UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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, 2005**

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)

Beit Rabin, Teradyon Industrial Park, Misgav, 20179, Israel
(Address of principal executive offices)

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

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

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: 6,589,385 Ordinary Shares, nominal value NIS 4.00 per share, as of December 31, 2005

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 ☒

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PART I

Item 1: Identity of Directors, Senior Management and Advisors

Not required.

Item 2: Offer Statistics and Expected Timetable

Not required.

Item 3: Key Information Regarding B.O.S.

Unless the context in which such terms are used would require a different meaning, all references to "BOS", "we", "our" or the "Company" refer to B.O.S. Better Online Solutions Ltd. and it's subsidiaries.

3A. Selected Consolidated Financial Data

The consolidated statement of operations data for B.O.S. Better On-Line Solutions Ltd. set forth below with respect to the years ended December 31, 2005, 2004 and 2003, and the consolidated balance sheet data as of December 31, 2005 and 2004, have been derived from the Consolidated Financial Statements listed in Item 18, which have been prepared in accordance with generally accepted accounting principles ("**GAAP**") in the United States. The consolidated statement of operations data set forth below with respect to the years ended December 31, 2002 and 2001, and the consolidated balance sheet data as of December 31, 2003, 2002 and 2001, have been derived from other consolidated financial statements not included herein and have been prepared in accordance with U.S. GAAP. The financial statements for the years ended December 31, 2001, 2002, 2003, 2004 and 2005 were audited by Kost, Forer Gabbay & Kasierer, an independent registered public accounting firm and a member of Ernst & Young Global. The selected consolidated financial data presented below should be read in conjunction with Item 5: "Operating and Financial Review and Prospects" and the Notes to the Financial Statements included in this Form 20-F.

On May 29, 2003, the Company effected a one-for-four reverse stock split. All share and per share numbers herein reflect adjustments resulting from this reverse stock split.

Statement of Operations Data: (In US thousands of dollars with the exception of per share data)

Year Ended December 31:

	2005	2004	2003	2002	2001
Revenues	27,053	8,282	5,728	9,441	6,042
Cost of revenues	20,025	4,608	1,455	2,300	2,703
Gross profit	**7,028**	**3,674**	**4,273**	**7,141**	**3,339**
Operating expenses:					
Research and development, net	2,312	1,804	1,846	2,182	1,757
Selling and marketing	3,563	1,706	2,178	3,705	4,811
General and administrative	3,267	1,705	1,317	1,697	1,425
Restructuring costs	-	-	678	-	132
Total operating expenses	**9,142**	**5,215**	**6,019**	**7,584**	**8,125**
Operating loss:	(2,114)	(1,541)	(1,746)	(443)	(4,786)
Financial income (expense), net	(448)	(158)	109	295	427
Other income (expenses)	1,134	-	45	(95)	(298)
Loss before equity in losses of an affiliated company	**(1,428)**	**(1,699)**	**(1,592)**	**(243)**	**(4,657)**
Taxes on income	(204)	(20)	-	-	-
Equity in losses of an affiliated company	(1,750)	(308)	(465)	(570)	(137)
Minority interest in earnings of a subsidiary	(223)	(17)	-	-	-
Loss from continuing operations	**(3,605)**	**(2044)**	**(2,057)**	**(813)**	**(4,794)**
Net earning (loss) related to discontinued operations	-	(9)	2,036	(7,674)	(8,313)
Net loss	**(3,605)**	**(2,053)**	**(21)**	**(8,487)**	**(13,107)**
Basic and diluted net loss per share from continuing operations	$ (0.64)	$ (0.44)	$ (0.56)	$ (0.26)	$ (1.55)
Basic and diluted net earning (loss) per share related to discontinued operations	$ 0.00	$ 0.00	$ 0.55	$ (2.46)	$ (2.68)
Basic and diluted net loss per share	$ (0.64)	$ (0.44)	$ (0.01)	$ (2.72)	$ (4.23)
Weighted average number of shares used in computing basic and diluted net earning (loss) per share	5,616	4,631	3,683	3,117	3,097

Year ended December 31,

Balance Sheet Highlighted Data:	2005	2004	2003	2002	2001
Cash and Cash Equivalents	2,346	2,578	3,872	5,246	8,325
Working Capital (*)	4,200	5,256	5,082	5,980	7,008
Total Assets	22,646	22,485	14,023	17,192	31,144
Short-term banks loan and current maturities of long-term bank loans and convertible note	2,625	1,997	-	-	286
Long-term liabilities	2,550	3,380	951	794	794
Minority interest in a subsidiary	-	809	-	-	-
Share Capital	6,432	4,823	4,309	3,690	3,628
Additional paid in Capital	47,588	44,426	43,247	41,253	41,161
Shareholders' equity	11,266	10,048	10,541	8,015	16,341
(*)Working capital comprises of:					
Current assets	12,793	13,267	7,239	9,525	10,677
Less: current liabilities	8,593	8,011	2,157	3,545	3,669
	4,200	5,256	5,082	5,980	7,008

3B. Capitalization and Indebtedness

Not applicable

3C. Reasons for the Offer and Use of proceeds

Not applicable

3D. Risk Factors

The following factors, in addition to other information contained or incorporated by reference in this Form 20-F, should be considered carefully.

This report on Form 20-F 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 report.

We urge you to consider that statements which use the terms “believe”, “do not believe”, “expect”, “plan”, “intend”, “estimate”, “anticipate”, “projections”, “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.

Market data and forecasts used in this report 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.

Risks relating to our business:

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 $3.6 million in 2005, $2.1 million in 2004 and $21,000 in 2003. As of December 31, 2005, we had an accumulated deficit of $42.7 million. Only in the fourth quarter of 2005 did we manage to breakeven, and there can be no assurance that this trend will continue. According to our unaudited financial reports for the first quarter of year 2006, operating loss was $43,000 and we ended the quarter with a net profit of $137,000, this mainly due to the fact that we recorded a capital gain of $350,000. Our ability to maintain and improve future levels of sales and 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
- 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.

Fluctuations in our operating results could result in lowered prices, and we may be unable to maintain our gross profit margins.

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. Additionally, the gross profit margin of our subsidiary, Odem, whose sales accounted for 75% of our total sales in 2005, tends to fluctuate. We may not be able to maintain current gross profit margins in the future, which would have a material adverse effect on our business.

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

Continued expansion requires additional resources and especially working capital. If our efforts to raise capital do not succeed, our efforts to increase our business and to compete in the marketplace may be seriously jeopardized, which would have a materially adverse effect on our business.

A significant part of the revenues of our wholly-owned subsidiary, Odem Electronic Technologies 1992 Ltd. ("Odem"), is from one major customer. Our business relationship with such customer involves the following risks:

- ***An interruption in our business relationship with such customer would materially adversely impact our financial results.***

Sales to this customer accounted for 14% of our revenues in year 2005. An interruption in our business relationship with such customer would result in a significant reduction in our revenues and in a write-off of inventory, and would have an adverse effect on our business and results of operations.

- ***Significant appreciation in the cost price of electronic components under a long term sales agreement with a fixed sales price with this customer, may materially adversely impact our financial results.***

In September 2004, Odem entered into a long term sales agreement with the aforementioned customer for the supply of electronic components. The agreement provides for a fixed sales price of the components during the term of the agreement thru December 2008. Absent the flexibility to increase our prices as a result of increased costs of the components, significant increased costs may adversely impact our financial results.

- ***The relationship with this customer requires us to hold large inventory, in order to meet its short lead time and delivery requirements. If we are unable to sell this inventory on a timely basis, we could incur charges for excess and obsolete inventory which would materially adversely affect our results of operations.***

Under the agreement with Odem's aforementioned major customer, we are obligated to hold inventory of products necessary for three months of the customer's production. This requires us to incur the costs of purchasing inventory without having an outstanding purchase order for the products. If we are unable to sell products that are purchased to hold in inventory, we may incur write offs and write downs as a result of slow moving items, technological obsolescence, excess inventories, discontinued products and products with market prices lower than cost. Such write-offs and write-downs could adversely affect our operating results and financial condition.

We may be unable to maintain and continue developing marketing and distribution arrangements and expand our reach into oversea markets. Additionally, we have limited experience in selling in the Far East, which could have a materially adverse impact on our results of operation.

In 2005, nearly half of our revenues were generated from sales outside Israel. If we are not able to maintain our existing distribution channels and expand to new international markets, our operating results may be materially adversely affected. Additionally, in 2005, our sales to the Far East accounted for 22% of our total sales. We have limited sales and marketing experience in the Far East. Furthermore, in October 2005 Odem's major supplier to the Far East territory, opened headquarters in China. If we are unable to continue to achieve the same Far East sale levels as were achieved in 2005, our business condition and results of operation may be materially adversely affected.

We recently sold our Communication segment to IP Gear Ltd., a subsidiary of Qualmax Inc., 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 segment to IP Gear 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, and be required to record an impairment of the investment, which could materially affect our results of operation. Additionally, we are entitled to earn out shares in 2006 based upon revenues that IP Gear will generate from the sold segment, however there is no assurance that the revenues shall be such that will grant us such earn out shares. For additional information on the Qualmax Transaction see Item 4B.

We have limited order backlog. If revenue levels for any quarter fall below our expectations, our result of operation will be adversely affected.

We have a limited order backlog, which makes revenues in any quarter substantially dependent on orders received and delivered in that quarter. We base our decisions regarding our operating expenses on anticipated revenue trends, and our expenses level are relatively fixed, or require some time for adjustment. Hence, revenue levels below our expectations will adversely affect our results of operation.

In 2004 we completed the acquisition of a controlling stake in 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 of this acquisition may interrupt the activities of the combined companies and could have an adverse effect on our business, results of operations, financial condition or prospects.

Our acquisition of Odem involved the integration of a company that had previously operated independently. The difficulties of combining Odem's operations with our other 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.

The sales of our Connectivity products in the US depend on one master distributor. 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.

We market Connectivity products in the USA through one master distributor. In 2005, our sales of Connectivity products in the US market accounted for 9% of our total sales and approximately 23% of our gross profit. 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.

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.

We offer our Connectivity solutions to the IBM midrange computer communications market. 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 competitors, which may adversely affect our ability to successfully market our products and services.

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.

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.

In late 2002 we decided to wind up the business of our subsidiary, Pacific Information Systems, Inc. ("PacInfo"), due to its severe financial situation.

The wind up process was accompanied by settlements with a majority but not all of PacInfo's creditors. An action by any of such remaining creditors would result 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"). 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 effect 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 December 31, 2005, inventory is presented net of $100,000 general provision for technological obsolescence and slow moving items.

Our acquisitions, to date, have not always proved successful.

Over the past years we have pursued the acquisition of businesses, products and technologies that are complementary to ours. However, our acquisitions have not always proven, in the aftermath, to be successful. 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., which we sold, as part of the sale of the Communication Solutions segment in 2005, as the segment did not fare well.

Acquisitions involve a number of 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 future acquisitions we may undertake. There can be no assurance that we will ultimately be effective in executing additional acquisitions. Any failure to effectively execute and integrate future acquisitions could have an adverse effect on our business, operating results or financial condition.

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.

Our IBM midrange related products contributed 30% of our gross profit in year 2005. 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) (see Item 4B).

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 date access communication 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;
- 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.

We may be unable to successfully defend ourselves against claims brought against us.

We are defendants in a number of lawsuits filed against us, and from time to time may receive written demands for payments from prospective plaintiffs, in the normal course of our business (for details regarding currently pending material claims or demands, see Item 8). Legal proceedings can be expensive, lengthy and disruptive to normal business operations, and can require extensive management attention and resources regardless of their merit. Moreover, we cannot predict the result of all proceedings and there can be no assurance that we will be successful in defending ourselves against them. An unfavorable resolution of a lawsuit or proceeding could materially adversely affect our business, results of operations and financial condition.

We depend on third parties licenses for the development of our products.

Third party developers or owners of technologies may not be willing to enter into, or renew, license agreements with us regarding technologies that we may wish to incorporate in our products, either on acceptable terms or at all. If we cannot obtain licenses to these technologies, we may be at a disadvantage compared with our competitors who are able to license these technologies. In addition, when we do obtain licenses to third party technologies that we did not develop, we may have little or no ability to determine in advance whether the technology infringes the intellectual property rights of others. Our suppliers and licensors may not be required or may not be able to indemnify us in the event that a claim of infringement is asserted against us, or they may be required to indemnify us only up to a maximum amount, above which we would be responsible for any further costs or damages. Additionally, from time to time there may arise disputes with respect to royalties owed to third parties from which we obtained licenses.

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, (b) reasonable litigation expenses, including advocates' professional fees, incurred by them pursuant to an investigation or a proceeding commenced against them by a competent authority and that was terminated without an indictment and without having a monetary charge imposed on them in exchange for a criminal procedure (as such terms are defined in the Companies Law), or that was terminated without an indictment but with a monetary charge imposed on them in exchange for a criminal procedure in a crime that does not require proof of criminal intent, as a result of an act or omission of such person in his capacity as a director or officer of the Company, and (c) 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 significantly 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.

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

Our success is dependent upon our proprietary rights and technology. We currently rely on a combination of trade secret, 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 effect 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.

One of Odem's major suppliers accounted for 25% of our purchases in the year 2005. An interruption in our business relationship with such supplier would have an adverse effect on our business and results of operations.

New industry standards, the modification of our products to meet additional existing standards or the addition of features to our products may delay the introduction of our products or increase our costs.

The industry standards that apply to our Connectivity segment products are continually evolving. In addition, since our products are integrated into networks consisting of elements manufactured by various companies, they must comply with a number of industry standards and practices established by various international bodies and industry forums. Should new standards gain broad acceptance, we will be required to adopt those standards in our products. We may also decide to modify our products to meet additional existing standards or add features to our products. It may take us a significant amount of time to develop and design products incorporating these new standards. A prolonged disruption in supply may force us to redesign and retest our products.

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

Based upon our current and projected income, assets and activities, we do not believe that at this time BOS 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 problems in collecting receivables,
- imposition of governmental controls, or export license requirements ,
- 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.

The slow down in technology markets and technology-focused corporations in prior years has had an adverse impact on us and the value of our shares.

Our Company, like other technology companies, has been significantly impacted by the current market slowdown in the technology industry in prior years. 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.

If we are forced to repay our secured convertible note in cash, we may not have enough cash to fund our operations and may not be able to obtain additional financing.

Our secured convertible term note issued in September 2005, contains certain provisions and restrictions, which if violated, could result in the full principal amount together with interest and other amounts becoming immediately due and payable in cash. If such an event occurred and if the holder of such note demanded repayment, we might not have the cash resources to repay such indebtedness when due. The note is repayable in monthly installments commencing January 1, 2006, with principal payments which start at $15,000 and increase to $55,200. Subject to certain conditions, the monthly principal and interest payment on the note may be paid in cash or ordinary shares. If we are required to pay the note in cash rather than ordinary shares, it would reduce the amount of cash available to fund operations. Also, in connection with the issuance of the note, we agreed to certain restrictions upon incurring additional indebtedness such as in case of certain mergers and acquisitions. The existence of debt service obligations and the terms and anti-dilution provisions of the note may limit our ability to obtain additional financing on favorable terms, or at all.

If the investor in our convertible note financing converts or exercises its warrants, or if we elect to pay principal and/or interest on the note with our ordinary shares, our existing shareholders will be diluted. In addition, sales of substantial amounts of our ordinary shares could cause the market price to go down.

To the extent that the note is converted and/or the warrants that were issued with the note are exercised, a significantly greater number of our ordinary shares will be outstanding and the interests of our existing shareholders will be diluted. If these additional shares are sold into the market, it could decrease the market price of our ordinary shares and encourage short sales although the purchaser of the note has agreed to not engage in short sales of our ordinary shares. Short sales and other hedging transactions could place further downward pressure on the price of our ordinary shares. We cannot predict whether or how many of our ordinary shares will become issuable as a result of these provisions. 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 few years of renewed terrorist attacks by the Palestinians has severely affected the Israeli economy in many ways. In January 2006, Hamas, an Islamic movement responsible for many attacks against Israelis, won the majority of the seats in the Parliament of the Palestinian Authority. The election of a majority of Hamas-supported candidates is expected to be a major obstacle to relations between Israel and the Palestinian Authority, as well as to the stability in the Middle East as a whole. 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.

Generally, all nonexempt male adult citizens and permanent residents of Israel, including some of the 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 (or be a "Benefited Enterprise", if qualified, without prior application and approval). This status confers certain benefits including tax benefits. The existing facilities of our wholly owned subsidiary, BOScom, have been designated as Approved Enterprises. If we attain taxable income in Israel, these tax benefits will help reduce BOScom's tax burden.

In order to maintain our eligibility for the grants and tax benefits BOScom receives, BOScom must continue to satisfy certain conditions, including making certain investments in fixed assets and operations and achieving certain levels of exports. If BOScom fails to satisfy such conditions in the future, BOScom 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 BOScom as a result of the Approved Enterprise status of the BOScom's facilities and programs) would have a material adverse effect on the Company's business, operating results and financial condition.

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 towards 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 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 also provides specific rules and procedures for the acquisition of shares held by minority shareholders, if the majority shareholder shall hold more than 90% of the outstanding shares.

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 possible 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 2005 through May 2006, the daily closing price of our ordinary shares has ranged from $2.15 to $3.74 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;
- 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.

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 by the Company, 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 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.

Item 4: Information on the Company

4A. History and Development of the Company

We were incorporated in Israel in 1990 as a private corporation under the Israeli Companies Ordinance, 1983. We design, integrate and test our products in our facilities in two locations in Israel. Our headquarters and manufacturing facilities are located at Teradyon Industrial Zone, Misgav 20179 Israel, telephone number 972-4-990-7555. The facilities of our subsidiary, Odem are located in Rishon Letzion, Israel.

We currently manage our operations through our subsidiaries:

a) BOScom that is engaged in the provision of Connectivity Solutions; and

b) Odem that is engaged in the supply of Electronic Components and solutions.

Our Connectivity Solutions segment focuses on providing emulation solutions for the popular IBM iSeries, enabling customers to extend its capabilities and life cycle. Our server and associated modules empower the iSeries, providing a scaleable solution for transparent expansion and growth. Until July 2005, the Connectivity Solutions segment also included the PrintBOS, an Output Management solution, which provides design, print, distribution and archiving management solutions and enables customers to cut costs, enhance brand and marketing clout, and direct output to multiple distribution channels. The PrintBOS was sold in July 2005 (see Item 4B).

Our Electronic Components segment provides solutions in RFID (radio frequency identification devices), semiconductors, electronic components, CCD (charge – coupled device), imaging, networking, telecom and automation. Odem is a major solution provider and distributor of electronic components and advance technologies in the Israeli market.

The Company's Communication Solutions segment was sold in the fourth quarter of 2005.

We constantly seek growth opportunities by developing new marketing channels for our products in North America, Europe and emerging markets in Eastern Europe, Asia-Pacific and South America. We intend to continue to raise funds in order to expand operations and capitalize on merger and acquisition growth opportunities.

