverse affect on our business condition and results of operations.

***If actual market conditions prove less favorable than those projected by management, additional inventory write-downs may be required***

Inventories may be written down for estimated obsolescence based upon assumptions about future demand and market conditions and such write-downs could adversely affect our business condition and results of operations. As of September 30, 2005, inventory is presented net of \$240,000 general provision for technological obsolescence and slow moving items.

***We have had a history of losses and our future levels of sales and ability to achieve profitability are unpredictable.***

We have incurred net losses of approximately \$3.6 million for the first nine months of 2005, \$2.1 million in 2004, \$21 thousand in 2003 and \$8.5 million in 2002. Our ability to maintain and improve future levels of sales and to achieve profitability depends on many factors.

These factors include:

the continued demand for our existing products;

our ability to develop and sell new products to meet customer needs;

management's ability to control costs and successfully implement our business strategy; and

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our ability to manufacture and deliver products in a timely manner.

There can be no assurance that we will experience any growth in sales or achieve profitability in the future or that the levels of historic sales or profitability experienced during previous years will continue in the future or that our net losses will not increase in the future.

***We depend on certain key products for the bulk of our sales and if sales of these products decline, it would have a material adverse effect on us.***

We anticipate that our IBM midrange related products will continue to account for a significant portion of our sales and profitability. If sales of our IBM midrange products were to decline significantly for any reason, or the profit margins on such products were to decrease significantly for any reason (including in response to competitive pressures), our financial results would be adversely affected. Over the past few years there has been a continuous global decrease in sales and revenues from the connectivity solutions sector (also known as the legacy family products). Although our revenues in this sector have decreased as a result, in comparison to other players in this field, we have fared quite well, but there can be no assurance that we will continue to do so.

To reduce the risk of such a decline or decrease due to competitive pressures or technical obsolescence, we are continually seeking to reduce costs, upgrade and expand the features of our IBM related products, expand the applications for which the products can be used and increase marketing efforts to generate new sales.

Although we are developing and introducing new remote communications products and increasing our marketing efforts, there can be no assurance that the planned enhancements or the new developments will be commercially successful, or that we will be able to increase sales of our IBM midrange products.

***If we are unsuccessful in developing and introducing new products, we may be unable to expand our business.***

The market for some of our products is characterized by rapidly changing technology and evolving industry standards. The introduction of products embodying new technology and the emergence of new industry standards can render existing products obsolete and unmarketable and can exert price pressure on existing products.



Our ability to anticipate changes in technology and industry standards and successfully develop and introduce new and enhanced products as well as additional applications for existing products, in each case on a timely basis, will be critical in our ability to grow and remain competitive. Although these products are related to, and even incorporate our existing products, there can be no assurance that we will be able to successfully develop and market any such new products. If we are unable to develop products that are competitive in technology and price and responsive to customer needs, for technological or other reasons, our business will be materially adversely affected.

***We depend on key personnel and need to be able to retain them and our other employees.***

Our success depends, to a significant extent, on the continued active participation of our executive officers, other members of management and key technical and sales and marketing personnel. In addition, there is significant competition for employees with technical expertise in our industry. Our success will depend, in part on:

our ability to retain the employees who have assisted in the development of our products;

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our ability to attract and retain additional qualified personnel to provide technological depth and support to enhance existing products and develop new products; and

our ability to attract and retain highly skilled computer operating, marketing and financial personnel.

We cannot make assurances that we will be successful in attracting, integrating, motivating and retaining key personnel. If we are unable to retain our key personnel and attract additional qualified personnel as and when needed, our business may be adversely affected.

***Indemnification of Directors and Officers***

The Company has agreements with its directors and senior officers which provide, subject to Israeli law, for the Company to indemnify these directors and senior officers for (a) monetary liability imposed upon them in favor of a third party by a judgment, including a settlement or an arbitral award confirmed by the court, as a result of an act or omission of such person in his capacity as a director or officer of the Company, and (b) reasonable litigation expenses, including attorney's fees, incurred by such a director or officer or imposed on him by a court, in a proceeding brought against him by or on behalf of the Company or by a third party, or in a criminal action in which he was acquitted, or in a criminal action which does not require criminal intent in which he was convicted, in each case relating to acts or omissions of such person in his capacity as a director or officer of the Company. Such indemnification may materially adversely affect our financial condition.