On November 18, 2004, we purchased 63.8% of Odem's issued and outstanding shares from Odem's existing shareholders, for $2,740,000, comprised of cash in the amount of $1,971,000 and $769,000 by the issuance of 290,532 of the Company's ordinary shares (subject to "lock-up" periods of 2 to 4 years). We purchased an additional 23.9% and 12.3% from the minority shareholders on September 29, 2005 and November 1, 2005, respectively, and thus Odem became our wholly-owned subsidiary. In consideration for the 12.3% of Odem's shares purchased in November 2005 the Company paid $554,000 in cash and for the 23.9% of Odem's shares purchased in September 2005 the Company (i) issued 232,603 of the Company's ordinary shares (subject to "lock up" periods of 2 to 4 years) and paid $716,000 in cash.

In addition, we have an interest in two affiliated companies:

(a) Surf Communications Solutions Ltd. ("Surf"), a developer and global supplier of universal access and network convergence software solutions to the wireline and wireless telecommunications and data communications industries. In November 2001, the Company invested $1,000,000 as part of a private placement in Surf. At the same time, the Company converted its convertible loan in the amount of $1,042,000 (principal and accrued interest) into Preferred shares in Surf at an exercise price equal to Surf's fair value as determined in the investment agreement. As a result of this private placement and conversion of the loan, the Company held 17% of Surf. Accordingly, the investment was accounted based on the cost accounting method.

In March 2003, the Company purchased from Catalyst Investments L.P. ("Catalyst") most of the Surf shares held by Catalyst (191,548 of Catalyst's Preferred C shares in Surf, and a pro rata share of the Surf Preferred C warrants held by Catalyst), in consideration of $1,755,000 by the issuance of ordinary shares of the Company (representing 19.9% of its then outstanding shares pre-issuance, as a result of which Catalyst held 16.6% of the outstanding Company shares, after the issuance). As a result of the transaction with Catalyst, the Company's holdings in Surf gave it the ability to exercise significant influence over Surf and therefore the Company's investment in Surf was accounted for based on the equity accounting method.

The Company had an option to purchase the remaining Catalyst Preferred C shares in Surf by January 31, 2006, and until such purchase, had voting rights in these Surf shares, in addition to being entitled to profits resulting from the sale of these shares to a third party. The Company later assigned these voting rights to Mr. Yair Shamir, who was a director of the Company. The Company did not exercise its option by January 31, 2006 and it expired.

In September 2005, Surf completed a private placement that is considered an event of change in circumstances that has a significant adverse effect on the fair value of the investment. Therefore, the Company evaluated its investment in Surf and determined that it amounts to $722,000 as of December 31, 2005 based on management's analysis (supported by an independent third-party valuation). As a result, the Company recorded an impairment of $1,385,000, which has been included in the equity in losses of an affiliated company in the statement of operations for the year December 31, 2005.

Moreover, following the private placement in Surf, the Company's voting rights have been diluted to 8.7% of the total voting rights in Surf. As a result, the Company ceased to have the ability to exercise significant influence over Surf and, accordingly, the adjusted carrying amount of the investment of $722,000 is accounted for based on the cost accounting method.

(b) Qualmax Inc. (Pink Sheets: QMXI.PK), a US corporation, which is a developer and supplier of VoIP technology products and services ("Qualmax"). As of December 31, 2005, BOS held an approximate 16% interest in Qualmax, as part of the consideration received upon the sale of the Communication segment. As a result of the conversion into shares of the loan BOS extended to IP Gear, a subsidiary of Qualmax, in May 2006, BOS' holdings in Qualmax increased to 17%. On June 8, 2006, Qualmax agreed to issue to BOS an additional 250,000 shares, on account of earn-out shares, however, these shares have not yet been issued (see Item 4B).

BOScom Ltd.'s subsidiaries are: Better On-Line Solutions Ltd. in the U.K; Better On-Line Solutions S.A.S. in France; and BOSDelaware, Inc., in the US. During 2003, the operation of all BOScom's subsidiaries was ceased (only the US subsidiary still exists) and the sales and marketing in Europe and the United States have since been conducted through master distributors. In February 2006, BOS filed an application with the Companies House requesting the strike off and dissolution of Better On-Line Solutions Ltd., the U.K. subsidiary.

Discontinued operation – computer networking:

On June 1, 1998, we acquired 100% of the share capital of PacInfo, a U.S. corporation which resold, installed and provided computer networking products to various business entities. In 2001, PacInfo acquired 100% of Dean Tech Technologies Associates, L.L.C. (Dean Tech). Dean Tech was an IBM Advanced Business Partner providing complete IT solutions utilizing IBM's industry-leading eServer pSeries and xSeries lines of servers, as well as IBM Total Storage Solutions. 100% of our computer networking revenues were derived from sales to US customers. In the fourth quarter of 2002, Pacinfo's operation was wound up due to a change in the Company's strategy as a result of Pacinfo's severe financial situation. Dean Tech has also ceased all operations.

Our U.S. subsidiaries are Lynk USA, Inc., and its subsidiary PacInfo, Inc. Both are non-operational and commencing the beginning of year 2003 we market our products in the U.S. through one Master Distributor.

4B. Business Overview

Industry Background

The Company manages its business in two reportable segments, which consist of Connectivity Solutions and the supply of Electronic Components Solutions. A third segment, Communication Solutions, existed until it was sold in the fourth quarter of 2005.

(a) Connectivity Solutions

In the 1960s and 1970s, the business computing environment was typically organized with the mainframe in the data center and minicomputers at the division or department level. The host mainframe and minicomputers were accessed by “dumb” terminals at the user level. These host systems featured high performance and throughput and often ran custom-designed, critical applications such as organization-wide payroll, general ledger, inventory management and order processing programs. Because of the importance of the mainframe and minicomputers as central repositories of corporate data and critical applications, significant corporate resources were, and continue to be, dedicated to maintaining this installed hardware and software base. Although these host systems are capable of supporting enterprise-wide information system networks, their applications are generally characterized by limited availability, complex command sequences and character-based user interfaces.

With the introduction and proliferation of the personal computers in the 1980s, a substantial amount of corporate computing power was added to the worker’s desktop, a change facilitated by the availability of increasingly powerful personal productivity applications such as spreadsheets and word processors. Personal computers began replacing dumb terminals and, as the business computing environment became increasingly heterogeneous, organizations found themselves with significant investments in multiple, but often incompatible, systems each performing different functions within an organization.

Despite the functionality of personal computers, users still needed access to certain data and applications residing on host systems. Terminal emulation hardware and software was developed to provide host connectivity by allowing personal computers to emulate the dumb terminals they had replaced. Often, however, these terminal emulation products were complicated, difficult to use and allowed only a single connection to a single host. In addition, terminal emulation products made little or no provision for the integration of host data and applications with personal computers data and applications such as spreadsheets. Therefore, the full capabilities of the personal computers were not available to the user when the personal computer was used as a terminal.

In the mid-1980s, the desire of personal computer users to share files and peripheral devices, and to communicate with other users, led to the widespread implementation of Local Area Networks. Local Area Networks significantly expanded an organization’s ability to more efficiently connect increased numbers of its personal computer users to host environments through a “gateway” dedicated to LAN-to-host communication services. The personal computer software enabling this LAN-to-host connectivity continued to use terminal emulation technology.

The emergence of the Internet/intranets in the 1990s has encouraged the development of numerous new products and services that enable and facilitate access and connectivity of host computers with computer networks. New IBM midrange products have expanded capabilities of the iSeries in the area of electronic commerce.

Continued widespread use of Twinax cable infrastructure has created a need to develop solutions that can provide these users with such features as e-mail, networking, Internet, and mobile-devices.

An industry trend noticed in the late 1990s was a move to a “Thin Client” environment. Larger enterprises use this method as a means to reduce cost of ownership by employing Microsoft Windows NT/2000 Terminal Servers, which enable central configuration and user management. Terminals (“thin clients”) are deployed to users throughout the network to provide the requisite connectivity to host applications. We moved into this arena in early 2003 with a progressive release program culminating in a full suite of Thin Clients and Ethernet terminals. In the first quarter of 2005, we stopped our activities in the Thin Client sector and assigned our rights with suppliers to our master distributor in the U.S., as the profit margin for these products was small, its influence on our revenues marginal, and the risk significant.

(b) Electronic Components

Components are the basic building blocks of all electronic products and in the twenty-first century the end use of electronic products spans virtually all sectors of the economy. There are three major end uses for electronics components (a) information technology (IT); (b) industry; and (c) transportation and consumer goods.

The twentieth century global revolution in electronics contributed to both the automation of repetitive tasks and the more efficient performance of other tasks. This revolution began in the late 1940s, followed by advances in integrated circuit technology in the late 1950s. Since 1960, continuous improvements in the production of components and subsystems have allowed prices to decline sharply, while market size increased dramatically.

There are two major groups of components: a large family of active components and a small group of passive components. Active electronic components are semiconductor products that supplanted the previous generation of vacuum tube devices. Passive components can interrupt, resist, or otherwise influence current flow, but cannot control it. Passive components are capacitors, resistors, connectors, filters and inductors. In general, the “passives” are used to enhance or supplement the performance of ICs. The demand for electronic components is a derived demand. The vast majority of both active and passive components are installed in “original equipment manufacturer” (OEM) products: consumer electronics, motor vehicles, telecom equipment, factory automation systems, military hardware, and other goods.

Since electronic components are so widely installed, their market is affected by all major macroeconomic variables, such as capital spending, disposable income and government budgets.

(c) Communication Solutions (Sold in 2005)

In 1995 the first Client VoIP solution was introduced to the market by VocalTec, an Israeli company that demonstrated telephone calls over the internet. Since then, in an accelerated mode, the VoIP (Voice over Internet Protocol) and IP Telephony (Internet Protocol Telephony) have become a market with a turnover of billions of dollars.

Large companies like Cisco, as well as telephony players such as Lucent, Nortel, Siemens, Alcatel, Avaya and others are selling VoIP solutions and embedding such technologies into their product lines.

As broadband connectivity grows in popularity for all organizations, major savings on calls are a potential reason for migrating traditional calls to VoIP. Service availability and quality of service (QOS) are two key issues that enterprises need to address in the Internet architecture to availability and quality. The incremental cost savings for Internet telephony will depend on the mix between on-net and off-net calls. Global enterprises with extensive private voice networks will realize greater savings on global destinations by avoiding international tariffs.

As the accelerated growth and penetration of the cellular communication, there is an increase demand to extend the PBX functionality and connecting branch offices with the mobile community via cellular gateways in order to reduce communication costs among different operators.

In September 2004, the Company purchased most of the assets (and liabilities) of Quasar Communication Systems Ltd., an Israeli company engaged in the business of developing, manufacturing and selling cellular communication gateways for an aggregate consideration of $539,000 by the issuance of 285,000 of the Company's ordinary shares. The assets and some of the liabilities of Quasar were transferred into Quasar Telecom (2004) Ltd. ("Quasar Telecom"), a wholly owned subsidiary of the Company (previously named Boslynk Ltd.). The acquisition enabled the Company to continue developing the Communication segment, while offering to the Company's clients an extended product line enabling savings in telecommunication expenses for enterprise.

On October 26, 2005, the Company entered into a definitive agreement for the sale of its Communication assets, and the transaction closed on December 31, 2005. The Company sold its Communications related property and equipment, goodwill, technology, trade name, existing distribution channels and related contingent liability to the Office of the Chief Scientist to IP Gear Ltd. ("IP Gear"), a wholly owned Israeli subsidiary of Qualmax Inc. (Pink Sheets: QMXI.PK), an IT solutions provider focused on deployment of best-of breed VoIP, virtual private networks, turnkey network design, wireless connectivity and web. The consideration paid to the Company in the transaction was approximately 3.2 million Qualmax shares of common stock constituting approximately 16% of Qualmax's total issued and outstanding Common Stock as of December 31, 2005, and $800,000 in royalties to be paid at a rate of 4% from future revenues IP Gear will generate from the disposed segment ("Royalties") with the entire $800,000 due no later than 90 days from the third anniversary of the closing of the transaction. Additional shares may be issued to the Company at the end of four consecutive fiscal quarters following the closing of the transaction, contingent upon IP Gear generating by then a certain level of revenues from the disposed segment ("Earn Out Shares"). The maximum number of Earn Out Shares that may further be issued to the Company is approximately 1 million, constituting approximately 5% of Qualmax's outstanding shares as of June 15, 2006. On June 8, 2006, Qualmax agreed to issue to BOS, on account of the abovementioned commitment, 250,000 Earn Out Shares.

The Company received certain piggy-back registration rights with respect to the Qualmax shares. The Company does not have a representative on the Board of Directors of Qualmax.

In addition, the Company and IP Gear entered into an Outsourcing Agreement, pursuant to which the Company will provide IP Gear with certain operating services relating to the sold Communications Segment. In accordance with the Agreement, the first three months of services were provided for no charge and IP Gear is to pay for these services starting from April 2006. IP Gear can elect to pay for the services rendered in April thru June 2006 by issuance to the Company of Qualmax shares valued at a predetermined price of $1.43 per share. The Company undertook to provide these services at least until December 31, 2006 (12 months from closing).

The Company also granted a bridge loan to IP Gear in the amount of $1,000,000. 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, IP Gear shall pay only the interest accrued on the loan and monthly principal and interest payments shall commence thereafter. The loan granted to IP Gear is secured by a first priority floating charge, which may be subordinated to a charge in favor of Bank of America, NA in the event such charge is recorded. In addition repayment is guaranteed by Qualmax Inc.

The loan agreement provides that if the disposed segment would incur 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 the Company additional shares of Common Stock against such reduction, valued at a predetermined price of $1.43 per share. Pursuant to this provision, in May 2006, Qualmax issued to the Company 244,755 shares, and the principal amount of the loan was reduced to $650,000.

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 $4,500,000.

The Company's holdings as of June 15, 2006, equal approximately 17% of Qualmax's issued and outstanding Common Stock (excluding the abovementioned Earn Out Shares which have not yet been issued).

Qualmax also issued to the Company a five-year warrant for the purchase of up to 107,143 shares, constituting less than 1% of its outstanding shares in Qualmax, at the exercise price of $2.80 per share ("Warrants"). The Company received certain piggy-back registration rights with respect to the shares underlying the warrant.

Description of Business Product Lines

(a) Connectivity Solutions

The Connectivity Solution product line focuses on Connectivity solutions for the popular IBM iSeries server, enabling customers to vastly extend its capabilities and life cycle. Its BOSâNOVA products family empower the iSeries, providing a scaleable solution for transparent expansion and growth.

Connectivity products are based on TCP/IP to Twinax controllers, as well as iSeries full and rich TCP/IP emulation, that help extend the life cycle of the organization's iSeries. All products are unmatched in their emulation capabilities, compatibility and transparency

Realizing the changing role of this IBM midrange environment in today's workplace, our mission is to provide our users with technologically advanced and cost-effective solutions for connectivity between them and personal computers, mobile devices and local area networks, whether local or remote. We sell and support our products worldwide through distributors, and value-added resellers.

Our proprietary products are sold to users of IBM iSeries, which are predominantly medium to large sized corporations that use large data banks in their businesses and require the ability to integrate and manipulate the data into graphics and popular personal computer programs. The target market for our products is composed of the owners of iSeries servers and the growing number of users who connect to these computers through the Internet, intranets, mobile devices and various other connectivity products.

Our main product line is comprised primarily of TCP/IP to Twinax controllers that allows Legacy Twinax equipment to work locally or remotely via TCP/IP line to the iSeries server. In addition we have a line of emulation software, to simulate a personal computer environment having the same functionality to which the users are accustomed (i.e. Windows or similar graphical interfaces), while using a midrange computer. The emulation solutions are offered at two levels – at the user interface level and at the computer connectivity level. At the user interface level, our emulation technology allows customers to utilize popular Windows functions and graphics. At the connectivity level, our connectivity technology provides personal computers with the ability to act as terminals for IBM midrange computers either through gateway, Internet or direct connection.

We are using our expertise in the midrange computer environment to develop Internet/intranet solution products that will enable and enhance connectivity between IBM iSeries computers, personal computers and mobile devices via the Internet and intranets.

In 2005, 14% of our sales were attributable to sales of Connectivity solutions and services.

Below is a description by category of our development activity in the Connectivity product line:

(a1) Software based solutions

In December 1997, we announced our BOSaNOVA transmission control protocol / internet protocol product, a connectivity tool for organizations with either local or remote TCP/IP networks (intranet or extranet) of personal computers using Windows 9x/Me or NT/2000/XP operating systems connected to the iSeries. Development resources in 1999 were directed toward making TCP/IP connectivity available for Twinax users. The e-Twinax technology has now been implemented in products such as the BOSaNOVA Plus, BOSaNOVA TCP/IP, and e-Twin@x Controller, which made its debut in the middle of 1999, and has been rapidly established as the remote computer controller of choice.

Our products under this category include:

- *BOSaNOVA TCP/IP*

  A robust client application that provides Windows9x/Me/NT/2000/XP users on a TCP/IP network with essential iSeries connectivity. The product includes BOS's rich 5250 emulation, LPD printing capabilities, file transfer and a remote command facility.

- *BOSaNOVA Secure*

  A BOSaNOVA Secure is an all-in-one solution for totally secure iSeries emulation delivering security from the workstation through the TCP/IP net to the organization level. Secured TN5250 emulation is a solution for the Desktop on the TCP/IP net, which implements SSL and SSO (Single Sign ON) with Kerberos. This security emulation provides a comprehensive net security solution, including data on the net. While current customers can implement the SSL protocol and SSO (Single Sign ON) by adding BOSaNOVA Secure to BOSaNOVA TCP/IP, new customers are offered BOSaNOVA Secure.

- *BOSaNOVA Web*

  In December 1997, we introduced BOSaNOVA Web, a Java-based application that provides iSeries web-emulation, allowing organizations to upgrade their iSeries to enable full web benefits. BOSaNOVA Web slashes communication costs, ensures a friendly, transparent work environment, installs rapidly and easily without a client install and delivers a fast ROI.

  Loaded on a central server and managed by a network supervisor, BOSaNOVA Web allows normal user changes to occur hassle-free. Whether moving users to new workstations, upgrading software, pushing out new applications, or enhancing security, users simply log on to receive the correct workstation parameters for their jobs.

  The server and users are managed easily and economically via the browser. The Network Supervisor can change or modify parameters from any enterprise computer whether internal or external. There is no need to use the server's computer for changes or upgrades. It is all done seamlessly via the web and from a remote workstation.

Application upgrades and parameter changes are automatically delivered to end-users as soon as they log on via the browser to the web server integrated into BOSaNOVA Web.

BOSaNOVA Web eliminates the need for both additional "push" software and expensive technical support at the desktop. Additionally, the client/server architecture means current cache capabilities can be used, thus enabling upgrades in real-time.

The client/server architecture allows all internal and external iSeries users to benefit from the network. Users access the iSeries through the BOSaNOVA web server which incorporates a web server. The server encodes all transmitted information, complying with SSL standards, amplified by user verification via a client certificate.

BOS's Printer Client technology is embedded in BOSaNOVA Web to enable to print via the web.

- *BOSaNOVA Mobile*

  In March 2006, we announced the new BOSaNOVA Mobile product, which combines the convenience of mobile and PDA instruments with the ability, stability and power of a BOSaNOVA platform. The system converts mobile instruments such as mobile terminals and cellular telephones to mobile work stations while using the familiar emulation of the fixed work stations.

  BOSaNOVA Mobile is based on a server architecture, enabling central management of work stations, without the need to make local definitions for every mobile instrument in the network. It enables dynamic and remote identifications of users, configurations of mobile work stations, automatic installation and updating of software in the cellular instrument and the mobile terminal. In addition, the system provides a solution to the problem of instability in the network, enables maintaining and retrieving information up to the point when the mobile instrument was cut off.

  BOSaNOVA Mobile enables end users to perform their work from any place, while using the familiar emulation of work stations in mobile terminals and cellular instruments. The mobile instruments maintain a work environment recognized from end stations. In addition, the Screen Designer module, which is part of the BOSaNOVA Mobile enterprise server, enables end users to redesign their working screens so they will fit to the size of the mobile screen without changing the application itself.

  The creation of the BOSaNOVA Mobile is part of the process to expand the basket of solutions of the BOSaNOVA products family to additional fields, while maintaining the capability of central management and control tools, also when using advanced instruments. BOSaNOVA Mobile also enables all organizations to shorten the work process, to make the work of agents in the field much more efficient and to keep them all up-to-date in real-time.

- *BOSaNOVA Spooler*

  In April 2006, we released the new BOSaNOVA Spooler product.

  BOSâNOVA Spooler is built as a client-server system, and is designed for users that connect to the organization via the Internet in a complete Web environment. A print job routing mechanism is built into this system, based upon dynamic parameters which identify the user and his workstation. The BOSaNOVA Spooler has a mechanism that converts the workstation's exiting system definitions to the new Web-enabled system parameters. Names of the telnet printer devices in the new system, and their local definitions, are built by an automatic conversion process that is initiated when the workstation activates the client station for the first time. With the help of this system, the connection process becomes easy and fast.

The printer client software included in BOSaNOVA Spooler is based on the leading printing software of BOSâNOVA family of products. It includes complete support for iSeries print output, and a complete and easy configuration, including configuration of the smallest details of the local printer.

The centralized configuration of the BOSâNOVA Spooler server contributed to the fast implementation process at the workstations. The BOSâNOVA Spooler is fully adapted to meet most of the organizations security needs and support the following features:

- Encryption
- VPN
- Protocols conversion between external and internal networks
- Client certificates
- Load balancing

(a2) Hardware and software based solution

The e-Twin@x Controller, which made its debut in 1999, supplies a secure, encrypted TN5250e connection to the iSeries over the Internet or WAN, and provides local or remote Twinax networks with access to LAN resources. The e-Twin@x Controller allows enterprises to leverage their Twinax investments (in equipment and cabling) while providing the benefits of a TCP/IP connection. Dramatic improvements in performance, uptime and cost-efficiency are the result. A new model, the e-TwinStar, was released in 2002. It features native support for CAT5 cabling, in the form of built-in RJ45 sockets, saving customers with this environment the cost of an active star hub.

Our products under this category include:

- *e-Twin@x Controller*

  This product provides IP over Twinax connection to local and remote Series, adding the benefits of a Local Area Network to existing Twinax infrastructure. This product eliminates the difficulty of maintaining System Network Architecture and Anynet protocols, replacing them with fast, state-of-the-art Transmission Control Protocol / Internet Protocol (TCP/IP).

- *Native Plus*

  An IBM-compatible Twinax card with 5250 Stealth Technology™. This product does not require a memory segment of the personal computer or its valuable resources in order to facilitate interaction with the hardware.

- *BOSaNOVA Plus*

  An enhanced version of the Native Plus that includes a Twinax adapter card with feature-rich 5250 display/printer emulation software for either DOS, 16- or 32-bit Windows and 32-session APPC display/printer emulation software. This product is based on an IBM compatible Twinax card with 5250 Stealth Technology™.

(a3) Software Utilities

Until July 2005 the Connectivity Solutions segment had an additional product line – the PrintBOS Output Management product, which was introduced in late 1998 as an innovative Enterprise Output Management solution answering a growing demand for central printing and output management solutions in medium and large IT organizations. PrintBOS is implemented as the central solution for layout design, printing, faxing, e-mailing, archiving, barcode printing, cheque printing and secured printing in banks, insurance companies and medium and large corporations. PrintBOS is also a recognized complementary solution for SAP layout design and printing and integrates SAP output with other enterprise software outputs. PrintBOS was designed for a wide range of operating systems, including mainframe and UNIX. PrintBOS customers use it for a variety of documents – from forms, reports, barcodes and labels to faxes and cheques. PrintBOS transparently intercepts these print jobs and applies the correct graphic formatting to create the customer's preferred output. Time and labor-saving, PrintBOS allows employees to focus on more added-value tasks than output jobs.

On July 18, 2005, BOScom signed an asset purchase agreement with Consist Technologies Ltd. and Consist International Inc. (collectively, "Consist"), for the sale of its PrintBOS product line in consideration of $500,000 and a contingent payment in each of the next three years equal to 6-10% of future revenues exceeding $1,000,000 per year, generated by Consist from the PrintBOS product line. The Company has accounted for a gain of $273,000 in 2005. As of December 31, 2005, the Company has received $375,000 and the remaining $125,000 has been placed in escrow, pending repayment of royalties to the Office of the Chief Scientist ("OCS") on sales of PrintBOS products.

(b) Electronic Components

Our subsidiary, Odem, is engaged in providing electronic components, data systems, image processing products, and Radio Frequency Identification Devices (RFID) and solutions.

Electronic Components

Odem imports electronic components and distributes them to the local defense and civilian electronic industries. It represents suppliers of components in four categories:

1) Active Components – semiconductors, transistors, detectors, diodes, integrated circuits, hybrid modems, cellular components, communication ICs, memories, displays, and LEDS;

2) Passive Components – capacitors, thermistors, varistos, oscillators, crystals, resistors, C-DC converters, and power supplies;

3) Electro-mechanical Components – relays, connectors, circuit breakers, filters, transformers, plugs, thermostats, switches, etc.

4) Discontinued Semiconductors- made by Intel, Fairchild, Harris, Microchip, National, Quality SMC, Texas Instruments, Vantis, Motorola, and more.

Data systems

Odem provides full access solutions for IT and telecommunications (LAN/WAN) applications, selling communication servers, multi-protocol print servers, server adapters, USB products, switches, fiber optics equipment, ADSL and XDSL routers, modems, VoIP equipment, ATM devices, and more.

Image Processing Products

Odem markets image processing products, charge-coupled-device (CCD) and CMOS imaging technologies. The products and technologies Odem markets in this field, such as CCD & CMOS sensors, line and area scan and camera interface items, are used in applications of management and quality control in production lines for products such as semiconductors, PCBs, and textiles.

Radio Frequency Identification Devices (RFID) solutions

RFID is the use of radio frequencies to read information from a small device known as a tag that can be sensed at a distance by radio frequencies. The tag can be any small device such as pendants, beads, nails, labels, microwires and fibers. According to IDTechEX research (a knowledge based company specializing in RFID smart labels, that provides independent marketing, technical and business advice and services on this subject), in 2006, it is expected that the volume of RFID tags that will be sold will be almost three times more than the volume sold during the past 60 years since their invention, with the increase primarily driven by the use of RFID for tagging vehicles and cases. Additionally, it is forecasted by IDTechEX research that the future years shall bring another new development – the tagging of high volume items – notably consumer goods, drugs, and postal package – at the request of retailers, military forces and postal authorities.

In 2004, Odem started to provide products and solutions in the field of RFID and successfully implemented an RFID solution in the Maccabia sports event and in a dairy farm (identification of cattle), both in Israel. Recently, Odem entered into an agreement for the supply of RFID tags for waste disposal systems, in Europe, and is expected to begin supplying the tags in early 2007. Odem is investing in developing new RFID solutions and constantly searching for new marketable solutions and applications, as well as actively searching for acquisition opportunities, in this growing field.

In 2005, 75% of our sales were attributable to sales of the Electronic Components Solutions segment.

(c) Communication Solutions (Sold in 2005)

Our Communication products included multi-path, intelligent routing VoIP gateways, GSM gateways and other cellular gateways. Designed for the corporate market, these devices enable major reduction of inter-office, long-distance and cellular-to-line communication costs using VPN, cellular-to-cellular networks or the public Internet to carry telephone calls.

Additionally, they extend PBX functionality to enterprise branch offices. Supporting standard protocols, the gateways are built on robust platforms to allow modular incorporation of value-added applications.

Designed for the enterprise market and OEMs, our Claro VoIP solutions were the preferred choice for sites requiring just a few connections through mid-market sites with hundreds of connections. Our VoIP products were distinguished by their seamless integration. For end users, this means absolutely no change in their familiar work environment, eliminating a learning curve. For enterprises, it translates into a more affordable, attractive investment, as VoIP products fit in with existing equipment, and demand no changes or additions, delivering significant, measurable economies of cost.

The Cellular Gateways Solutions of Quasar Telecom became an integral part of the Communication segment with their acquisition in 2004 (see Item 4A). Quasar Telecom's proven cellular technology created gateways between the corporate PBX and cellular network to enable cost savings of communication cost.

In 2005, 11% of our sales were attributable to sales of Communication products and services. As aforementioned, the assets of the Communication Solutions segment were sold to Qualmax's subsidiary, IPGear Ltd. in the fourth quarter of 2005 (see item 4B(c)).

Marketing, Distribution and Sales

We market our products primarily to medium and large sized corporations through a combination of direct sales, indirect distribution and original equipment manufacturers.

In the United States, we market our Connectivity products through one master distributor located in Phoenix, Arizona, which coordinates the midrange connectivity-related marketing efforts of dozens of distributors and resellers, and also offers technical support and after-sales service. Odem (Electronic Components solutions) markets its products and services in the United States through a wholly owned company, Ruby-Tech, Inc., located in Sherbourn, Massachusetts.

In Europe, we market our Connectivity products through local distributors that provide pre and post sales support. Products sold in the rest of the world are serviced from our headquarters in Israel.

We further rely on peripheral product distributors who offer our products along with other products for the IBM midrange market. We also rely on value added resellers who offer system sales and installation, which include a variety of our products. In addition, we heavily depend upon our own marketing resources operating from Israel.

Our Connectivity products largest customer is our master distributor located in Phoenix, Arizona, and Odem's largest customer is located in Israel.

We generally do not have any significant backlog because orders are usually shipped when received.

Our Company's sales do not fluctuate seasonally, with the exception that third quarter sales are affected (set back) by vacations in Europe and the holidays in Israel, and December and January sales are affected (set back) by the Christmas season.

The following table sets forth our revenues (in thousands of US$) from the continuing operations, by major geographic area, for the periods indicated below:

	2005	%	2004	%	2003	%
United States	3,615	13	3,252	39	2,974	52
Europe	2,887	11	1,066	13	1,198	21
Far East	6,083	22	701	8	-	-
Israel and others	14,468	54	3,263	40	1,556	27
Total Revenues	27,053	100	8,282	100	5,728	100

See Note 19b to the Consolidated Financial Statements.

Manufacturing

The products of our subsidiary BOScom, are designed, integrated and tested at our facilities in Israel. The manufacturing is done by Israeli subcontractors using components and subassemblies supplied by vendors to our specifications. Certain components and subassemblies used by us in our existing products are purchased from a single supplier or a limited number of suppliers. Most of the imported components are purchased in Israel from local representatives of the manufacturers. Some of them have exclusive representative rights in Israel. In the event that these suppliers are unable to meet our requirements in a timely manner, we may experience an interruption in production until an alternative source of supply can be obtained. We generally maintain an inventory of components and subassemblies which we believe is sufficient to limit the potential for such an interruption. Our current manufacturing facilities have sufficient capacity to exceed current demand. The prices of raw materials used in our industry are volatile and availability of electronic components may vary due to changing demand in the market.

Odem distributes products that are manufactured by third party suppliers.

Intellectual Property

We currently rely on a combination of trade secrets, copyright and trademark law, together with non-disclosure agreements and technical measures, to establish and protect proprietary rights in our products.

We believe that the improvement of existing products, reliance upon trade secrets and proprietary know-how and the development of new products are generally as important as patent protection in establishing and maintaining a competitive advantage. We believe that the value of our products is dependent upon our proprietary software and hardware remaining "trade secrets" or subject to copyright protection.

Generally, we enter into non-disclosure and invention assignment agreements with our employees and subcontractors. However, there can be no assurance that our proprietary technology will remain a trade secret, or that others will not develop a similar technology or use such technology in products competitive with those offered by us.

While our competitive position may be affected by our inability to protect our proprietary information, we believe that because of the rapid pace of technological change in the industry, factors such as the technical expertise and the knowledge and innovative skill of our management and technical personnel, name recognition, the timeliness and quality of support services provided by us and our ability to rapidly develop, produce, enhance and market software products may be more significant in maintaining our competitive position.

As the number of software products in the industry increases and the functionality of these products further overlaps, we believe that software programs will increasingly become subject to infringement claims. The cost of responding to any such assertion may be material, whether or not the assertion is valid.

On May 10, 2006 the Company received a written demand from IDEAL Software GmbH, a German corporation, in which it claims that the Company owes it for unpaid license fees (see Item 8).

Competition

Connectivity Solutions:

The connectivity market is subject to rapidly changing technology and evolving standards incorporated into personal computers, networks and host computers. BOScom's products compete with products that have already been on the market for a number of years and are manufactured by competitors, most of which have substantially greater financial, marketing and technological resources and name recognition than ours.

Our competitors include IBM, Perle, Advanced Business Link, IGEL, CLI PowerTerm, NLynx, NetManage, Attachmate, and Seagull, Adobe, Optio and Formscape.

Electronic Components Solutions:

The common practice in the industry is that suppliers and manufacturers usually grant a non-exclusive representation right in a specific territory. As long as sales reach a reasonable level and the relationship between the parties is good, the supplier will usually not grant another representation in the agreed territory.

Although most of Odem's representation agreements are not on an exclusive basis, in most cases it does not have a local competitor who distributes components from the same source. However, there may be competition in case of similar components made by other manufacturers. In October 2005, Odem's major supplier to the Far East market opened headquarters in China, that increased the competition in the Far East territory.

The number of instances in which territorial-based distributing agreements are challenged by large foreign distributors, who receive a special discount on large volume purchases from the suppliers and compete with the local distributor by selling directly to its customers, is increasing. Still, despite inferiority in pricing, local distributors have some advantages over such competition by providing close and continuous technical support, large inventory, a wide spectrum of products and short reaction time.

Odem currently represents about 35 overseas suppliers, of which approximately 20 are electronic components suppliers, 8 are suppliers of IT equipment, 2 are suppliers of market image-processing products and 5 are suppliers of RFID tags.

The electronic market is characterized by multiple agents and distributors. Five local electronic component competitors – Telsys Ltd., Nisco Projects Ltd., STG Ltd., Semicom Ltd. and Rapac Electronics Ltd., are publicly traded on the Tel Aviv stock exchange. Other large and influential competitors which are active in the electronic components market are Eastronics Ltd**.,** STG International Ltd., Chayon Computers Ltd., RDT Ltd. and Abnet Communications Ltd. There is an increase in the number of distributors that are owned by international companies.

Strategy

The Company's strategy is to enable organizations to increase operational efficiencies while leveraging their existing infrastructure. We will continue to focus and enhance our existing product lines and continue to search for additional growth through mergers and acquisitions, while our main focus in the near future shall be both expanding applications and actively searching for acquisition opportunities, in the growing RFID field.

The key elements of our strategy are as follows:

- Increase Representations. We continue to search for additional companies to represent through our Electronic Components segment.

- Expand Marketing Network. We intend to increase our marketing presence in the United States, Europe and the Far East, and to expand our distribution channels in these markets through the use of acquisitions, additional independent distributors and original equipment manufacturers as well as our own sales representatives.

- Acquisition of companies or businesses that will increase our sales and profit, or acquisition of complementary technologies or products that we can sell through our existing distribution network.

- Maximize efficiency for IBM midrange market. Through our Connectivity Solutions segment, we intend to expand and support our emulation product line for IBM midrange computers. This includes continuous upgrading and improvement of our connectivity emulation products for direct, gateway and Internet connection, and Windows emulation and graphics capabilities. We continually upgrade our client software to ensure its compatibility with each new Windows platform. We intend to streamline our manufacturing and distribution to better serve our present client base and access a greater share of the IBM midrange market. We have already begun to incorporate common components into our products in an effort to streamline manufacturing and intend to take steps to improve our destination networks.

Web site: We maintain a web site where potential customers, investors and others can obtain the most updated information about our activities, products, press releases and financial information. Our Web site may be found at www.boscorporate.com. The contents of our web site are not incorporated by reference into this Form 20-F.

Exchange Controls

See Item 10D.

For other government regulations affecting the Company's business, see Item 5, under 'Grants and Participation'.

4C. Organizational Structure

The Company's wholly owned subsidiaries include:

In Israel – (1) BOScom Ltd. (formerly Lynk, a Division of B.O.S. Ltd.). (2) Quasar Telecom (2004) Ltd. ("Quasar Telecom"), which obtained the assets BOS acquired in September 2004 from Quasar Communication Systems Ltd. (see item 4A). The assets of Quasar Telecom were sold to IP Gear Ltd., a subsidiary of Qualmax Inc. as part of the sale of the Communications Segment in the fourth quarter of 2005. (3) Odem Electronic Technologies 1992 Ltd. ("Odem"), which we purchased on November 18, 2004 from Odem's existing shareholders, and in which by November 2005 our holdings increased to 100%. Odem, an Israeli company, is a major solution provider and distributor of electronics components and advance technologies in the Israeli market (see item 4A).

In Europe – BOScom had a UK subsidiary, Better On-Line Solutions Ltd., and its subsidiary, Better On-Line Solutions S.A.S in France, which, until mid-2003, distributed and serviced BOScom's products abroad. In mid-2003 we decided, due to cost-efficiency considerations, to cease operations in Europe through the subsidiaries and to market through distributors and resellers, and the subsidiaries are no longer operational and have been closed.

In the U.S. – (1) Ruby-Tech Inc., a wholly owned subsidiary of Odem, (2) Lynk USA Inc., a subsidiary of BOS, and its subsidiary PacInfo (both Delaware corporations) and PacInfo's subsidiary, Dean Tech Technologies Associates, LLC. ("Dean Tech"), a Texan corporation, and (3) BOS Delaware Inc. a Delaware corporation. Only Ruby-Tech is still operational.

The voting power we (or our subsidiaries) have in all subsidiaries, equates to our shareholdings.

The Company also has an interest in Surf Communication Solutions Ltd. ("Surf") in which it has been investing since 1997, and in Qualmax Inc. in which it has been invested since December 2005 (See Item 4A).

4D. Property, Plants and Equipment

Our executive offices and engineering, development, testing, shipping and service operations are located in two Israeli facilities (in Teradyon and in Rishon Lezion), and occupy a total of approximately 4,092 square meters. BOS and BOScom occupy 3,300 square meters in Teradyon, pursuant to a lease which expired in December 2005 and currently is under negotiations for its renewal. Odem occupies 792 square meters in Rishon Lezion, of which 302 square meters are owned by Odem and the remaining space is rented pursuant to lease agreements for various periods, with terms that expire within one to four years. In 2005, Quasar Telecom occupied 374 square meters in Rehovot, pursuant to a lease that was assigned to IP Gear commencing January 1, 2006. The monthly rental fees of the Company and its subsidiaries amounted to $16,000 in 2005, and currently amount to $12,000.

The facility in Teradyon is located in a part of Israel which has been designated by the government as a "Development A" area. This designation relates to the benefits available to us as an "Approved Enterprise" under Israeli law, that entitles us and our shareholders to reduced income tax rates on our income and on dividend distributions.