***We may be unable to effectively manage our growth and expansion, and as a result, our business results may be adversely affected.***

Our goal is to grow over the next few years. The management of our growth, if any, will require the continued expansion of our operational and financial control systems, as well as a significant increase in our manufacturing, testing, quality control, delivery and service capabilities. These factors could place a significant strain on our resources.

Our inability to meet our manufacturing and delivery commitments in a timely manner (as a result of unexpected increases in orders, for example) could result in losses of sales, our exposure to contractual penalties, costs or expenses, as well as damage to our reputation in the marketplace.

Our inability to manage growth effectively could have a material adverse effect on our business, financial condition and results of operations.

***We have limited experience in making acquisitions.***

We may wish to pursue the acquisition of businesses, products and technologies that are complementary to ours. However, to date, our management has had limited experience in making acquisitions. In June 1998, we acquired PacInfo, which was based in Portland, Oregon, and in 2001 PacInfo acquired Dean Technologies LLC ( Dean Tech ), which was based in Grapevine, Texas. Both businesses have since ceased operations. In September 2004, we acquired the majority of the assets of Quasar Communications Systems Ltd. In November 2004 we acquired 63.8% of the outstanding shares of Odem Electronic Technologies 1992 Ltd. from its existing shareholders. In September 2005, we acquired an additional 23.9% of Odem's shares and in November 2005 we increased our holdings in Odem to 100%. Acquisitions involve a number of other risks, including the difficulty of assimilating geographically diverse operations and personnel of the acquired businesses or activities and of

maintaining uniform standards, controls, procedures and policies. There can be no assurance that we will not encounter these and other problems in connection with any acquisitions we may undertake. There can be no assurance that we will ultimately be effective in executing additional acquisitions. Any failure to effectively integrate future acquisitions could have an adverse effect on our business, operating results or financial condition.

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***The measures we take in order to protect our intellectual property may not be efficient or sufficient.***

Our success is dependent upon our proprietary rights and technology. We currently rely on a combination of trade secrets, copyright and trademark law, together with non-disclosure and invention assignment agreements, to establish and protect the proprietary rights and technology used in our products. Much of our proprietary information is not patentable. We generally enter into confidentiality agreements with our employees, consultants, customers and potential customers and limit the access to and the distribution of our proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our technology without authorization, or to develop similar technology independently. We do not believe that our products and proprietary rights infringe upon the proprietary rights of others. However, there can be no assurance that any other party will not argue otherwise. The cost of responding and adequately protecting ourselves against any such assertion may be material, whether or not the assertion is valid. Further, the laws of certain countries in which we sell our products do not protect our intellectual property rights to the same extent as do the laws of the United States. Substantial unauthorized use of our products could have a material adverse effect on our business. We cannot make assurances that our means of protecting our proprietary rights will be adequate or that our competitors will not independently develop similar technology. Additionally, there are risks that arise from the use of intranet networks and the Internet. Although we utilize firewalls and protection software, we cannot be sure that our proprietary information is secured against penetration. Such penetration, if occurs, could have an adverse affect on our business.

***We rely on certain key suppliers for the supply of components in our products.***

We purchase certain components and subassemblies used in our existing products from a single supplier or a limited number of suppliers. In the event that any of our suppliers or subcontractors becomes unable to fulfill our requirements in a timely manner, we may experience an interruption in production until an alternative source of supply can be obtained, although we are of the opinion that the level of inventory held by us would probably be sufficient to cover such a period.

***Fluctuations in our operating results could result in lowered prices.***

Our sales and profitability may vary in any given year, and from quarter to quarter. In order to increase sales and enter into new markets with new products we may find it necessary to decrease prices in order to be competitive.

***We have limited capital resources and we may encounter difficulties raising capital.***

Continued expansion requires additional resources and especially working capital. We may encounter difficulties raising capital and securing credit lines. If our efforts to raise capital do not succeed, our efforts to increase the business and to compete with our competitors may be seriously jeopardized, thus having a materially adverse effect on our business.

***There can be no assurance that we will not be classified as a passive foreign investment company (a PFIC).***

Based upon its current and projected income, assets and activities, we do not believe that at this time the Company is a passive foreign investment company (a PFIC) for US federal income tax purposes, but there can be no assurance that we won't be classified as such in the future. Such classification may have grave tax consequences for US shareholders. One method of avoiding such tax consequences is by making a qualified electing fund election for the first taxable year in which the Company is a PFIC. However, such an election is conditioned upon our furnishing US shareholders annually with certain tax information. We do not presently prepare or provide such information, and such information may not be available to US shareholders if we are subsequently determined to be a PFIC.

***We may be required to pay stamp taxes on documents executed by us on or after June 2003.***

The Israeli Stamp Tax on Documents Law, 1961, or the Stamp Tax Law, provides that certain documents signed by Israeli companies are subject to a stamp tax, generally at a rate of between 0.4% and 1% of the value of the subject matter of the applicable document. As a result of an amendment to the Stamp Tax Law that came into effect in June 2003, the Israeli tax authorities have commenced enforcement of the provisions of the Stamp Tax Law.

Consequently, we may be liable to pay stamp taxes on some or all of the documents we have signed since June 2003, which could have a material adverse effect on our results of operations.

Recently promulgated regulations provide for the cancellation of the stamp tax with respect to documents signed from January 1, 2006 onwards.

***We have significant sales worldwide and could encounter problems if conditions change in the places where we market our products.***

We have sold and intend to continue to sell our products in markets through distributors in North America, Europe and Asia.

A number of risks are inherent in engaging in international transactions, including

international sales and operations being limited or disrupted by longer sales and payment cycles,

possible encountering of problems in collecting receivables,

governmental controls, or export license requirements being imposed,

political and economic instability in foreign countries,

trade restrictions or changes in tariffs being imposed, and

laws and legal issues concerning foreign countries.

If we should encounter such difficulties in conducting our international operations, it may adversely affect our business condition and results of operations.

***As part of a global slow down in technology markets, technology-focused corporations have suffered and as a result their shares have declined in value.***

Our Company, like other technology companies, has been significantly impacted by the market slowdown in the technology industry. Lately, the industry has been showing initial signs of recovery, however, there can be no assurance that the technology market will fully recover or that our operating results will not continue to suffer as a consequence.

***Inflation and foreign currency fluctuations significantly impact on our business results.***

The vast majority of our sales are made in US Dollars and most of our expenses are in US Dollars and New Israel Shekels ( NIS ). The Dollar cost of our operations in Israel is influenced by the extent to which any increase in the rate of inflation in Israel over the rate of inflation in the United States is offset by the devaluation of the NIS in relation to the Dollar. Our Dollar costs in Israel will increase if inflation in Israel exceeds the devaluation of the NIS against the Dollar or if the timing of such devaluations lags behind inflation rate increases in Israel.

Risks related to our location in Israel:

***Political, economic, and security conditions in Israel affect our operations and may limit our ability to produce and sell our products or provide our services.***

We are incorporated under the laws of the State of Israel, where we also maintain our headquarters and our principal manufacturing, research and development facilities. Political, economic, security and military conditions in Israel directly influence us. We could be adversely affected by any major hostilities involving Israel, the interruption or curtailment of trade between Israel and its trading partners or a significant downturn in the economic or financial condition of Israel. The future of the peace process with the Palestinians is uncertain and has deteriorated due to Palestinian violence. Furthermore, the threat of a large-scale attack by Palestinians on Israeli civilians and key infrastructure remains a constant fear. The past four years of renewed terrorist attacks by the Palestinians has severely affected the Israeli economy in many ways. In addition, several countries still restrict business with Israel and with companies doing business in Israel. We could be adversely affected by adverse developments in the peace process or by restrictive laws or policies directed towards Israel or Israeli businesses.