We believe that our facilities are sufficient to accommodate our anticipated needs in the foreseeable future.

Item 4A: Unresolved Staff Comments

Not Applicable

Item 5: Operating and Financial Review and Prospects

The following management's discussion and analysis of financial condition and results of operations should be read in conjunction with our financial statements and notes thereto. Certain matters discussed below and throughout this annual report are forward-looking statements that are based on our beliefs and assumptions as well as information currently available to us. Such forward-looking statements may be identified by the use of the words "anticipate", "believe", "estimate", "expect", "plan" and similar expressions. Such statements reflect our current views with respect to future events and are subject to certain risks and uncertainties. While we believe such forward-looking statements are based on reasonable assumptions, should one or more of the underlying assumptions prove incorrect, or these risks or uncertainties materialize, our actual results may differ materially from those described herein. Please read the section below entitled "Factors That May Affect Future Results" to review conditions that we believe could cause actual results to differ materially from those contemplated by the forward-looking statements.

The Company's discussion and analysis of its financial condition and result of operations is based upon the Company's consolidated financial statements which have been prepared in accordance with generally accepted accounting principles ("GAAP ") in the United States of America.

Critical Accounting Policies

Use of Estimates

The preparation of these financial statements required the Company to make estimations and judgments, in accordance with U.S. GAAP, that affect the reporting amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. The Company evaluates its estimates, including those related to revenue recognition, bad debts, inventories, and legal contingencies on an ongoing basis. The Company based its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

For a review of the accounting policies that form the basis of the above-referenced estimates and judgments that the Company made in preparing its consolidated financial statements, please see Note 2 (Significant Accounting Policies) to the Consolidated Financial Statements. The following accounting policies had the most significant impact on the Financial Statements for the year ended December 31, 2005.

Investment in an affiliated company

An affiliated company is a company in which the Company is able to exercise significant influence, but that is not a consolidated subsidiary and is accounted for by the equity method, net of write-down for decrease in fair value which is not of a temporary nature.

If there is a sudden and significant decrease in the fair values of our investments in affiliate companies, we may be required to write off part of our investments due to impairment. The Company's investment in an affiliated company is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable, in accordance with Accounting Principle Board Opinion No. 18 "The Equity Method of Accounting for Investments in Common Stock" ("APB No. 18"). The Company's investment in Surf has been included as an affiliated company until September 30, 2005 (see note 6 to the Consolidated Financial Statements).

During 2005, an impairment of $1,385,000 has been recorded in “equity in losses of an affiliated company” in the statement of operations. In 2004 and 2003, based on management’s analysis, no impairment losses were identified.

Investment in other companies

Investment in companies are investments through which the Company is not able to exercise significant influence over the investee’s financial policies and which do not meet the fair value availability criteria of FAS 115 (“readily determined sales price currently available on a security exchange”), consequently such investments are accounted for by the cost method.

The Company’s investment in such companies is reviewed for impairment whenever events of changes in circumstances indicate that the carrying amount of the investment may not be recoverable in accordance with APB No. 18. No impairment has been identified during 2003 through 2005.

Goodwill, Intangible Assets and Other Long-Lived Assets

Under current accounting standards, we make judgments about the remaining useful lives of goodwill, other intangible assets and other long-lived assets, including assumptions about estimated future cash flows and other factors to determine the fair value of the respective assets.

We adopted SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” as of January 1, 2002. We are required to assess the impairment of long-lived assets, other than goodwill, tangible and intangible under SFAS No. 144, on a periodic basis, when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment indicators include any significant changes in the manner of our use of the assets or the strategy of our overall business, significant negative industry or economic trends and significant decline in our share price for a sustained period.

Upon determination that the carrying value of a long-lived asset may not be recoverable based upon a comparison of fair value to the carrying amount of the asset, an impairment charge is recorded. We measure fair value using discounted projected future cash flows.

We have adopted SFAS No. 142 “Goodwill and Intangible Assets” issued in July 2001. Pursuant to SFAS No. 142 goodwill and intangible assets that have indefinite useful lives will not be subject to amortization, but instead will be tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives, but without the constraint of an arbitrary.

Goodwill represents excess of the costs over the net assets of businesses acquired. SFAS No. 142 requires goodwill to be tested for impairment at least annually or between annual tests in certain circumstances, and written down when impaired. Goodwill attributable to each of the reporting units is tested for impairment by comparing the fair value of each reporting unit with its carrying value. Fair value is determined using income and market approaches. Significant estimates used in the methodologies include estimates of future cash flows, future short-term and long-term growth rates, weighted average cost of capital and estimates of market multiples for each of the reportable units.

The Company has recorded no impairment losses for the years ended December 31, 2005 and 2004 and recorded an impairment charge on account of fixed assets which amounted to $110,000 for the year ended December 31, 2003.

Inventory

Inventories are valued at the lower of cost or market value. Cost is determined as follows: Raw and packaging materials – moving average cost method. Products in progress and finished products – on the company's standard pricing basis (see also Note 4 to the Consolidated Financial Statements). If actual market conditions prove less favorable than those projected by management, additional inventory write-downs may be required. Inventories are written down for estimated obsolescence based upon assumptions about future demand and market conditions. Likewise, favorable future demand and market conditions could positively impact future operating results if inventory that has been written down is sold.

Revenue Recognition

The Company sells its Electronic Component products mainly through direct sales and the Connectivity products mainly through distributors and resellers channels.

The Company derives its revenues from the sale of products, license fees for its products, commissions, maintenance, support and services.

Revenues from product sales are recognized in accordance with Staff Accounting Bulletin No. 104 "Revenue Recognition in Financial Statements" ("SAB 104") when delivery has occurred, persuasive evidence of an arrangement exists, the vendor's fee is fixed or determinable, no further obligation exists, and collectability is reasonably assured.

Revenues from license fees are recognized in accordance with Statement of Position ("SOP") 97-2 "Software Revenue Recognition", when persuasive evidence of an agreement exists, delivery of the product has occurred, no significant obligations with regard to implementation remain, the fee is fixed or determinable, and collection is probable. The Company generally does not grant a right of return to its customers. When a right of return exists, the Company defers revenue until the right of return expires, at which time revenue is recognized provided that all other revenue recognition criteria have been met.

Revenues from maintenance and support are recognized ratably over the period of the maintenance contract. The fair value of the maintenance is determined based on the price charged when it sold separately or renewed.

Revenues from commissions are recognized upon their actual receipt, since under agreements with suppliers consideration is received on the basis of collection from customers.

Legal contingencies

The Company has been a party to various legal proceedings in the normal course of its business (see Item 8A for more details). The results of legal proceedings are difficult to predict and an unfavorable resolution of a lawsuit or proceeding may occur. Management believes that the prospects of these proceedings to prevail and recover a significant amount, seem remote, and accordingly no provision was recorded. As additional information becomes available, management will reassess the potential liability related to these legal proceedings and may revise its estimate of the probable cost of these proceedings. Such revisions in the estimates of the probable cost could have a material adverse effect on the Company's future results of operations and financial position.

Stock based compensation

Effective January 1, 2006, we account for stock-based compensation costs in accordance with Statement of Financial Accounting Statements Standards No. 123R – "Share-Based Payment" ("SFAS 123R"). We utilize the Black-Scholes option pricing model to estimate the fair value of stock-based compensation at the date of grant, which requires subjective assumptions, including expected life of the option. Further, as required under SFAS 123R, we estimate forfeitures for options granted which are not expected to vest. Changes in these inputs and assumptions can materially affect the measure of estimated fair value of our stock-based compensation. Until December 31, 2005 the Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB-25"), and Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" ("FIN 44"), in accounting for its employee stock option plan. Under APB-25, when the exercise price of the Company's employee stock options equals or is above the market price of the underlying shares on the date of grant, no compensation expense is recognized.

Functional currency

Odem's functional currency as of December 31, 2004, was other than the U.S. dollar and was translated into U.S. dollars. Beginning April 1, 2005, Odem's functional currency became the U.S. dollar, due to significant changes in circumstances which indicated a functional currency change. These changes included:

- Transition of budget planning and business performance measurement from New Israeli Shekels (NIS) to U.S. dollars, as a result of Odem's integration with BOS.

- Majority of Odem revenues and expenses became linked to or paid in U.S. dollars.

In accordance with FAS 52, "Foreign Currency Translation" and since the functional currency changed from a foreign currency to the reporting currency, U.S. dollars, the translation adjustments as of March 31, 2005, prior to the change have not been removed from equity and the translated amounts for nonmonetary assets as of March 31, 2005, prior to the change became the accounting basis for those assets in the periods starting April 1, 2005.

5A. Results of Operations

Comparison of 2005 and 2004

Revenues for 2005 were $27,053,000 compared with $8,282,000 in 2004, a 226% increase, which is mainly due to the consolidation, starting from November 18, 2004, of the results of operation of Odem (related to the Electronic Component segment).

The Electronic Components segment accounted for $20,253,000 (or 75% of our consolidated revenues) in 2005, out of which the sales to the Far East accounted for $6,083,000 (or 22% of our consolidated revenues in 2005). In the second half of 2005 and during the first quarter of 2006, we are facing a trend of decrease in the sales to the Far East, which is partially offset by growth in local sales.

The Connectivity segment accounted for $3,926,000 (or 14% of our consolidated revenues) in 2005. These revenues include $864,000 related to the PrintBos product line that was sold during 2005 and Thin Client product line that was closed at the beginning of 2005. Hence, we expect that Connectivity segment revenues in year 2006 will be lower than what we experienced in 2005. Furthermore, the trend of customer migration from IBM iSeries to different systems has continued. In response we have increased our sales and marketing activities as abovementioned and continue to develop new products and solutions in order to maintain our market share and maintain revenues from the Connectivity segment. We are continuously seeking additional distributors and resellers.

Gross profit in 2005 totaled $7,028,000, representing 25.9% of revenues, compared with $3,674,000, constituting 44.4% of revenues in 2004. The major reason for the decrease in the gross margin was the consolidation, starting from November 18, 2004, of the results of operation of Odem whose gross profit represents 18.9% of revenues (see also Note 19 of the Consolidated Financial Statements).

Our future gross margin may be lower than what we experienced during 2005 as a result of the disposal of the Communication segment whose gross margin during 2005 was 26% (a gross margin which is higher than that of the Electronic Components segment, which generated the majority of our revenues in 2005. See Note 19a of the Consolidated Financial Statements).

Net research and development costs in 2005 amounted to $2,312,000 compared to $1,804,000 in 2004. The increase in research and development costs in 2005 is related to the development efforts invested in Quasar Telecom products, prior to the sale of the Communication segment. Grants and participation from the Office of the Chief Scientist amounted to $296,000 in year 2005 compared to $492,000 in 2004. These grants were related to the Communication segment that was sold at the end of 2005 and we do not anticipate additional grants and participation in year 2006.

Sales and marketing expenses increased to $3,563,000 compared to $1,706,000 in 2004, mainly due to the consolidation, starting from November 18, 2004, of the results of operation of Odem.

General and administrative expenses increased to $3,267,000 in 2005 from $1,706,000 in 2004, mainly due to the consolidation, starting from November 18, 2004, of the results of operation of Odem.

As a result of the foregoing, our operating loss in 2005 was $2,114,000 compared to an operating loss of $1,541,000 in 2004. The operating loss in 2005 is attributed to the Communication segment which was sold in late 2005, and amounted to $2,400,000.

Financial expenses amounted to $448,000 in 2005 compared with expenses of $158,000 in 2004. The major reason for the increase from 2004 was related to the convertible note (see also Note 14 to the Consolidated Financial Statements) and to the consolidation, starting from November 18, 2004, of the results of operation of Odem whose bank loans as of December 31, 2005 amounted to $2,316,000.

Other income for 2005 includes capital gains of $779,000 related to the sale of the Communication segment and $273,000 related to the sale of the PrintBOS product line.

Taxes on income increased to $204,000 in 2005 from $20,000 in 2004 as result of the consolidation, starting from November 18, 2004, of the results of operation of Odem which has a taxable income.

Equity in losses of an affiliated company, Surf Communication Solutions Ltd., amounted to $1,750,000 in the 2005 as compared to $308,000 in 2004. The equity loss in 2005 includes an impairment of $1,385,000 of the investment in Surf. As of December 2005 our investment in Surf amounted to $722,000.

Minority interest in the earnings of a subsidiary (Odem) amounted to $223,000 in 2005 as compared to $17,000 in 2004. In November 2005 the Company increased its holding in Odem to 100%.

As a result, net loss from the continuing operations for 2005 amounted to $3,605,000 compared to loss of $2,044,000 in 2004. On a per share basis, the net loss from the continuing operations in 2005 was -$0.64 per share compared with a -$0.44 net loss per share in 2004. (For details regarding computation of net loss per share, see Note 18c to the Consolidated Financial Statements.)

The total net loss for 2005 was $3,605,000, compared with loss of $2,053,000 in 2004. On a per share basis, the net loss in 2005 was -$0.64 per share compared with a -$0.441 net loss per share in 2004.

Comparison of 2004 and 2003

2004‘s results of operation reflected the following strategic actions:

- Reorganization in sales and marketing organization in Europe:

Up until the second quarter of 2003, we marketed our BOScom products through subsidiaries in the U.K. and France. Since the third quarter of 2003, we market our products through local distributors that provide pre and post sales support. Products sold in the rest of the world are serviced from our headquarters in Israel. As a result, the sales and marketing expenses were reduced in 2004 in comparison to 2003.

- Dividing the Company operations into three segments:

Commencing in 2004 and subsequent to the acquisition of a controlling stake of Odem and of most of the assets of Quasar Communication Systems Ltd. (which were transferred to our subsidiary, Quasar Telecom), the Company manages its business in three reportable segments, which consist of Connectivity Solutions, Communication Solutions and supply of Electronic Components (see also Note 19 to the Consolidated Financial Statements). This action was accompanied by an increase in senior officers which mainly affected the general and administrative expenses which increased in comparison to 2003.

- Business Combination:

The abovementioned acquisitions partially affected the Company’s results of operation, since the results of operations of Quasar Telecom and Odem were consolidated commencing September 28, 2004 and November 18, 2004, respectively. As a result, the revenues, cost of goods and general and administrative expenses were increased in 2004 in comparison to 2003 (see also Note 1b to the Consolidated Financial Statements).

Revenues for 2004 were $8,282,000 compared with $5,728,000 in 2003, a 44.6% increase, which is mainly due to the consolidation of Quasar Telecom and Odem operations.

Gross profit in 2004 totaled $3,674,000, representing 44.4% of revenues, compared with $4,273,000, constituting 74.5% of revenues in 2003. Cost of revenues of 2003 includes income of $339,000 due to a reversal of a non-recurring royalty for the Office of the Chief Scientist (see also Note 18a to the Consolidated Financial Statements). Excluding such income, the gross profit for 2003 represented 68.6% of revenues compared to 44.4% in 2004. The major reason for the decrease in the gross margin was the acquisition of Odem in November 2005. Odem’s gross profit represents 17% of revenues. The gross profit will continue to decline as a result of the full inclusion of Odem activity in 2005 and thereafter.

Net research and development costs in 2004 amounted to $1,804,000 compared to $1,846,000 in 2003. Grants and participation from the Office of the Chief Scientist amounted to $492,000 in 2004 compared to $283,000 in 2003.

Sales and marketing expenses decreased by 21.7% to $1,706,000 in 2004 compared to $2,178,000 in 2003, mainly due to the reorganization in sales and marketing which is described above.

General and administrative expenses increased by 29.4% to $1,705,000 in 2004 compared to $1,317,000 in 2003, mainly due to an increase in the number of senior officers. Restructuring costs in 2003 amounted to $678,000 which resulted from ceasing the operation of the Company’s subsidiaries in Europe.

As a result of the foregoing, our operating loss in 2004 was $1,541,000 compared to an operating loss of $1,746,000 in 2003.

Financial expenses amounted to $158,000 in 2004 compared with net financial income of $109,000 in 2003. The major reason for year 2004 financial expenses was related to the convertible note (see also Note 18b to the Consolidated Financial Statements).

Equity in losses of an affiliated company refers to investment in Surf which amounted to $308,000 in 2004 compared to $465,000 in 2003. The investment in a company was stated at equity method, since the Company's holding in Surf exceeded 20% (see also Note 6 to the Consolidated Financial Statements).

Minority interest in earning of subsidiary refers to investment in Odem. The minority rights in Odem amounted to 36.2% of its earnings (see also Note 1b to the Consolidated Financial Statements).

As a result, net loss from the continuing operations for 2004 amounted to $2,044,000 compared with loss of $2,057,000 in 2003. On a per share basis, the net loss from the continuing operations in 2004 was $0.44 per share compared with a $0.56 net loss per share in 2003. (For details regarding computation of net loss per share, see Note 18c to the Consolidated Financial Statements.)

The loss related to the discontinuing operations for 2004 was $9,000 compared with an income of $2,036,000 in 2003. The income of 2003 resulted from debt settlement with more than 95% of PacInfo's external creditors for an amount which was significantly lower than the face value of the debt.

The total net loss for 2004 was $2,053,000, compared with loss of $21,000 in 2003. On a per share basis, the net loss in 2004 was $0.44 per share compared with a $0.01 net loss per share in 2003.

Variability of Quarterly Operating Results

Our revenues and profitability may vary in any given year, and from quarter to quarter, depending on the number of products sold. In addition, due to potential competition, uncertain market acceptance and other factors, we may be required to reduce prices for our products in the future.

Our future results will be affected by a number of factors including our ability to:

- increase the number of products sold,
- acquire effective distribution channels and manage them,
- develop, introduce and deliver new products on a timely basis,
- anticipate accurately customer demand patterns and
- manage future inventory levels in line with anticipated demand.

These results may also be affected by currency exchange rate fluctuations and economic conditions in the geographical areas in which we operate. There can be no assurance that our historical trends will continue, or that revenues, gross profit and net income in any particular quarter will not be lower than those of the preceding quarters, including comparable quarters.

Impact of Inflation and Currency Fluctuations

The US Dollar cost of our operations in Israel is influenced by the differential between the rate of inflation in Israel and any change in the value of the NIS relative to the Dollar.

A devaluation of the NIS in relation to the US Dollar will have the effect of decreasing the costs in NIS and a converse effect in case of devaluation of the US Dollar in relation to the NIS.

A devaluation of the NIS in relation to the US Dollar will have the effect of decreasing the Dollar value of any of our assets which consist of NIS (unless such asset is linked to the Dollar). Such a devaluation would also have the effect of reducing the Dollar amount of any of our liabilities which are payable in NIS (unless such payables are linked to the Dollar). Conversely, any increase in the value of the NIS in relation to the Dollar will have the effect of increasing the Dollar value of our assets which consist of NIS (unless such asset is linked to the Dollar). Such an increase would also have the effect of increasing the Dollar amount of any of our liabilities which are payable in NIS (unless such payables are linked to the Dollar) (see Currency Exchange Rate Risk Management under item 11).