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Generally, all nonexempt male adult citizens and permanent residents of Israel, including some of our officers and employees, are obligated to perform military reserve duty annually, and are subject to being called to active duty at any time under emergency circumstances. While we have operated effectively under these requirements since its incorporation, we cannot predict the full impact of such conditions on us in the future, particularly if emergency circumstances occur. If many of our employees are called for active duty, our business may be adversely affected.

Additionally, in recent years Israel has been going through a period of recession in economic activity, resulting in low growth rates and growing unemployment. Our operations could be adversely affected if the economic conditions in Israel continue to deteriorate. Also, due to significant economic reforms proposed by the Israeli government, there have been several general strikes and work stoppages in 2003 and 2004, affecting all banks, airports and ports. These strikes have had an adverse effect on the Israeli economy and on business. Following the passing of laws to implement economic measures, the Israeli trade unions have threatened further strikes or work stoppages, and these may have an adverse effect on the Israeli economy and our business.

Furthermore, Israel is a party to certain trade agreements with other countries, and material changes to these agreements could have an adverse effect on our business.

***If the Israeli Government programs that we benefit from are reduced or terminated, our costs and taxes may increase.***

Under the Israeli Law for Encouragement of Capital Investments, 1959, facilities that meet certain conditions can apply for Approved Enterprise status. This status confers certain benefits including tax benefits. Our existing facilities have been designated as Approved Enterprises. If we attain taxable income in Israel, these tax benefits will help reduce our tax burden.

In addition, in order to maintain our eligibility for the grants and tax benefits we receive, we must continue to satisfy certain conditions, including making certain investments in fixed assets and operations and achieving certain levels of exports. If we fail to satisfy such conditions in the future, we could be required to refund tax benefits which may have been received with interest and linkage differences to the Israeli Consumer Price Index.

The Israeli Government authorities have indicated that the government may reduce or eliminate these benefits in the future. A termination or reduction of certain programs and tax benefits (particularly benefits available to the Company as a result of the Approved Enterprise status of the Company's facilities and programs) or a requirement to refund the tax benefits already received, would have a material adverse effect on the Company's business, operating results and financial condition.

Under the Law for the Encouragement of Industrial Research and Development, 1984 (the Research Law), research and development programs approved by a research committee appointed by the Israeli Government are eligible for grants in exchange for payment to the Government of royalties from the sale of products developed in accordance with the Program. Regulations issued under the Research Law generally provide for the payment of royalties to the Office of the Chief Scientist equal to 3.5% of sales of products developed as a result of a research project so funded until 100% of the dollar-linked grant is repaid. Royalties payable with respect to grants received under programs approved by the OCS after January 1, 1999, are subject to interest on the U.S. dollar-linked value of the total grants received at the annual rate of LIBOR applicable to U.S. dollar deposits on the date the grants were received.

The Research Law requires that the manufacture of any product developed as a result of research and development funded by the Israeli Government take place in Israel. It also provides that know-how from the research may not be transferred to third parties without the approval of the Israeli Office of the Chief Scientist in the Ministry of Industry, Trade & Labor.

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***The anti-takeover effects of Israeli laws may delay or deter a change of control of the Company.***

Under the Israeli Companies Law, a merger is generally required to be approved by the shareholders and Board of Directors of each of the merging companies. Shareholder approval isn't required if the company that will not survive is controlled by the surviving company. Additionally, the law provides some exceptions to the shareholder approval requirement in the surviving company. Shares held by a party to the merger and certain of its affiliates are not counted toward the required approval. If the share capital of the company that will not be the surviving company is divided into different classes of shares, the approval of each class is also required. A merger may not be approved if the surviving company will not be able to satisfy its obligations. At the request of a creditor, a court may block a merger on this ground. In addition, a merger

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can be completed only after all approvals have been submitted to the Israeli Registrar of Companies, provided that 30 days have elapsed since shareholder approval was received and 50 days have passed from the time that a proposal for approval of the merger was filed with the Registrar.

The Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer, if as a result of the acquisition, the purchaser would become a holder of 25% or more of the voting power at general meetings, and no other shareholder owns a 25% stake in the Company. Similarly, the Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if, as a result of the acquisition, the purchaser would become a holder of 45% or more of the voting power at general meetings, unless someone else already holds 45% of the voting power. An acquisition from a 25% or 45% holder, which turns the purchaser into a 25% or 45% holder respectively, does not require a tender offer. An exception to the tender offer requirement may also apply when the additional voting power is obtained by means of a private placement approved by the general meeting of shareholders. These rules also do not apply if the acquisition is made by way of a merger.

The Israeli Companies Law provides specific rules and procedures for the acquisition of shares held by minority shareholders, if the majority shareholder holds more than 90% of the outstanding shares. Israeli tax law treats specified acquisitions, including a stock-for-stock swap between an Israeli company and a foreign company, less favorably than does U.S. tax law.

These laws may have the effect of delaying or deterring a change in control of the Company, thereby limiting the opportunity for shareholders to receive a premium for their shares and possibly affecting the price that some investors are willing to pay for the Company's securities.

***All of our directors and officers are non-U.S. residents and enforceability of civil liabilities against them is uncertain.***

All of our directors and officers reside outside of the United States. Service of process upon them may be difficult to effect within the United States. Furthermore, because the majority of our assets are located in Israel, any judgment obtained in the United States against us or any of our directors and officers may not be collectible within the United States.

Risks related to our ordinary shares:

***Our share price has been and may continue to be volatile, which could result in substantial losses for individual shareholders***

The market price of our ordinary shares has been and may continue to be highly volatile and subject to wide fluctuations. Since January 2004 through December 2005, the daily closing price of our ordinary shares has ranged from \$1.62 to \$4.00 per share. We believe that these fluctuations have been in response to a number of factors including the following, some of which are beyond our control:

actual or anticipated variations in our quarterly operating results;

announcements of technological innovations or new products or services or new pricing practices by us or our competitors;

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increased market share penetration by our competitors;

announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;

additions or departures of key personnel; and

sales of additional ordinary shares.

In addition, the stock market in general, and stocks of technology companies in particular, have from time to time experienced extreme price and volume fluctuations. This volatility is often unrelated or disproportionate to the operating performance of these companies. These broad market fluctuations may adversely affect the market price of our ordinary shares, regardless of our actual operating performance.

***The Company's shares may be delisted from the Nasdaq National Market for failure to meet Nasdaq's requirements.***

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In late 2002 and early 2003 the Company received notice from the Nasdaq Stock Market that its ordinary shares were subject to delisting from the Nasdaq National Market for failure to meet Nasdaq's minimum bid price and shareholders' equity requirements (\$10 million) for continued listing on the National Market. As a result of the hearing requested by the Company and supplemental information presented by the Company to the Nasdaq Listing Qualifications Panel, the Panel determined to continue the listing of the Company's securities on the Nasdaq National Market pursuant to a detailed exception to the Nasdaq National Market Rules, and the Company successfully met all the conditions set forth in the exception.

On August 30, 2004, we received notice from the Nasdaq Stock Market that our ordinary shares are subject to delisting from the Nasdaq National Market for failure to meet Nasdaq's minimum market value of publicly held shares requirement (\$5 million) for continued listing on the National Market. On November 4, 2004 we were notified by Nasdaq that we have regained compliance with this requirement.

On January 25, 2005, we received notice from the Nasdaq Stock Market that we were not in compliance with the minimum \$10 million shareholders' equity requirement for continued listing on the National Market. Following that notice, on January 28, 2005, we received an additional notice indicating that based on further review of our financial statements as they appeared in our filing on Form 6-K dated January 10, 2005, it was determined that the shareholders' equity was \$10,601,000 on a pro forma basis as of September 30, 2004. Therefore we were in compliance with the stockholders' equity requirement for continued listing on the National Market and the matter had been closed.