In the years ended December 31 2005, 2004, 2003, 2002, and 2001, the annual inflation rate in Israel as adjusted for the devaluation of the Israeli currency in relation to the Dollar was (4.5)% 2.8%, 5.7%, (0.8)%, and (7.8)%, respectively. The closing representative exchange rate of the Dollar at the end of each such period, as reported by the Bank of Israel, was NIS 4.603, NIS 4.308, NIS 4.379, NIS 4.737, and NIS 4.416, respectively. As a result, the Company experienced increases in the Dollar costs of operations in Israel in 2003 and 2004, and decreases in 2005, 2002 and 2001.

Effective Corporate Tax Rate

Pursuant to an amendment to the income Tax Ordinance, approved by the Israeli parliament on July 25, 2005, Israeli companies are generally subject to income tax on their taxable income at the rate of 31% for the year 2006, 29% for 2007, 27% for 2008, 26% for 2009 and 25% for year 2010 and thereafter.

The effective tax rate payable by a company such as ours which derives part of its income from an “Approved Enterprise,” may be considerably less. See Note 17b to the Consolidated Financial Statements and Item 10E ahead. Subject to relevant tax treaties, dividends or interest received by an Israeli corporation from subsidiaries are generally subject to tax (unless the subsidiary’s income is subject to Israeli corporate tax) regardless of its status as an Approved Enterprise. Odem and Quasar Telecom operations are subject to regular income tax rates.

On January 1, 2003, a comprehensive tax reform took effect in Israel. Pursuant to the reform, resident companies are subject to Israeli tax on income accrued or derived in Israel or abroad. In addition, the concept of “controlled foreign corporations” was introduced, according to which an Israeli company may become subject to Israeli taxes on certain income of a non-Israeli subsidiary if the subsidiary’s primary source of income is passive income (such as interest, dividends, royalties, rental income or capital gains). The tax reform also substantially changed the system of taxation of capital gains.

Grants and Participation

Under the Law for the Encouragement of Industrial Research and Development, 1984 (the “Research Law”), research and development programs approved by a research committee of the Office of the Chief Scientist (“OCS”) of Israel’s Ministry of Industry, Trade and Labor, are eligible for grants in exchange for payment to the Government of royalties from the sale of products developed in accordance with the Program. In order to be eligible, the applicant must be an Israeli company that proposes to invest in the development of industrial know-how, the development of new products, the development of new processing or manufacturing procedures or the development of significant improvements to an existing process or product. A committee of the OCS reviews the applications, evaluates the feasibility of the proposal, determines whether or not to approve a grant, and also determines the extent of Chief Scientist funding (within a range specified by the law) for approved projects. Depending on the nature of the project, the OCS grants generally amount up to 50% of the approved research expenses.

Under the terms of the grants we received from the OCS we are obligated to pay royalties of 3.5% on sales of products incorporating know-how developed within the framework of each funded program or derived therefrom (including ancillary services in connection therewith), up to an aggregate of 100% of the dollar-linked value of the total grants received. 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 at the date the grants 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. If any of the manufacturing is performed outside of Israel, the company would ordinarily be required to pay royalties at an increased rate and to increase the aggregate repayment amount to between 120% and 300% of the grant amount, depending on the manufacturing volume that is performed outside Israel, except in special cases that receive the prior approval of the research committee, and subject to certain payments to be made to the Israeli Government (generally an amount no less that the aggregate grants plus interest less royalties paid).

The Research Law also provides that know-how from the research may not be transferred to third parties in Israel without prior approval of the research committee. This approval, however, is not required for the sale or export of any products resulting from such research and development. Approval of such transfer of know-how may be granted in specific circumstances, only if the recipient abides by the provisions of the R&D Law and related regulations, including the restrictions on the transfer of know-how and the obligation to pay royalties in an amount that may be increased. The R&D Law further provides that the know-how developed under an approved research and development program may not be transferred to any third parties outside Israel.

The R&D Law imposes reporting requirements with respect to certain changes in the ownership of a grant recipient. The law requires the grant recipient and its controlling shareholders and interested parties to notify the Office of the Chief Scientist of any change in control of the recipient or a change in the holdings of the significant stockholders of the recipient that results in a non-Israeli becoming an interested party directly in the recipient and requires the new interested party to undertake to the Office of the Chief Scientist to comply with the R&D Law. In addition, the rules of the Office of the Chief Scientist may require prior approval of the Office of the Chief Scientist or additional information or representations in respect of certain of such events.

The funds available for Office of the Chief Scientist grants out of the annual budget of the State of Israel have been reduced, and the Israeli authorities have indicated that the government may further reduce or abolish Office of the Chief Scientist grants in the future.

We recognized grants in the amount of $296,000 in 2005 and $492,000 in 2004.

As of December 31, 2005, the Company has an outstanding contingent obligation to pay royalties in respect of OCS grants, in the amount of approximately $3,500,000, compared to $6,114,000 as of December 31, 2004. The decrease in the contingent liability is mainly related to the assignment of the Communication segment contingent liability to IP Gear as part of the sale of the Communication segment in late 2005.

We are committed to paying royalties to the Fund for the Encouragement of Exports for its participation, by way of grants, in our marketing expenses outside of Israel. Royalties payable are 3% of the growth in exports, from the year we received the grant, up to 100% of the dollar-linked amount of the grant received at the date the grants received. As of December 31, 2005, the Company has an outstanding contingent obligation to pay royalties of $110,000 with respect to these grants, compared to $64,000 on December 31, 2004.

Conditions in Israel

We are incorporated under the laws of Israel. Our offices and product development and manufacturing facilities are located in Israel. As a consequence, we are directly affected by political, economic and military conditions in Israel. Our operations would be substantially impaired if major hostilities involving Israel should occur or if trade between Israel and its present trading partners should be curtailed. See also Item 3D – Risk Factors.

Political and Economic Conditions

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying from time to time in intensity and degree, has led to security and economic problems for Israel. A peace agreement between Israel and Egypt was signed in 1979. However, economic relations have been limited. A peace agreement between Israel and Jordan was signed in 1994. However, as of the date hereof, Israel has not entered into any peace agreement with Syria or Lebanon. No prediction can be made as to whether any other written agreements will be entered into between Israel and its neighboring countries, whether a final resolution of the area's problems will be achieved, the nature of any such resolution or whether civil unrest will resume and to what extent such unrest would have an adverse impact on Israel's economic development or on our operations in the future.

There is substantial uncertainty about how or whether any peace process will develop or what effect it may have upon us. Since October 2000, there has been a substantial deterioration in the relationship between Israel and the Palestinians which has resulted in increased violence. The future effect of this deterioration and violence on the Israeli economy and our operations is unclear. In January 2006, Hamas, an Islamic movement responsible for many attacks against Israelis, won the majority of the seats in the Parliament of the Palestinian Authority. The election of a majority of Hamas-supported candidates is expected to be a major obstacle to relations between Israel and the Palestinian Authority, as well as to the stability in the Middle East as a whole. Ongoing violence between Israel and its Arab neighbors and Palestinians may have a material adverse effect on our business, financial condition or results of operations.

Despite the limited progress towards peace between Israel, its Arab neighbors and the Palestinians, certain countries, companies and organizations continue to participate in a boycott of Israeli firms. We do not believe that the boycott has had a material adverse effect on us, but there can be no assurance that restrictive laws, policies or practices directed towards Israel or Israeli businesses will not have an adverse impact on the expansion of our business.

Some of our employees are obligated to perform annual reserve duty in the Israel Defense Forces and may, at any time, be called for active military duty. While we have operated effectively under those and similar requirements in the past, no assessment can be made of the full impact of such requirements on us in the future, particularly if emergency circumstances occur.

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. In addition, due to significant economic measures 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, including our ability to deliver products to our customers. Following the passage by the Israeli Parliament of laws to implement the 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.

In 1998, the Israeli currency control regulations were liberalized dramatically. As a result, Israeli citizens can generally freely purchase and sell Israeli currency and assets. The Government of Israel has periodically changed its policies in these areas. There are currently no Israeli currency control restrictions on remittances of dividends on ordinary shares or proceeds from the sale of ordinary shares; however, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time.

The costs of our operations in Israel are generally incurred in New Israeli Shekels ("NIS"). If the inflation rate in Israel exceeds the rate of devaluation of the NIS against the US Dollar in any period, the costs of our Israeli operations, as measured in US Dollars, could increase. Israel's economy has, at various times in the past, experienced high rates of inflation.

Like many Israeli companies, we receive grants and tax benefits from the Israeli Government. We also participate in programs sponsored by the Israeli Government. The reduction or termination of any such grants, programs or tax benefits, especially those benefits available as a result of the "Approved Enterprise" status of certain facilities in Israel, could have a materially adverse effect on future investments by us in Israel.

5B. Liquidity and Capital Resources

We finance our activities by different means, including proceeds of equity financings, long-term loans, grants from the Office of the Chief Scientist in Israel and income from operating activities.

As of December 31, 2005, we had $2,346,000 in cash and cash equivalents, $1,333,000 in marketable securities, $3,563,000 short and long-term loans and positive working capital of $4,200,000.

Net cash used in operating activities from continuing operations in 2005 was $3,900,000 compared to $1,023,000 in 2004.

During 2005 we used $477,000 in investing activities, mainly as a result of an investment of $1,124,000 in Odem, grant of a $1,000,000 loan to IP Gear, net of proceeds of $2,316,000 from redemption of marketable securities. In year 2004 we used $1,866,000 in investing activities mainly for the investment in Odem in the amount of $1,443,000.

Net cash provided by financing activities amounted to $4,159,000 in year 2005 which is mainly a result of the issuance of a Convertible Note and short term bank loans in the net amount of $2,179,000 and issuance of shares in the amount of $2,040,000. Net cashed provided by investing activities amounted to $1,614,000 in year 2004, mainly due to net proceeds from the issuance of a Convertible Note in the amount of $1,787,000.

The Company's long and short term loans as of December 31, 2005, amounted to $3,563,000, of which $2,305,000 is loans from Israeli banks, and the convertible note issued to Laurus Master Fund Ltd. accounts for the remainder.

Working capital and working capital requirements will vary from time-to-time and will depend on numerous factors, including but not limited to operating results, growth in revenues, acquisition activities, marketing activities and the level of resources devoted to research and development.

We believe that cash resources are sufficient to meet our needs for at least 12 months following the date of this submission. However, it is our intention to engage in equity and loan financing to further feature-rich products of the Company, establish distribution channels in new markets and search for new merger and acquisition opportunities. Aside from the exercise of a commitment granted to us by Laurus Master Fund to provide additional financing of up to $1.5 million pursuant to the issuance of a convertible note (discussed below), there is no assurance that we shall be able to obtain additional financing.

Laurus Convertible Note Financings

On June 10, 2004 the Company entered into a Securities Purchase Agreement (the "Purchase Agreement"), with Laurus Master Fund Ltd. (the "Investor"), under which the Company issued and sold to the Investor in a private placement (i) a Secured Convertible Term Note of a $2 million principal amount, due June 10, 2007 (the "Note") and (ii) a warrant to purchase 130,000 Ordinary Shares at an exercise price of $4.04 per share (the "Warrant"). The Warrant is exercisable, in whole or in part, until June 10, 2011. The Note bore interest at a fluctuating interest rate equal at all times to the WSJ prime rate plus 3%, subject to reduction in any particular month, if the average closing price of our ordinary Shares for any five consecutive trading days, exceeds the conversion price by at least 25%. The proceeds from the private placement were used for general working capital purposes and/or mergers and acquisitions.

The Note was convertible into Ordinary Shares at a price of $3.08 per share. The note provided that if the Company 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. As a result of the price per share in the private placement offering described below (that closed on June 30, 2005), the conversion price of the convertible note was reduced to $2.9042. The note was secured by a first priority floating charge on all of the Company's assets and by a first priority fixed charge on all of the Company's right, title and interest in its wholly-owned subsidiary, BOScom Ltd.

The principal amount of the Note was repayable in monthly installments, commencing as of October 1, 2004, in the initial amount of $20,000 eventually increasing to $73,600, and the note provided that it may be paid in cash or, subject to certain conditions, in ordinary Shares. Interest on the Note was payable monthly and the note provided that it may be paid in cash or, subject to certain conditions, in Ordinary Shares. Furthermore, each month, the Investor could have elected to convert all or a portion of the convertible note monthly payments (comprised of principal amortization and interest) into ordinary shares. The conversion of the note and exercise of the warrants are limited by certain restrictions. In any event, the number of ordinary shares issuable under the note and/or the warrants shall not exceed an aggregate of 833,085 ordinary shares (subject to certain adjustments). On March 23, 2005, after the Investor elected to convert $308,000 of the principal sum of the convertible note, the Investor was issued 100,000 ordinary shares of the Company. On July 14, 2005, the Investor completed the conversion of the balance of the principal, which had not been previously converted or repaid, and the accrued interest, into an additional 540,293 ordinary shares, for approximately $1.58 million.

Pursuant to its undertaking in the Registration Rights agreement with the Investor the Company filed with the Securities and Exchange Commission a registration statement on Form F-3 covering the resale of Ordinary Shares that were issued upon conversion of the Note and that shall be issued upon exercise of the Warrants. The Registration Rights agreement provided that any delay in registration and/or effectiveness of the underlying shares of the transaction, or failure to maintain their effectiveness, will result in penalties to be paid in cash, as liquidated damages. The registration statement became effective on March 11, 2005. Due to the delay in the effectiveness of the registration of the shares, we paid the Investor liquidated damages until March 11, 2005, in the amount of $92,000.

On September 29, 2005, the Company entered into a Second Securities Purchase Agreement ("the Purchase Agreement") with the Investor, under which the Company issued to the Investor in a private placement (i) a Secured Convertible Term Note of a $1.5 million principal amount, due September 2008 ("the Note"), and (ii) a warrant to purchase 73,052 ordinary shares at an exercise price of $4.04 per share ("the Warrant"). The Note is convertible into ordinary shares at a price of $3.08 per share. The principal amount of the Note is repayable in monthly installments, commencing as of January 2006, in the initial amount of $15,000 eventually increasing to $55,200. The Note bears interest at a fluctuating interest rate equal at all times to the WSJ prime rate plus 1.5% which is subject to reduction under certain conditions. The interest on the note is payable in monthly installments, together with the principal monthly repayment. The principal amount and the interest accrued may be paid, subject to certain conditions, in ordinary shares. Each month, the Investor 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.

The Warrant is exercisable, in whole or in part, until September 29, 2012, 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.

Pursuant to its undertaking in the Registration Rights Agreement with the Investor, the Company filed with the Securities and Exchange Commission a registration statement on Form F-3 covering the resale of ordinary shares that are issuable upon conversion of the Note and/or exercise of the Warrants, and/or issuable in payment of principal and interest on the Note. The Registration Rights Agreement provided that any delay in registration and/or effectiveness of the underlying shares of the transaction, or failure to maintain their effectiveness, will result in penalties to be paid in cash, as liquidated damages. The registration statement became effective on February 8, 2006, and no penalties were incurred.

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

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 shares otherwise beneficially owned by the Investor holder, exceed (i) 4.99% of the Company's outstanding ordinary shares, or (ii) 25% of the aggregate dollar trading volume of the ordinary shares for the 30-day trading period immediately preceding the conversion or exercise notice. These limitations expire, however, in an event of default under the note or with 75 days prior notice by the Investor, provided that in no time shall the Investor's beneficial ownership of ordinary shares exceed 19.9% of our ordinary shares. In addition, the number of ordinary shares issuable under the note and/or the warrants shall not exceed an aggregate of 625,000 ordinary shares.

The proceeds from the private placement will be used for general working capital purposes and/or mergers and acquisitions. The Investor also granted the Company an option, subject to certain conditions, to call for an additional financing of $1.5 million after April 1, 2006, on substantially similar terms, except that the note conversion price shall be $4.08 per share and the warrant exercise price shall be $5.30 per share.

2005 Private Placement

On May 24, 2005 the Company entered into a Share Purchase Agreement, under which the Company issued and sold to certain Israeli and European investors, in a private placement offering, 953,698 Ordinary Shares at a price of $2.30 per share for a consideration of approximately $2,040,000 (net of issuance expenses amounted to $154,000), and 572,219 warrants to purchase Ordinary Shares reflecting a 60% warrant coverage, exercisable for three years from their date of issuance. The exercise price under the warrants is $2.50 per Ordinary Share during for 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. The principal investor is the Catalyst Fund L.P., the Company's largest shareholder, that invested $793,500 and as a result, immediately after the closing of the transaction on June 30, 2005, held 22.31% of the Company's outstanding share capital post-transaction. The Company also entered into a Registration Rights Agreement pursuant to which it agreed to prepare and file with the Securities and Exchange Commission a registration statement covering the resale of the Ordinary Shares issued to the investors. Such a registration statement was filed and became effective on February 8, 2006.

Financial Instruments and Commitments

We have in-balance sheet financial instruments and off-balance sheet contingent commitments. Our in-balance sheet financial instruments consist of our assets and liabilities. Our cash is invested in short-term (less than 3 months) U.S. dollars and NIS interest bearing deposits with banks. Our trade receivables' average aging is 75 days and our trade payables aging is approximately 46 days. The fair value of our financial instruments is similar to their book value. Our off-balance sheet contingent commitments consist of: (a) royalty commitments that are directly related to our future revenues, (b) lease commitments of our premises and vehicles, (c) directors and officers' indemnities, in excess of the proceeds received from liability insurance which we obtain and (d) legal proceeding.

5C. Research and Development

We believe that our future growth is also dependent upon our ability to enhance our existing products and introduce new products on a timely basis. Since we commenced operations, we have conducted extensive research and development activities. In 2005, gross research and development costs totaled $2,608,000, compared to $2,296,000 in 2004. The research and development cost of the Communication segment that was sold in December 2005, amounted to $1,715,000 in year 2005 and $1,627,000 in year 2004.

Our research and development efforts have been focused on Communication and Connectivity Solutions. We intend to finance our research and development activities with our own resources and grants from the Office of the Chief Scientist. Grants from the Chief Scientist totaled $296,000 in 2005, $492,000 in 2004 and $283,000 in 2003. All grants were related to the Communication segment that was sold in December 2005.

5D. Trend Information

Commencing the second half of year 2003 we completed the transfer of sales and marketing activities of Connectivity and VoIP products from our subsidiaries abroad to distributors and resellers. We sold our Communication Solutions segment in late 2005, but this trend is continuing with respect to the Connectivity segment by increasing the number of distributors and resellers in order to deepen our penetration in existing markets such as Western Europe and expanding into new geographical markets such as East Europe.

In the Connectivity Solutions segment, the trend of customer immigration from IBM iSeries to different systems has continued. In response we have increased our sales and marketing activities as abovementioned and continue to develop new products and solutions in order to maintain our market share and maintain revenues from the Connectivity segment. We are continuously seeking additional distributors and resellers.

Odem increased its revenues in 2005 in comparison to 2004. The continuous increase in Odem sales was due to the global and local expansion and Odem's penetration into additional markets. In the second half of year 2005 and during the first quarter of year 2006, Odem is facing a trend of decrease in its international sales, especially to the Far East, which is partially offset by growth in local sales. This trend has an impact on the growth of our revenues and on our working capital, *inter alia* due to the fact that the credit days offered to local Israeli customers are higher than those for customers abroad.

Our future gross margin may be lower than what we experienced during year 2005 as a result of the disposal of the Communication segment whose gross margin during year 2005 was 26% (a gross margin which is higher than that of the Electronic Components segment, which generated the majority of our revenues in 2005. See Note 19a of the Consolidated Financial Statements).