On June 2, 2005, the Company again received notice from the Nasdaq Stock Market indicating that based on the results for the period ended March 31, 2005, the shareholders' equity was \$9,425,000, and accordingly not in compliance with the minimum \$10,000,000 shareholders' equity requirement for continued listing on the National Market. The Company was requested to provide by June 17, 2005, its specific plan to achieve and sustain compliance with the listing requirements. The Company subsequently submitted a proposed plan of compliance to Nasdaq based upon completing a previously announced private placement offering of its ordinary shares. On July 11, 2005, the Company was advised by the Nasdaq Staff that contingent upon completion of the private placement by August 11, 2005, the Staff believed that the Company had provided a definitive plan evidencing its ability to achieve and sustain compliance with the listing requirements. The private placement took place in June 2005, and consequently the Company believes it has regained compliance with Nasdaq's minimum \$10,000,000 shareholders' equity requirement for continued listing on the National Market. However, the Company has been advised by Nasdaq Staff that the Staff will continue to monitor its ongoing compliance with the stockholder's equity requirement and, if at the time of the Company's next periodic report, the Company does not evidence compliance, it may be subject to delisting.

There can be no assurance that we will be able to meet and continue to meet these or other Nasdaq requirements to maintain our Nasdaq National Market listing, in which case we will have the right to apply for a transfer of our ordinary shares to the Nasdaq Small Cap Market.

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### FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are intended to be, and are hereby identified as, forward looking statements for the purposes of the safe harbor provisions of the Private Securities Reform Act of 1995. These statements address, among other things: our strategy; the anticipated development of our products; our anticipated use of proceeds; our projected capital expenditures and liquidity; our development of additional revenue sources; our development and expansion of relationships; the market acceptance of our products; and our technological advancement. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including all the risks discussed below and elsewhere in this prospectus. You should therefore not rely on these forward-looking statements, which are applicable only as of the date hereof.

We urge you to consider that statements which use the terms *believe*, *do not believe*, *expect*, *plan*, *intend*, *estimate*, *anticipate*, *forecast* and similar expressions are intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on assumptions and are subject to risks and uncertainties. Except as required by applicable law, including the federal securities laws of the United States, we do not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. We disclaim any obligation to publicly revise any such statements to reflect any change in expectations or in events, conditions, or circumstances on which any such statements may be based.

Market data and forecasts used in this prospectus have been obtained from independent industry sources. We have not independently verified the data obtained from these sources and we cannot assure you of the accuracy or completeness of the data. Forecasts and other forward-looking information obtained from these sources are subject to the same qualifications and additional uncertainties accompanying any estimates of future market size.

**RECENT DEVELOPMENTS**

On July 18, 2005 our wholly-owned subsidiary, BOScom Ltd., signed an asset purchase agreement with Consist Technologies Ltd. and Consist International Inc., for the sale of our PrintBOS product line, including all related intellectual property rights, customer and supplier agreements, distribution channels, goodwill and workstations. BOScom shall also transfer employees to Consist. In consideration, BOScom shall receive \$500,000, of which \$125,000 have been placed in escrow, pending repayment of royalties related to PrintBOS to the Office of the Chief Scientist. In addition BOScom shall receive in each of the next three years a contingent payment, equal to 6-10% of the future revenues exceeding \$1 million per year, that Consist generates from the PrintBOS activities. The transaction closed on September 29, 2005.

On September 29, 2005, we purchased an additional 23.9% of the issued and outstanding shares of Odem Electronic Technologies 1992 Ltd. from Odem's existing shareholders. The consideration for Odem's shares was comprised of cash in the amount of \$716,422 and of 232,603 of our ordinary shares. On November 1, 2005, we acquired the remaining share capital of Odem in consideration for \$554,105, thus increasing our holdings in Odem to 100%. Odem, an Israeli company, is an international solution provider and distributor of electronics components and advance technologies in the Israeli market.