Since the end of year 2003 we increased our financial resources through four private placements of debt and equity, and our intention is to further engage in equity and loan financings in order to engage in acquisition activities, and increase our marketing activities and the level of resources we devote to research and development. There is, however, no assurance that we shall be able to obtain such financings.

5E. Off-Balance Sheet Arrangements

In 1998, as part of the PacInfo Share Purchase Agreement between the Company and PacInfo's former owners ("the Sellers"), the Company may be obligated to grant the Sellers a loan on a full recourse basis for certain tax payments the Sellers may be liable for, and reimburse the Sellers for certain interest on taxes that they may owe, currently estimated at approximately $ 2 million. (see Item 3D).

In September 2004 Odem signed a long term sale agreement for the supply of electronic components ("components"). The agreement provides for a fixed sales price of the components during the term of the agreement thru December 2008. Absent the flexibility to increase our prices as a result of increased costs of the components, significant increased costs may adversely impact our financial results. In addition, under the agreement, we are obligated to hold inventory of products necessary for three months of the customer's production. This requires us to incur the costs of purchasing inventory without having an outstanding purchase order for the products. If we are unable to sell products that are purchased to hold in inventory, we may incur write offs and write downs as a result of slow moving items, technological obsolescence, excess inventories, discontinued products and products with market prices lower than cost. Such write offs and write downs could adversely affect our operating results and financial condition. As of December 31, 2005 we had no write down of write off of inventory that related to this agreement.

In respect of the Company's outstanding contingent obligation to pay royalties to the Office of the Chief Scientist and to the Fund for the Encouragement of Exports, see Item 5A (under the caption "Grants and Participation").

5F. Tabular Disclosure of Contractual Obligations

The following table of our material contractual obligations as of December 31, 2005, summarizes the aggregate effect that these obligations are expected to have on our cash flows in the periods indicated:

	Payment due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term loans (1)	$ 1,530,000	$ 354,000	$ 1,176,000	-	-
Accrued severance pay (2)	$ 1,190,000	$ 434,794	-	-	$ 755,206
Liabilities related to discontinued operation (3)	$ 237,000	-	-		$ 237,000
Other liabilities reflected on our Balance sheet (4)	$ 6,390,000	$ 6,390,000	-	-	-
Operating lease - cars	$ 416,597	$ 191,200	$ 225,397	-	-
Purchase obligation for service and inventory	$ 592,029	$ 592,029	-	-	-
Facilities lease	$ 76,980	$ 50,980	$ 26,000	-	-
Total	$ 10,432,606	$ 8,013,003	$ 1,427,397	-	$ 992,206

(1) Does not include discount of $238,000 that related to the convertible note (see note 14 of the Consolidated Financial Statements).

(2) This amount reflects our accrued severance pay liability. Out of this amount, $937,000 has been previously funded by our contributions to employee plans. During the first quarter of year 2006, $370,000 were paid to employees as part of the sale of Communication segment on December 2005. The time payment of the rest of accrued severance liability in the amount of $820,000, cannot be predicted and, as a result, this amount is presented in the more than 5 years column.

(3) This amount reflects the unsettled liability to the remaining of PacInfo creditors. The time of this payment, in whole or in part, cannot be predicted and, as a result, this amount is presented in the more than 5 years column.

(4) This amount reflects the trade payables, employees and payroll accruals, deferred revenues, accrued expenses and other liabilities and deferred taxes presented in our balance sheet.

In addition, the above table does not include (i) contingent obligations to pay royalties to the Office of the Chief Scientist and to the Overseas Marketing Fund since the total amount to be paid under the terms of those agreements is a function of future sales, and (ii) contingent legal claims (see note 15 of the Consolidated Financial Statements).

Item 6: Directors, Senior Management and Employees

6A. Directors and Senior Management

The following is a listing of our directors, senior officers and key employees:

Name	Age	Position
Mr. Edouard Cukierman	41	Chairman of the Board of Directors
Mr. Adiv Baruch	43	Director, President and Chief Executive Officer
Mr. Joel Adler	52	Director
Mr. Avishai Gluck (2)	34	Director
Mr. Andrea Mandel-Mantello	47	Director
Mr. Ronen Zavlik (1)	45	Director
Mr. Jean-Marc Bally	35	Director
Dr. Yael Ilan (1)	57	External Director
Prof. Adi Raveh (1)(2)	58	External Director
Mr. Nehemia Kaufman	57	Chief Financial Officer
Mr. Offer David	47	Chief of Operations
Mr. Shai Sadeh	51	Senior VP, Connectivity Segment

(1) Member of the Audit Committee.

(2) Member of the Remuneration Committee.

Mr. Edouard Cukierman, 41, has been a director since May 2003, and Chairman of the Company since June 2003. Mr. Cukierman is the founder and CEO of Catalyst Investments and Chairman of Cukierman & Co. Investment House. Since 1993, Cukierman & Co, Investment House realized 1.7 Billion € of Corporate Finance transactions. Mr. Cukierman is a former Board member of Orex, MTI Wireless and other technology companies. He was the President and CEO of the Astra Fund. He served as a Board member of Otto Capital, a Singapore based VC fund. He was the former President of the Supervisory Board of Citec-Environment and Services in Paris. He is currently a Board member of Lamina Technologies in Switzerland. He is also on the Board of Sar-El, an Israeli Defense Forces volunteer organization. He serves as an Officer of the IDF Spokesman Unit, and is part of the Hostage & Crisis Negotiation Team (Reserves). Mr. Cukierman holds an MBA from INSEAD, Fontainebleau, France and a B.Sc from the Technion - Israel Institute of Technology.

Mr. Adiv Baruch, 43, has been a director since February 2004 and the Company's President and CEO service provider since January 1, 2004. From June 2004 he also serves as the CEO service provider of the Company's subsidiary, BOScom Ltd. From 1999 to 2003 he served as Executive VP Business Development of Ness Technologies, and has expertise in the Telecom and High-tech industries. Mr. Baruch is also a former partner and active director of IPEX, acquired by Ness. He has served as founder and an executive or director for several IT companies and Internet start-ups, and was significantly involved in the M&A process and in assisting these companies in their global expansion. Mr. Baruch is actively involved as the chairman of the Israeli Export Institute Hi-Tech and Telecom Division, and serves as a director in several public and private companies, including MLL Software Industries Ltd. and Maayan Ltd., two Israeli public company traded on the TASE, as well as for Zone 4 Play Inc. He has a B.Sc. in Information Systems and Industrial Engineering from the Technion – Israel Institute of Technology.

Mr. Joel Adler, 52, has been a director since June 2005. Mr. Adler is a partner in Speechly Bircham, a leading law firm in the City of London. He specializes in mergers & acquisitions and corporate finance work, in particular international corporate transactions. Joel advises a number of major Israel based companies on their business activities in the UK and Europe and on IPO of foreign companies on the London Stock Exchange (AIM). Mr. Adler joined Speechly Bircham as a partner in 1999 from Rakisons (now part of US law firm Steptoe & Johnson), where he was head of the corporate department for 12 years. Previously was with other leading law firms in London Herbert Oppenheimer Nathan & Vandyck, London (now Denton Wilde Sapte) and D JF Reeman. He is a member of the Israeli Bar and worked for the well known Israeli law firm Caspi & Co for two years. Mr. Adler holds a law degree from Bar Ilan University in Israel, and a LLM from London University. He was born and educated in Vienna.

Mr. Avishai Glück, 34, has been a director since February 2004. He serves as the Executive Vice President of Catalyst Investments. Mr. Glück has financial management, accounting and tax consultation experience, as well as extensive knowledge of the Israeli high tech market, having screened hundreds of companies for Catalyst and as a senior corporate consultant at E&Y Israel. Mr. Glück currently serves as a director in Onset Technology Ltd. Prior to joining Catalyst, he held the position of Corporate Finance Consultant and accountant with Ernst & Young's Israeli affiliate Kost Forer & Gabbay, a leading Israeli CPA firm with a dominant position among Israeli technology companies. Mr. Glück has a BA from Tel-Aviv University in Accounting and Economics and is a licensed CPA.

Mr. Andrea Mandel-Mantello, 47, has been a director since November 2003. Mr. Mandel-Mantello is Founder and Partner of Advicorp PLC, a UK Investment Bank regulated by the UK Financial Services Authority. From 2000 to 2001 he was an advisor to a US based private equity group on business development in Israel. Prior to his work at Advicorp, Mr. Mandel Mantello spent 9 years at SBC Warburg (now known as UBS) in London in various senior management positions including Executive Director of SBC Warburg, member of the Board of SBC Warburg Italia SIM S.p.A, and Country Head for Israel. Prior to working at SBCW Mr. Mandel-Mantello spent 2 years at Chemical Bank International Ltd. in London and 3 years at Banca Nazionale dell'Agricoltura in Rome. During his investment banking career Mr. Mandel-Mantello has pioneered several financial instruments in Italy including securitisations, equity linked products and high yield bonds. He is currently on the boards of Telit Plc (telecom equipment) listed on AIM; Coraline S.p.A., a company set up to acquire the business of Frette S.p.A. (luxury homeware products); and Moto S.p.A., a joint venture between Cremonini S.p.A. and Compass Group Plc (motorway restaurants). He holds a Bachelors degree in Economics and Political Science from Yale University.

Mr. Ronen Zavlik, 45, has been a director since May 2003. He is a partner in the CPA firm of Grinberg-Zavlik, which he founded in 1987. His firm provides a wide range of audit, tax consultancy and CFO services to a wide variety of companies. Mr. Zavlik provides internal auditing services to a number of large companies whose shares are traded on the Tel Aviv Stock Exchange, including Ma'ariv Holdings Ltd, Extra Plastic Ltd., Israel Land Development Malls and Shopping Centers Ltd., Rapid Vision Ltd., and Optima Management and Investments 66 Ltd. Mr. Zavlik holds a B.A. in Accountancy and Business Management from the College of Management in Tel-Aviv. Mr. Zavlik is a licensed CPA in Israel and a member of the Institute of Certified Public Accountants in Israel.

Mr. Jean-Marc Bally, 35, was elected to the Board in May 2006. Since March 2006 he has been serving as the General Partner & Managing Director of Schneider Electric Ventures, a venture capital company with €50 Millions under management. Previously, Mr. Bally was an Investment Partner at Schneider Electric Ventures for 5 years where he was responsible for communications and IT industries investments across Europe focusing in particular on microtechnologies and electronics. Mr Bally currently serves as a director in Ixiasoft Inc (Canada), ConnectBlue ab (Sweden), Tracetel SA (France) and HBA SA (France) and holds an observer position in Microbridge Technologies Inc. (Canada), Netasq SA (France) and Tronic's Microsystems SA (France). Prior to his engagement with Schneider Electric Ventures, Mr. Bally spent 5 years in Corporate Finance in Schneider Electric SA. Mr Bally holds a Masters (License) degree in Mathematics from Blaise Pascal University – Clermont-Ferrand, an additional Masters degree in Business Management from Grenoble Graduate School of Business, and an executive education from INSEAD.

Dr. Yael Ilan, 57, has been an external director since November 2002. Dr. Ilan is the president of Yedatel Ltd., an economic consulting company, and serves as a director of CI Systems in the technology sector. Until 1998 she served on the board of Bezeq - Israel's Telecommunication Company in which she headed the committee of technological policy and infrastructure and was a member of the audit committee and the committee for strategic planning and investment. From 1998 through 2000 she served as an external director of Elron Industries. In 2000-01 she founded and managed Optichrom, an optical component start-up. From 1995 through 2000 Dr. Ilan served as the head of program of the Broad Band Communication, a consortium of MAGNET – the Israeli Government hi-tech cooperation initiative. From 2002 Dr. Ilan serves as the industrial coordinator in the Electrical Engineering Department of the Technion. Dr. Ilan holds a Ph.D. in industrial engineering from Stanford University, a Ph.D. in physical chemistry from the Hebrew University and a Masters degree in business administration from the Hebrew University.

Prof. Adi Raveh, 58, has been an external director since February 2003. Prof. Raveh is a professor and head of the B.A. Program at the School of Business Administration, Hebrew University, Jerusalem. Since 1998 he serves as an external director at Clal Insurance Company Ltd. Since 2002 he serves as the Chairman of the Board of Jerusalem Capital Markets Underwriting limited. He also serves as a director of Meitav – a Mutual Funds Management company (since 1995), and as a director of Peilim – a Portfolio Management company – part of Bank Hapoalim Group (since 1996). Since 1992 he is a director who represents the Hebrew University at Hi-Tech – a Technology Entrepreneurship located at Har-Hahotzvim, Jerusalem. Prof. Raveh also serves as a director of two start-up companies: A.D.M (Advanced Dialysis Methods Ltd.) and Virtouch Ltd. Between 1994-1999 he served as a director and a member of the executive committee of the Bank of Jerusalem, Ltd. Between 1996-1998 he served as a member of an ad-hoc committee of the Council of Higher Education. In 1999 he served as a member of the Budget Committee for Research at the Israel Science Foundation. Prof. Raveh holds a Ph.D. from the Hebrew University. He is the author of about 50 professional publications, was a visiting professor at Stanford University, Columbia University and Baruch College, N.Y., and has received a number of grants and honors.

Mr. Nehemia Kaufman, 57, has been a CFO and financial service provider to the Company through Mocha Global Managerial Services Ltd. ("Mocha Global"), of which he is the Managing Director, since September 2002. Before then, from May 2002, he served as CFO and financial services provider through Mocha Global, of the Company's subsidiary, BOScom Ltd. From 1999 to 2002 he co-founded and served as CFO of Trellis Photonics Ltd., from 1997 to 1999 Mr. Kaufman was self-employed as a CFO service provider, from 1995 to 1997 he served as CFO of Computer Direct Ltd. (TASE: CMDR), and from 1993 through 1995 he served as CFO of Rogosin Enterprises Ltd. (TASE: ROGO). Mr. Kaufman holds an MBA degree from the Hebrew University in Jerusalem (graduated with distinction) and a BA degree in Economics and Business Administration from Haifa University.

Mr. Offer David, 47, has been Chief of Operations since August 2004. From 2003 to 2004, Mr. David was Projects Dept. Manager at Arkal Filtration and Water Treatment Systems, and from 1977 to 2003 he was with the Israel Navy, where he held select command assignments, retiring as a Captain (Navy). Mr. David has an MBA in Business Management from Haifa University Graduate School of Business Administration, a B.Sc. in Chemical Engineering from the Technion – Israel Institute of Technology, and graduated a 1-year course at the Naval Command College (NCC – Millennium class) in Newport, Rhode Island in the USA.

Mr. Shai Sadeh, 51, has been Senior VP, Connectivity Segment since April 2004. Previously, from 1994 to 2004 he served in several executive capacities at Sintec/Formula Group; he was the founder and CEO of Tochna Veod, a Formula Group company; Manager of IBM iSeries (AS/400) Technical Support team; and founder of the Sintec Group Professional Services Division. Mr. Sadeh has a BA in Social Sciences from Tel Aviv University and has studied towards an MBA at the University of Tel Aviv.

In addition, **Mr. Zvi Greengold**, 54, is an observer at Board of Director meetings. Mr. Greengold served as a director from June 2002 to August 2004, and served as Chairman from September 2002 to June 2003. He also provides consultancy services to BOScom. Mr. Greengold is currently self-employed in the field of industrial management, promotion and consulting, and serves as Chairman of Polysac Ltd., an Israeli public company traded on the TASE, and Chairman of the Economic Management of Kibbutz Ein-Gedi.

6B. Board Compensation

The directors who are not executive officers are paid a fee for their services as directors to the extent that such fees are approved by a general meeting of our shareholders. Until February 18, 2003, only the Company's external directors were paid for their service on the Company's Board of Directors and its committees. As resolved by the shareholders, the external directors are compensated according to the maximum rate permitted (now and in the future) by Israeli law and regulation. The current rates for companies the size of ours, are an annual fee of approximately $5,750, and a participation fee in meetings of approximately $300. On February 18, 2003 the shareholders approved compensation for all directors who are not employees or consultants[(1)], including directors appointed in the future, at the same rate the external directors of the Company are paid. On June 26, 2003, the Board of Directors resolved to reduce the annual fee for all directors by 18%, effective July 1, 2003, as part of a cost reduction plan, and on June 29, 2005 the annual fee was reinstated as before the 18% reduction, retroactively from January 1, 2005. Additionally, the Company's directors are granted options (see "Share Ownership" ahead). The Company does not have any contracts with any of its non employee/consultant directors, that would provide for benefits upon termination of service.

The following table presents the total compensation paid to or accrued on behalf of all of our directors and officers as a group for the year ended December 31, 2005:

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[1] However, on August 5, 2004 the shareholders approved an exception – that Edouard Cukierman, Chairman of the Board, will receive remuneration (retroactively from the date of his nomination in May 2003) as a Board member, under the same terms as all other directors, despite his being (indirectly) a controlling shareholder and senior executive of Cukierman & Co. Investment House Ltd. (a service provider to the Company). Additionally, in August 2004 the shareholders ratified the audit committee and Board of Directors' resolutions that the consulting fee paid to Mr. Zvi Greengold, be in addition to the remuneration and options Mr. Greengold received as a director of the Company until August 2004.

	Salaries, Directors' Fees, Service Fees[2], Commissions and Bonuses	Pension, Retirement and Similar Benefits
All directors and officers as a group (then 16 persons)	$ 1,492,254	$ 78,742

Such remuneration does not include amounts expended by the Company for expenses, including business association dues and expenses reimbursed to said officers, and other fringe benefits commonly reimbursed or paid by companies in the location in which the particular executive officer of the Company is located, as the case may be.

6C. Board Practices

Our Board of Directors is currently comprised of nine directors, including two external directors. The directors are elected at the annual shareholders meeting, by a simple majority, to serve until the next annual meeting of our shareholders and until their respective successors are elected and qualified, with the exception of the external directors who, by rule of the Companies Law 1999, serve for three years. Our Articles of Association provide that the number of directors in the Company (including external directors) shall be determined from time to time by the annual general meeting of shareholders, provided that it shall not be less than four nor more than eleven. Our Articles of Association provide that the directors may appoint additional directors (whether to fill a vacancy or to expand the Board) so long as the number of directors so appointed does not exceed the number of directors authorized by shareholders at the annual general meeting, and such appointees shall serve until the next annual general meeting.

The Company has determined that Messrs. Adler, Bally, Glück, Mandel-Mantello, Zavlik and Raveh and Ms. Ilan, who constitute a majority of the Board of Directors, are independent directors under the applicable Nasdaq Stock Market requirements.

Under the Companies Law and the regulations promulgated pursuant thereto, Israeli companies whose shares have been offered to the public in, or that are publicly traded outside of, Israel are required to appoint at least two natural persons as “external directors”. No person may be appointed as an external director if the person, or a relative, partner or employer of the person, or any entity under the person’s control, has or had, on or within the two years preceding the date of the person’s appointment to serve as an external director, any affiliation with the company to whose board the external director is proposed to be appointed or with any entity controlling or controlled by such company or by the entity controlling such company. The term affiliation includes an employment relationship, a business or professional relationship maintained on a regular basis, control and service as an office holder (which term includes a director).