For additional information on the Odem transaction, see our filing on Form 6-K, filed with the SEC on September 29, 2005, which is incorporated by reference into this prospectus.

On October 27, 2005 we entered into a definitive agreement with Qualmax Inc. (Pink Sheets: QMXL.PK), a US VoIP service and equipment provider, for the sale of the assets of our Communications Division to Qualmax's wholly owned Israeli subsidiary, Qualmax Ltd. The consideration paid to BOS in the transaction was approximately 3.2 million Qualmax shares of common stock and \$800,000 in royalties payable at a rate of 4% from future revenues Qualmax generates from the sold business. Additional shares may be issued to BOS at the end of four consecutive fiscal quarters following the closing of the transaction, contingent upon Qualmax generating by then certain revenues from the sold business. The maximum number of shares that may further be issued to BOS is approximately one million shares. BOS received certain piggy-back registration rights with respect to the Qualmax shares.

In addition, BOS and Qualmax Ltd. entered into an Outsourcing Agreement, pursuant to which BOS will provide Qualmax Ltd. with certain operating services relating to the sold Communications Division. The first three months of services will be provided for no charge and Qualmax Ltd. shall pay for these services starting from the fourth month. Qualmax Ltd. can elect to pay for the services rendered during months four to six by issuance to BOS of Qualmax shares valued at \$1.43 per share. BOS undertook to provide these services for at least 12 months from closing.

Qualmax also issued to BOS a five-year warrant for the purchase of up to 107,143 shares of its Common Stock at the exercise price of \$2.80 per share. BOS received certain piggy-back registration rights with respect to the shares underlying the warrant.

BOS has also signed a Bridge Loan Agreement with Qualmax Ltd. in the amount of \$1 million. The proceeds of the loan shall be used exclusively for the financing and the operation of the Communications Division assets acquired by Qualmax from the Company.

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The term of the loan is three years and it bears interest equal to the Prime rate plus 2.5%, up to a maximum of 12%. In the first 18 months, Qualmax Ltd. shall pay only the interest accrued on the loan and monthly principal and interest payments shall commence thereafter. As a security for the loan, Qualmax Ltd. has granted BOS a second degree-subordinated floating charge on its assets. In addition, repayment of the loan is guaranteed by Qualmax Inc.

The loan agreement provides that if the sold business generates in the first quarter of 2006 losses that exceed \$250,000, the principal amount to be repaid under the loan shall be reduced by the excess losses. In such event, Qualmax shall issue to BOS additional shares of Common Stock against such reduction, valued at \$1.43 per share. In addition, the loan shall be immediately repaid in the event Qualmax raises by way of equity financing (or a series of equity financings) an aggregate amount equal to at least \$4.5 million.

For additional information on the Qualmax Transaction, see our filing on Form 6-K, filed with the SEC on October 27, 2005 and on January 3, 2006, which are incorporated by reference into this prospectus..

## USE OF PROCEEDS

All of the proceeds from the sale of the ordinary shares offered under this prospectus are for the account of the selling shareholders. Accordingly, we will not receive any proceeds from the sales of these shares other than the exercise price payable to us upon the exercise of warrants held by the selling shareholders.

## SELLING SHAREHOLDERS

This prospectus relates to 2,638,060 ordinary shares that may be offered for sale by the selling shareholders, as follows:

A total of 953,698 ordinary shares were issued to the selling shareholders in a private placement in June 2005. The ordinary shares were issued at a price per share of \$2.30.

Up to 572,219 ordinary shares are issuable upon the exercise of warrants, which were issued by BOS to the selling shareholders in the abovementioned private placement. The warrants are exercisable for three years from their date of issuance. The exercise price is \$2.50 per ordinary share during for the first year from their issue date, and increasing to \$2.75 per ordinary share and \$3.03 per ordinary share, on the first and second anniversaries of the issue date, respectively.