In addition, no person may serve as an external director if the person’s position or other business activities create, or may create, a conflict of interest with the person’s responsibilities as an external director or interfere with the person’s ability to serve as an external director or if the person is an employee of the Israel Securities Authority or of an Israeli stock exchange. If, at the time of election of an external director, all other directors are of the same gender, the external director to be elected must be of the other gender. The external directors must have professional qualifications to serve as a director, and at least one of the external directors must be a financial expert.

[2] We receive CFO services from Mocha Global Managerial Services Ltd., and the services are provided by Mr. Nehemia Kaufman. We receive managerial/CEO services from Signum Ltd., and the services are provided by Mr. Adiv Baruch. Figure also includes consulting and other fees paid to Cukierman & Co. Investment House Ltd., of which Mr. Edouard Cukierman, the Company’s Chairman, is (indirectly) a controlling shareholder.

External directors are elected for a term of three years and may be re-elected for one additional three-year term. Each committee of a company's Board of Directors that has the authority to exercise powers of the Board of Directors is required to include at least one external director and its audit committee must include all external directors.

External directors are elected at the general meeting of shareholders by a simple majority, provided that the majority includes at least one-third of the shareholders who are not controlling shareholders, who are present and voting, or that the non-controlling shareholders who vote against the election hold one percent or less of the voting power of the company.

Under the Companies Law an external director cannot be dismissed from office unless: (i) the Board of Directors determines that the external director no longer meets the statutory requirements for holding the office, or that the external director is in breach of the external director's fiduciary duties and the shareholders vote, by the same majority required for the appointment, to remove the external director after the external director has been given the opportunity to present his or her position; (ii) a court determines, upon a request of a director or a shareholder, that the external director no longer meets the statutory requirements of an external director or that the external director is in breach of his or her fiduciary duties to the company; or (iii) a court determines, upon a request of the company or a director, shareholder or creditor of the company, that the external director is unable to fulfill his or her duty or has been convicted of specified crimes.

Our Articles of Association provide that a director may appoint, by written notice to us, any individual to serve as an alternate director, up to a maximum period of one month, if the alternate is not then a member of the Board. Any alternate director shall have all of the rights and obligations of the director appointing him or her and shall be subject to all of the provisions of the Articles of Association and the Companies Law. Unless the time period or scope of any such appointment is limited by the appointing director, such appointment is effective for all purposes for a period of one month, but in any event will expire upon the expiration of the appointing director's term, removal of the alternate at an annual general meeting, the bankruptcy of the alternate, the conviction of the alternate for an offense under Section 232 of the Companies Law, the legal incapacitation of the alternate, the removal of the alternate by court order or the resignation of the alternate. Currently, no alternate directors have been appointed. A director may appoint an alternate to serve in his place as a member of a committee of the Board of Directors, even if the alternate currently serves as a director, as long as he does not already serve as a member of that committee.

Officers serve at the discretion of the Board or until their successors are appointed.

According to the provisions of our Articles of Association and the Companies Law, the Board of Directors convenes in accordance with the Company's requirements, and at least once every three months. In practice, the Board of Directors convenes more often. Furthermore, our Articles of Association provide that the Board of Directors may also pass resolutions without actually convening, provided that all the directors entitled to participate in the discussion and vote on a matter that is brought for resolution agree not to convene for discussion of the matter. Resolutions passed without convening, shall be passed by an ordinary majority (just as in the case of convened meetings) and shall have the same effect as resolutions passed at a duly convened meeting.

In accordance with the requirements of the Nasdaq Stock Market, commencing on July 31, 2005, nominees for directors will be recommended for selection by a majority of the independent directors.

Audit Committee:

The Companies Law requires public companies to appoint an audit committee comprised of at least three directors, including all of the external directors, and further stipulates that the chairman of the Board of Directors, any director employed by or providing other services to a company and a controlling shareholder or any relative of a controlling shareholder may not be members of the audit committee. The responsibilities of the audit committee include identifying flaws in the management of a company's business, making recommendations to the Board of Directors as to how to correct them and deciding whether to approve actions or transactions which by law require audit committee approval. An audit committee may not approve an action or transaction with a controlling shareholder or with an office holder unless at the time of approval two external directors are serving as members of the audit committee and at least one participated in the meeting at which the action or transaction was approved.

In order to comply with the Sarbanes-Oxley Act of 2002, the Board of Directors has expanded the role of the Company's Audit Committee to provide assistance to the Board of Directors in fulfilling its legal and fiduciary obligations with respect to matters involving the accounting, auditing, financial reporting and internal control functions of the Company. In carrying out these duties, the Audit Committee must meet at least once in each fiscal quarter with management at which time, among other things, it reviews, and either approves or disapproves, the financial statements of the Company for the immediately preceding fiscal quarter and conveys its conclusions in this regard to the Board of Directors. The Audit Committee also monitors generally the services provided by the Company's external auditors to ensure their independence, and reviews, and either approves or disapproves, all audit and non-audit services provided by them. The Company's external and internal auditors must also report regularly to the Audit Committee at its meetings, and the Audit Committee discusses with the Company's external auditors the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the Company's financial statements, as and when it deems it appropriate to do so.

Under the Sarbanes-Oxley Act of 2002, the Audit Committee is also responsible for the appointment, compensation, retention and oversight of the work of the Company's external auditors. However, under Israeli law, the appointment of external auditors requires the approval of the shareholders of the Company. Accordingly, the appointment of the external auditors is approved and recommended to the shareholders by the Audit Committee and ratified by the shareholders. Furthermore, pursuant to the Company's Articles of Association, the Board of Directors is the organ that has the authority to determine the compensation of the external auditors, however, the Board of Directors recently delegated its authority to the audit committee, so that a second discussion by the Board of Directors shall not be necessary.

The Company has determined that the members of the audit committee meet the applicable Nasdaq Stock Market and SEC independence standards.

In 2003 the Company adopted an Audit Committee Charter which sets forth the responsibilities of the committee. A copy of this charter is available on the Company's website.

Remuneration Committee:

The role of the Remuneration Committee is to provide assistance and make recommendations to the Board of Directors regarding matters related to the compensation of employees of the Company. The Remuneration Committee of the Company meets on an ad hoc basis, and in the past has not always been active. Under the Israeli Companies Law, generally the Remuneration Committee may only make recommendations to the Board of Directors concerning the grant of options (and in some cases, such grants may need approval of the audit committee, the Board of Directors and the shareholders as well).

Commencing July 31, 2005, in accordance with Nasdaq rules, the compensation of the Company's chief executive officer and other executive officers is recommended to the Board of Directors by a majority of the independent directors on the Company's Board of Directors.

6D. Employees

As of December 31, 2005, we employed 98 employees (including employees of our subsidiaries as well). All of our employees are employed in Israel. Of the 98 employees, 20 employees are in administration and finance, 31 employees in marketing and sales, 26 employees in research and development, 6 employees in technical support, and 15 employees in manufacturing and related activities. Following the sale of the Communication segment in December 2005, the number of employees reduced to 70 employees as of March 31, 2006. As of December 31, 2004, we employed 93 employees worldwide. As of December 31, 2003, we employed 57 employees worldwide (the increase in the number of employees in 2004 compared to 2003, is mainly due to the acquisition of Odem). We believe that our relations with our employees are satisfactory. We have not experienced a collective labor dispute or strike.

Israeli labor laws are applicable to all of our employees in Israel. The laws principally concern the length of the work day, minimum daily wages for professional workers, contributions to a pension fund, insurance for work-related accidents, allotment of vacation and sickness days, procedures for dismissing employees, determination of severance pay and other conditions of employment.

All Israeli employers, including us, are required to provide a certain escalation of wages in relation to the increase in the Israeli Consumer Price Index. The specific formula of such escalation varies according to agreements reached between the Government of Israel, the Manufacturers' Association and the Histadrut, the general labor union in Israel. The majority of our employees are covered by comprehensive life and pension insurance policies. The remainder are covered by retirement accounts. Israeli employees and employers are required to pay predetermined sums to the Israel National Insurance Institute which amounts also include, since January 1, 1995, payments for national health insurance.

6E. Share Ownership

As of May 31, 2006, out of our directors and officers, then consisting of 11 persons, only Mr. Edouard Cukierman, Mr. Baruch Adiv and Mr. Joel Adler, all directors of the Company, held ordinary shares of the Company. Mr. Edouard Cukierman held 21,666 ordinary shares, Mr. Baruch Adiv held 65,000 ordinary shares, and Mr. Joel Adler held 108,695 ordinary shares[3]. As of May 31, 2006 we have granted our officers and directors options to acquire an aggregate of 879,758 ordinary shares under our Stock Option Plans[4]. The average exercise price of these options is $2.85 per option. Of these options, none have been exercised until now and 336,733 had vested as of May 31, 2006.

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[3] Mr. Joel Adler, a director of the Company, is one of the beneficiaries of a discretionary trust that owns Brada Investments Limited, a shareholder of the Company. Number of ordinary shares does not include 65,217 options of Brada Investments Limited to purchase ordinary shares of the Company.

[4] Includes options granted to Mocha Global Managerial Services Ltd. and to Signum Ltd.. Does not include 65,217 options of Brada Investments Limited, a shareholder of the Company owned by a discretionary trust of which Mr. Joel Adler, a director of the Company, is one of the beneficiaries.

On February 18, 2003 the Company's shareholders approved the grant of 7,500 options to any future first-time director, who is not an employee or paid consultant of the Company. The terms and conditions of the grant, as approved by the shareholders, are as follows: the exercise price shall be $1.84; the options will vest over a three year period from the date of grant (one-third vesting every year) and be exercisable within five years from the date of grant. As the share price has fluctuated over the past year, at the recommendation of the Board of Directors the shareholders resolved on August 5, 2004, that future issuances to new directors will have an exercise price equal to the average closing price of the shares on the Nasdaq National Market on the 20 trading days preceding their appointment.

The shareholders approved on August 5, 2004, that Edouard Cukierman, Chairman of the Board, will be granted 7,500 options under the same terms as all other directors, despite his being (indirectly) a controlling shareholder and senior executive of Cukierman & Co. Investment House Ltd. (a service provider to the Company), and therefore not eligible for options according to the current shareholder resolution.

The shareholders also approved on June 29, 2005 to grant all directors of the Company (including external directors), who are not employees or consultants of the Company (or who have been granted options similar to all directors despite their employment and/or services), an additional 7,500 options to purchase ordinary shares of the Company on the third anniversary of their service as directors, under the same terms approved by the shareholders on February 18, 2003 and as amended on August 5, 2004.

On June 29, 2005, the shareholders approved the grant of 20,000 options to purchase ordinary shares of the Company under the 2003 Israeli Share Option Plan, to Signum Ltd., the company that provides management services to the Company, as a bonus for year 2004, at an exercise price of $3.08 per share, vesting over 24 months from date of grant in 24 equal parts, 1/24 per month, exercisable until five years from date of grant. The shareholders also approved, as a bonus for the year 2005, subject to the Company achieving profitability in the financial statements as of December 31, 2005, to grant Signum Ltd. an additional 20,000 options under the 2003 Israeli Share Option Plan, at an exercise price of $3.08 per share, with a date of grant as of the date the Board approves profitable financial statements for the year 2005, vesting over 12 months from date of grant in 12 equal parts, 1/12 per month, exercisable until five years from date of grant. However, the milestone was not reached and the options were not granted.

On May 18, 2006 the shareholders approved to (i) grant Mr. Adiv Baruch[5] a bonus of 65,000 ordinary shares (for no consideration), (ii) to grant Mr. Edouard Cukierman, the Chairman of the Board of Directors, a bonus of 21,666 ordinary shares (for no consideration), and (iii) to grant Signum Ltd. and Edouard Cukierman 187,100 options and 233,876 options, respectively, to purchase ordinary shares of the Company, pursuant to the Company's 2003 Israeli Share Option Plan, at an exercise price of $2.68 which is equal to the average closing price of the Company's shares on the Nasdaq National Market on the 20 trading days preceding the shareholders' meeting date at which the grant was approved (the "Grant Date"), to be vested in three equal parts on the first, second and third anniversary of the Grant Date, for a maximum exercise period of 3 years from the vesting date of each portion of the Grant.

Share Option Plans

The purpose of the Share Option Plans is to enable us to attract and retain qualified persons as employees, officers, directors, consultants and advisors and to motivate such persons by providing them with an equity participation in the company. The Section 102 Plan is designed to afford qualified optionees certain tax benefits under the Israel Income Tax Ordinance. The Share Option Plans will expire 10 years after their adoption, unless terminated earlier by the Board of Directors.

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[5] Mr. Baruch is one of the controlling shareholders of Signum Ltd., that provides management services to the Company, and serves, pursuant to the management agreement in the capacity of President and Chief Executive Officer of the Company and also, since February 2004, serves as a director.

The Share Option Plans are administered by the Board of Directors which has broad discretion, subject to certain limitations, to determine the persons entitled to receive options.

Under the Share Option Plans, the terms and conditions under which options are granted and the number of shares subject thereto shall be determined by the Board of Directors. The Board of Directors also has discretion to determine the nature of the consideration to be paid upon the exercise of an option under the Share Option Plans. Such consideration generally may consist of cash, or, at the discretion of the Board of Directors, cash and a recourse promissory note.

Stock options issued as incentive stock options pursuant to the ISO/RSO Plan will only be granted to our employees, including those of all subsidiaries. The exercise price of incentive stock options issued pursuant to the ISO/RSO Plan must be at least equal to the fair market value of the ordinary shares as of the date of grant. The price per share under options awarded pursuant to the Section 102 Plan may be any price determined by the Board.

The ordinary shares acquired upon exercise of an option are subject to certain restrictions on transfer, sale or hypothecation. Options are exercisable and restrictions on disposition of shares lapse pursuant to the terms of the individual agreements under which such options were granted or shares issued.

Due to a tax reform in Israel, after January 1, 2003 the Company may not grant options pursuant to an “old” Section 102 Plan. Therefore, the Company may not grant any more options pursuant to the 2000 and 1995 Plans described below. Previous grants under these Plans remain unaffected. In any event, after the adoption of the 2003 Plan (see below), the Board of Directors resolved that no further grants shall be made from the previously adopted plans.

2003 Plan

In May 2003 the Company’s shareholders approved the adoption of the 2003 Israeli Stock Option Plan, pursuant to which 625,000 ordinary shares were reserved for purchase by the employees, directors, consultants and service providers of the Company and its subsidiaries. Subsequently, the shareholders approved an increase of the shares reserved for issuance under the Plan, to 1 million, and then to 1.5 million. The Board of Directors has resolved that no further grants shall be made from the previous plans. The Company has elected the benefits available under the “capital gains” alternative. Pursuant to the election made by the Company, capital gains derived by optionees arising from the sale of shares derived from the exercise of options granted to them under Section 102, will be subject to a flat capital gains tax rate of 25% (instead of the gains being taxed as salary income at the employee’s marginal tax rate). However, as a result of this election, the Company will no longer be allowed to claim as an expense for tax purposes the amounts credited to such employees as a benefit when the related capital gains tax is payable by them, as the Company was previously entitled to do. The Company may change its election from time to time, as permitted by the Tax Ordinance. There are various conditions that must be met in order to qualify for these benefits, including registration of the options in the name of a trustee (the “Trustee”) for each of the employees who is granted options. Each option, and any ordinary shares acquired upon the exercise of the option, must be held by the Trustee for a period commencing on the date of grant and ending no earlier than 24 months after the date of grant.

As of December 31, 2005, we had 572,503 options outstanding under the 2003 plan, 30,000 at an exercise price of $3.08 per share, 314,282 at an exercise price of $3.00 per share, 15,000 at an exercise price between $2.28 to $2.48 per share, 140,221 at an exercise price between $1.84 to $2.00 per share, and 73,000 at an exercise price of less than $0.01 per share. 292,909 options were vested as of December 31, 2005.

2001 Plan

In March 2002, the Company's shareholders approved the adoption of the 2001 Stock Option Plan, pursuant to which 250,000 ordinary shares were reserved for purchase by the Company's employees, directors, consultants or service providers, as determined by the Board of Directors or its authorized sub-committee. As of December 31, 2005, we had 98,741 options outstanding under this plan, 75,000 at an exercise price of $4.00 per share and 23,741 at an exercise price of $6.80 per share. All of the outstanding options had vested as of December 31, 2005.

2000 Plan

In April 2001, the Company's shareholders approved our 2000 Employees Incentive Share Option Plan, pursuant to which 112,500 ordinary shares were reserved for purchase. The plan is subject to Section 102 of the Israeli Income Tax Ordinance. As of December 31, 2005, we had 40,825 options outstanding under this plan, 33,325 at an exercise price of $28.00 per share and 7,500 at an exercise price of $6.80 per share. All of the outstanding options had vested as of December 31, 2005.

1999 Plan

In November 1999, the Company's shareholders approved the adoption of the 1999 Stock Option Plan (incentive and restricted stock options). The 1999 plan has 193,750 ordinary shares reserved in its favor. As of December 31, 2005, 44,257 of the options granted under this plan had been exercised, and no options were outstanding.

1995 Plans

In December 1995, we adopted the following plans: (i) the Stock Option Plan (Incentive and Restricted Share Options) (the "ISO/RSO Plan"), which provides for the grant of incentive and restricted stock options and (ii) the Section 102 Stock Option/Stock Purchase Plan (the "Section 102 Plan" and together with the ISO/RSO Plan, the "Share Option Plans").

The Share Option Plans provide for the grant of options to purchase up to an aggregate of 50,000 ordinary shares. As of December 31, 2005, 22,300 of the options granted under this plan had been exercised, and there were 9,463 more options outstanding, 7,213 at an exercise price of $17.00 per share, and 2,250 at an exercise price of $18.00 per share. All of the outstanding options had vested as of December 31, 2005.

Item 7: Major Shareholders and Related Party Transactions

7A. Major Shareholders

We are not directly or indirectly owned or controlled by another corporation or by any foreign government.

The following table presents, to the best of our knowledge, certain information as of May 31, 2006 with respect to each shareholder known to the Company to be the beneficial owner of more than 5% of our outstanding ordinary shares. Except where indicated, we believe, based on information provided by the owners, that the beneficial owners of the ordinary shares listed below have sole investment and voting power with respect to those shares. Applicable percentage ownership in the following table is based on 6,702,534 shares outstanding as of May 31, 2006.

Name and Address	Shares Beneficially Owned	
	Number	Percent
Catalyst Fund, LP (1) 3 Daniel Frisch Street, Tel-Aviv 64731, Israel	1,292,275	19.3%
Jacob and Sara Neuhof (2) 5 Yitzhak Berger Street, Rishon Letzion 75260, Israel	450,135	6.7%
Officers and directors as a group (3)	195,361	3.0%

(1) Does not include 207,000 options to purchase ordinary shares.

(2) Jacob Neuhof holds 225,861 ordinary shares and his spouse, Sara Neuhof, holds 224,274 ordinary shares. As they are husband and wife, each is deemed to indirectly hold the shares of the other, however, each disclaims beneficial ownership of the shares of the other.

(3) Does not include 879,758 options to purchase ordinary shares of the Company granted and currently held by Officers and/or Directors of the Company. Does not include 65,217 options of Brada Investments Limited, a shareholder of the Company owned by a discretionary trust of which Mr. Joel Adler, a director of the Company, is one of the beneficiaries.

The changes in holdings of the major shareholders over the last three years, are detailed to the best of our knowledge in the table below:

Holdings as of:	December 31, 2003	December 31, 2004	December 31, 2005
Catalyst Fund, LP	947,275	947,275	1,292,275
Jacob and Sara Neuhof	-	217,532	450,135

The shareholders' holdings reflect their voting rights. The Company's major shareholders do not have different voting rights than other shareholders, with respect to their shares.