The warrants may be exercised in whole or in part, and payment of the exercise price may be made either in cash or in a cashless exercise (or in a combination of both methods). The warrant exercise price is also subject to proportional adjustment in the event of combinations, subdivisions of the ordinary shares or if dividend is paid on the ordinary shares in ordinary shares.

Under our registration rights agreement with the selling shareholders, a delay in the effectiveness of the registration of our ordinary shares beyond a certain date subjects us to payment to the selling shareholders of liquidated damages. The liquidated damages are equal to 1.0% of the value of the shares subject to registration, less any shares that can then be freely sold by the selling shareholders pursuant to any available exemption. The abovementioned value shall be determined on the basis of the average closing price of the ordinary shares on the market.

The Selling Shareholders include Catalyst Fund L.P., our biggest shareholder. In March 2003, we purchased from Catalyst most of the shares it held in Surf Communications Solutions Ltd., in consideration of \$1,755,000 by the issuance of our ordinary shares, and as a result Catalyst held 16.6% of our outstanding shares, after the issuance.

Up to 625,000 ordinary shares are issuable upon the conversion of a convertible note due September 29, 2008 and upon the exercise of warrants to purchase up to 73,052 ordinary shares, both of which were issued by BOS to Laurus Master Fund in a private placement transaction on September 29, 2005, and shares that are to be issued in lieu of cash interest payments on the convertible note solely pursuant to the mandatory interest conversion feature of such note.

The convertible note has an aggregate principal amount of \$1.5 million and a conversion price of \$3.08 per share. The principal amount of the note is repayable in monthly installments commencing as of January 1, 2006, in the initial amount of \$15,000 eventually increasing to \$55,200. The interest on the note is payable in monthly installments, together with the principal monthly repayment. The principal and the interest may be paid in cash or, under certain conditions described below, in ordinary shares.

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The note conversion price is subject to proportional adjustment in the event of stock splits, combinations, subdivisions of the ordinary shares or if dividend is paid on the ordinary shares in ordinary shares. In addition, if BOS issues stock in certain types of transactions at a price lower than the initial conversion price, then the conversion price will be adjusted to a lower price based on a weighted average formula.

The convertible note bears interest at a fluctuating interest rate equal at all times to the prime rate plus 1.5%, subject to reduction in any particular month, if the average closing price of our ordinary shares for any five consecutive trading days during the fifteen days immediately prior to the last business day of the previous month, exceeded the conversion price by at least 25%. The interest reduction rate is 100 basis points (1.0%) for each incremental twenty five percent increase, or 200 basis points (2.0%) for such increase, if the ordinary shares shall have already been, at that time, registered pursuant to an effective registration statement.



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Each month, the note holder may elect to convert all or a portion of the convertible note monthly payments (comprised of principal amortization and interest) into ordinary shares. If the market price of the ordinary shares at the time of payment is at least 10% greater than the conversion price per ordinary share, the monthly payment shall be made in the form of ordinary shares, and the ordinary shares issuable upon such mandatory interest conversion are registered hereunder for sale by Laurus.

Under our registration rights agreement with Laurus, a delay in the effectiveness of the registration of our ordinary shares beyond a certain date subjects us to payment to Laurus of liquidated damages equal to 1.0% of the outstanding principal amount of the note for each thirty day period of delay (prorated for partial periods).

The note is secured by a first priority floating charge on all of our company's assets and by a first priority fixed charge on all of our company's right, title and interest in our wholly-owned subsidiaries, BOScom Ltd. and Quasar Telecom (2004) Ltd.

The warrants are exercisable at \$4.04 per share. The warrants may be exercised in whole or in part, and payment of the exercise price may be made either in cash or in a cashless exercise (or in a combination of both methods). The warrant exercise price is also subject to proportional adjustment in the event of combinations, subdivisions of the ordinary shares or if dividend is paid on the ordinary shares in ordinary shares.

Conversion of the note and exercise of the warrants are limited as follows: at no time shall the note be convertible (or the warrants be exercised) into that number of ordinary shares which, when added to the number of ordinary