As of May 31, 2006, there were 32 record holders of ordinary shares, of which 7 were registered with addresses in the United States, representing approximately 57% of the outstanding ordinary shares. However, the number of record holders in the United States is not representative of the number of beneficial holders nor is it representative of where such beneficial holders are resident since many of the ordinary shares are held of record by brokers and other nominees.

7B. Related Party Transactions

M&A Addendum to the Services Agreement of Cukierman & Co.

In 2003, the Company's audit committee and Board of Directors approved the engagement of Cukierman & Co. Investment House Ltd., to provide non-exclusive investment-banking services and business development services to the Company, effective as of April 15, 2003. Cukierman & Co. is a company indirectly controlled by Mr. Edouard Cukierman, who, since June 26, 2003, serves as Chairman of our Board of Directors, and is a co-manager of the Catalyst Fund, the Company's largest shareholder. For its services, Cukierman & Co. is paid a monthly sum of $10,000 plus VAT, in addition to a success fee of 4-6% for a consummated private placement. According to its terms, the Company may terminate the agreement at any time, by giving one month prior written notice. The agreement provided that the success fees for securing M&A transactions shall be discussed by the parties and drafted as a future addendum to the agreement. Such an addendum was approved on August 22, 2004, and it provides Cukierman & Co. with a success fee of 3.5% of the proceeds exchanged in an M&A transaction (see also Note 20a to the Consolidated financial statements).

Consulting Agreement between BOScom and Israel Gal

On June 29, 2005, at the recommendation of the audit committee and the Board of Directors, the shareholders approved a consultancy agreement between BOScom and Xorcom Ltd., a company controlled by Israel Gal, who was a director of the Company until May 10, 2005 and who was employed by the Company and BOScom in various positions, the most recent as CTO of VOIP products in BOScom. On December 31, 2004 the employment was terminated and Mr. Gal began providing consultancy services (as well as aid in the preparation of the Chief Scientist proposal and outsourcing of hardware) to BOScom, through his company, Xorcom Ltd. The term of the consultancy agreement was January 1, 2005 through June 30, 2005. The amount paid for Mr. Gal's consulting services amounted to $83,000, which was equal to the amount borne by the employer with respect to his salary as of December 31, 2004.

Assignment of Voting Rights to Mr. Yair Shamir

On February 5, 2004 the Audit Committee and Board of Directors approved an Assignment and Assumption Agreement, between the Company, Catalyst Investments L.P, and Mr. Yair Shamir (who was at the time a director of the Company and the Chairman of Catalyst Investments), according to which the voting rights in all but one of the Surf shares that the Company has an option to purchase from Catalyst (see Note 6 to the Consolidated Financial Statements), have been assigned to Yair Shamir. Pursuant to the agreement, Yair Shamir irrevocably undertook to assign the voting rights to the Company immediately upon the earlier to occur of the following, and subject to the receipt of a written request from the Company to effect such assignment: a) at the time Surf's shares are offered to the public in a public offering pursuant to a registration statement filed by Surf under the Securities Act of 1933 or a similar act of another jurisdiction, or b) the Company exercises its option to purchase the additional shares from Catalyst. In January 2006, the option to purchase from Catalyst shares in Surf expired.

Indemnity Undertakings by the Company to its Directors and Officers

On February 18, 2003, the Company's shareholders approved indemnity undertakings to its directors and officers (including future directors and officers as may be appointed from time to time), in excess of any insurance proceeds, not to exceed, in the aggregate over the years, a total amount of $2,500,000 (two and a half million dollars). On May 18, 2006, at the recommendation of the audit committee and the Board of Directors, the shareholders approved amendments to the indemnity undertakings, in light of changes to the Israeli Companies Law 1999.

Private Placement with Certain Investors, Including Catalyst

On June 30, 2005 the Company closed a Share Purchase Agreement with certain investors, including the Catalyst Fund L.P., which is the Company's largest shareholder. See Item 5B.

7C. Interests of Experts and Counsel

Not applicable.

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
2005	$ 12,585,000	46%
2004	$ 4,986,000	60%
2003	$ 4,172,000	73%

Legal Proceedings

In July 2002, the Company received a claim letter from a car leasing vendor, under which it claims that the Company's termination notice of the leasing agreement in March 2002 constituted a breach of the agreement and the car vendor is demanding compensation of which the nominal sum is approximately $292,000. No legal proceeding has yet been filed. At this stage, according to the Company's counsel assessment, the prospects of vendor to prevail and recover a significant amount, seem remote. The financial statements do not include any provision for this claim.

In September 2003, a supplier filed a legal claim in the amount of $107,000 against the Company's subsidiary (Odem). The claim alleges the breach of an agreement for the purchase of products. The Company's legal counsel is unable to reasonably estimate the outcome of this claim. In addition, the Company's management believes that the chances of the claim to succeed are remote. Accordingly, no provision has been included in the financial statements in respect of this claim.

In March 2006, BOSâNOVA EURL, a French company and former distributor of the Company, filed against the Company and others a claim with the French Tribunal, in the amount of 1.4 million Euros, alleging breach of exclusive distributor rights in France. An initial hearing is scheduled to take place in France on June 29, 2006. 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. The Company intends to petition the French Trade Tribunal to transfer the claim to an Israeli court in accordance with the choice of jurisdiction clause of the original distribution agreement and in that case the assessments of the Company's management is that the prospects of plaintiff to prevail and recover a significant amount, are remote. The Company's management is not yet able to assess the probability of successfully defending the existing claim if it is ultimately tried before the French Tribunal. The financial statements do not include any provision in respect of this claim.

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 IDEAL 1.13 million EUR for license fees including interest. In 1999, the Company and IDEAL entered into a license agreement according to which the Company was granted the right to distribute IDEAL's print engine embedded into the Company's PrintBOS product, and was to buy IDEAL's license for each installation for an agreed upon price. IDEAL claims that the number of installations performed by the Company in its PrintBOS product during the period of 1999 thru 2005, exceeded the licenses bought by the Company. The parties agreed that Company will cooperate with an Auditor appointed by IDEAL to check the number of licenses distributed by the Company. Based upon the Auditor's report rendered on May 1, 2006, IDEAL sent the above-mentioned demand letter. The Company rejects IDEAL's demand, *inter alia* due to the fact that it is based on erroneous findings contained in the Auditor's report. On June 11, 2006 the Company filed with the Haifa District Court in Israel a claim seeking, among other remedies, a declaratory judgment stating that the Auditor's report is materially flawed and should be disregarded. The Company's German counsel is of the opinion that a German court, if and when IDEAL files a claim against the Company in Germany pursuant to its demand, might very well summarily bar such a claim and transfer the matter to the jurisdiction of an Israeli court or stay such a claim until a verdict is handed down in the claim filed by the Company with the Haifa District Court. However, if such a claim is ultimately tried in Germany, then German counsel is of the opinion that there is a fair probability that the Company will be able to successfully defend a portion of the claim, the size of which cannot yet be determined. At this early stage the Company is not yet able to assess the final outcome of this demand. The financial statements do not include any provision in respect of this claim.

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.

8B. Significant Changes

Not applicable.

Item 9: <u>The Offer and Listing.</u>

9A. Offer and Listing Details

Since April 1996, our ordinary shares were traded, and our warrants, until they expired on April 2, 2000, were traded in the over-the-counter market in the United States, as quoted on the NASDAQ Small Capitalization Market under the symbol "BOSC" and "BOSCW," respectively. In September 2000, our shares started to be traded on the NASDAQ National Market. In January 2002, our shares began trading also on the Tel-Aviv Stock Exchange, under the symbol "BOSC", pursuant to the dual-listing regulations of the Israeli Securities Authority.

Prices set forth below are high and low reported closing prices for our ordinary shares as reported by NASDAQ for the period indicated. All share prices have been retroactively adjusted to reflect the 1:4 reverse stock split effected May 29, 2003.

Period		High	Low
2001	Annual	16.68	3.64
2002	Annual	7.92	2.40
2003	Annual	3.97	1.67
2004	Annual	4.00	1.62
	First Quarter	4.00	2.31
	Second Quarter	3.25	1.77
	Third Quarter	2.10	1.62
	Fourth Quarter	3.96	1.82
2005	Annual	3.74	2.15
	First Quarter	3.50	2.35
	Second Quarter	2.79	2.15
	Third Quarter	3.74	2.15
	Fourth Quarter	2.89	2.24
	December	2.42	2.24
2006	January	2.79	2.39
	February	2.70	2.57
	March	2.97	2.54
	April	2.71	2.55
	May	2.84	2.60
	June (until June 15)	2.79	2.62

9B. Plan of Distribution

Not applicable.

9C. Markets

Our securities are traded on the NASDAQ Stock Exchange (symbol “BOSC”) and the Tel-Aviv Stock Exchange (symbol “BOSC”).

9D. Selling Shareholders

Not applicable.

9E. Dilution

Not applicable.

9F. Expenses of Issue

Not applicable.

Item 10: Additional Information.

10A. Share Capital

Not applicable.

10B. Memorandum and Articles of Association

In March 2002 the Company adopted new Articles of Association, in view of the Israeli Companies Law, 1999. Since, certain articles of the Article of Association have been amended.

Set forth below is a summary of certain provisions governing our share capital. This summary is not complete and should be read together with our Memorandum and Articles of Association, copies of which have been filed as exhibits to the Annual Report.

1. Objects of the Company:

The company’s objects and purposes are outlined in the Memorandum of Association. These objects include: the development of sophisticated interfaces for IBM mainframe computers; the export of hi-tech products to Europe and the USA; and research, development and manufacture of products in the sphere of communication networks. The Company’s Articles of Association (Article 2) allow it to engage in any legal business.

2. Provisions related to the directors of the Company:

(a) Approval of Certain Transactions under the Companies Law:

We are subject to the provisions of the Israeli Companies Law 1999, which became effective on February 1, 2000.

The Companies Law codifies the fiduciary duties that an Office Holder has to the Company. An "Office Holder" is defined in the Companies Law as any Director, General Manager or any other Manager directly subordinate to the General Manager and any other person with similar responsibilities.

An Office Holder's fiduciary duties consist of a Duty of Loyalty and a Duty of Care.

The Duty of Loyalty includes: the avoidance of any conflict of interest between the Office Holder's position in the company and his personal affairs; the avoidance of any competition with the company; the avoidance of any exploitation of any business opportunity of the Company in order to receive personal advantage for himself or others; and a duty to reveal to the Company any documents or information relating to the Company's affairs that the Office Holder has received due to his position.

The Duty of Care requires an Office Holder to act at a level of care that a reasonable Office Holder in the same position would employ under the same circumstances. This includes the duty to utilize reasonable means to obtain (1) information regarding the appropriateness of a given action brought for his approval or performed by him by virtue of his position and (2) all other information of importance pertaining to the foregoing actions.

Under the Companies Law, all arrangements with regard to the compensation of Office Holders who are not Directors require the approval of the Board of Directors. Arrangements regarding the compensation of Directors require Audit Committee, Board and Shareholder approval.

The Companies Law requires that an Office Holder of a company promptly disclose to the company's Board of Directors any personal interest that he or she may have, and all related material information known to him in connection with any existing or proposed transaction by the company. This disclosure must be made by the Office Holder, whether orally or in writing, no later than the first meeting of the Company's Board of Directors which discusses the particular transaction. An Office Holder is deemed to have a "personal interest" if he, certain members of his family, or a corporation in which he or any one of those family members is a 5% or greater shareholder or exercises or has the right to exercise control, has an interest in a transaction with the company. An "Extraordinary Transaction" is defined as a transaction – other than in the ordinary course of business, not on market terms, or that is likely to have a material impact on the company's profitability, assets or liabilities.

In the case of a transaction that is not an Extraordinary Transaction, after the office holder complies with the above disclosure requirements, only board approval is required. The transaction must not be adverse to the company's interests. In the case of an Extraordinary Transaction, the company's Audit Committee and the Board of Directors, and, under certain circumstances, the shareholders of the company must approve the transaction, in addition to any approval stipulated by the Articles of Association. An Office Holder who has a personal interest in a matter that is considered at a meeting of the Board of Directors or the Audit Committee may not be present at this meeting or vote on this matter, unless a majority of the members of the Board of Directors or Audit Committee, respectively, have a personal interest in the matter, in which case they may all be present and vote, after which the matter must be approved by the shareholders of the Company.

(b) Borrowing powers exercisable by the Directors are not specifically outlined in the Company's Articles of Association, however, according to Article 15: "Any power of the Company which has not been vested in another organ pursuant to the Companies Law or the articles may be exercised by the Board of Directors".

(c) The Company's Articles of Association do not contain provisions regarding the retirement of directors under an age limit requirement, nor do they contain a provision requiring a Director to hold any Company shares in order to qualify as a Director.

For further reference to the Articles of Association regarding the Company's directors, see Item 6.

3. With regard to the rights, preferences and restrictions attaching to the shares, the Company's Articles of Association provide the following:

(a),(c),(d): Dividends, Rights to Share in the Company's Profits and Rights to Share in any Surplus upon Liquidation

All holders of paid-up ordinary shares of the Company have an equal right to participate in the distribution of (i) dividends, whether by cash or by bonus shares; (ii) Company assets; and (iii) the Company's surplus assets upon winding up, all pro rata to the nominal value of the shares held by them (Articles 4.2.2, 4.2.3 and 7.3).

The Board of Directors is the organ authorized to decide upon the distribution of dividends and bonus shares (Article 26). The shareholders who are entitled to a dividend are the shareholders on the date of the resolution for the dividend or on a later date if another date is specified in the resolution on the dividend's distribution. If the Board of Directors does not otherwise determine, any dividend may be paid by way of a cheque or payment order that shall be sent by mail in accordance with the registered address of the shareholder or person entitled thereto, or in the case of registered joint shareholders to the shareholder whose name appears first in the shareholders' register in relation to the joint shareholding. Every such cheque shall be drawn up to the order of the person to whom it is being sent. The receipt of a person who on the date of the dividend's declaration is listed in the shareholders' register as the holder of any share or, in the case of joint shareholders, of one of the joint shareholders shall serve as confirmation of all the payments made in connection with such share. For the purpose of implementing any resolution pursuant to the provisions of this paragraph, the Board of Directors may settle, as it deems fit, any difficulty arising in relation to the distribution of the dividend and/or bonus shares, including determine the value for the purpose of the said distribution of certain assets and resolve that payments in cash shall be made to members in reliance upon the value thus determined, determine regulations in relation to fractions of shares or in relation to non-payment of amounts less than NIS 200.

(b) Voting Rights

All holders of paid-up ordinary shares of the Company have an equal right to participate in and vote at the Company's general meetings, whether ordinary or special, and each of the shares in the Company shall entitle its holder, present at the meeting and participating in the vote, himself, by proxy or through a voting instrument, to one vote (Article 4.2.1). Shareholders may vote either in person or through a proxy or voting instrument, unless the Board of Directors prohibited voting through a voting instrument on a certain matter and stated so in the notice of the meeting (Articles 14.1 and 14.6). A resolution at the general meeting shall be passed by an ordinary majority unless another majority is specified in the Companies Law or the Company's Articles of Association (Article 14.3).

Directors of the Company stand for reelection at every annual meeting (Article 16.2) and not at staggered intervals, with the exception of the External directors who are appointed for a period of 3 years under the Israeli Companies Law, 1999. The Articles do not provide for cumulative voting.

(e) Redemption

The Company may, subject to any applicable law, issue redeemable securities on such terms as determined by the Board of Directors, provided that the general meeting of shareholders approves the Board of Director's recommendation and the terms determined (Article 27).

(g) Capital Calls by the Company

The Board of Directors may only make calls for payment upon shareholders in respect of monies not yet paid for shares held by them (Article 7.2).

(h) Discrimination

No provision in the Company's Articles of Association discriminates against an existing or prospective holder of securities, as a result of such shareholder owning a substantial amount of shares.

4. Modification of Rights of Holders of Stock

The general meeting of shareholders may resolve to create new shares of an existing class or of a new class with special rights and/or restrictions (Article 9.1).

So long as not otherwise provided in the shares' issue terms and subject to the provisions of any law, the rights attached to a particular class of shares may be altered, after a resolution is passed by the Company and with the approval of a resolution passed at a general meeting of the holders of the shares of such class or the written agreement of all the class holders. The provisions of the Company's Articles of Association regarding general meetings shall apply, mutatis mutandis, to a general meeting of the holders of a particular class of shares (Article 10.1). The rights vested in the holders of shares of a particular class that were issued with special rights shall not be deemed to have been altered by the creation or issue of further shares ranking equally with them, unless otherwise provided in such shares' issue terms (Article 10.2).

The above mentioned conditions are not more onerous than is required by law.

5. Annual General Meetings and Extraordinary General Meetings

General meetings shall be convened at least once a year at such place and time as determined by the Board of Directors but no later than 15 months from the last general meeting. Such general meetings shall be called "annual meetings". The Company's other meetings shall be called "special meetings" (Article 12.1). The annual meeting's agenda shall include a discussion of the Board of Directors' reports and the financial statements as required at law. The annual meeting shall appoint an auditor, appoint the directors pursuant to these articles and discuss all the other matters which must be discussed at the Company's annual general meeting, pursuant to these articles or the Law, as well as any other matter determined by the Board of Directors (Article 12.2).

The Board of Directors may convene a special meeting pursuant to its resolution and it must convene a general meeting if it receives a written requisition from any one of the following (hereinafter referred to as "requisition") (i) two directors or one quarter of the directors holding office; and/or (ii) one or more shareholders holding at least 5% of the issued capital and at least 1% of the voting rights in the Company; and/or (iii) one or more shareholders holding at least 5% of the voting rights in the Company (Article 12.3). A requisition must detail the objects for which the meeting must be convened and shall be signed by the persons requisitioning it and sent to the Company's registered office. The requisition may be made up of a number of documents in an identical form of wording, each of which shall be signed by one or more of the persons requisitioning the meeting (Article 12.4). Where the Board of Directors is required to convene a special meeting, it shall do so within 21 days of the requisition being submitted to it, for a date that shall be specified in the invitation and subject to the law (Article 12.5).

Notice to the Company's members regarding the convening of a general meeting shall be sent to all the shareholders listed in the Company's shareholders' register at least 21 days prior to the meeting and shall be published in other ways insofar as required by the law. The notice shall include the agenda, proposed resolutions and arrangements with regard to a written vote. The accidental omission to give notice of a meeting to any member, or the non-receipt of notice sent to such member, shall not invalidate the proceedings at such meeting (Article 12.6).

The shareholders entitled to participate in and vote at the general meeting are the shareholders on the date specified by the Board of Directors in the resolution to convene the meeting, and subject to the law (Article 14.1).

No discussions may be commenced at the general meeting unless a quorum is present at the time of the discussion's commencement. A quorum is the presence of at least two shareholders holding at least $33^{1}/_{3}$% of the voting rights (including presence through a proxy or a voting instrument), within half an hour of the time fixed for the meeting's commencement (Article 13.1). If no quorum is present at a general meeting within half an hour of the time fixed for the commencement thereof, the meeting shall be adjourned for one week, to the same day, time and place, or to a later time if stated in the invitation to the meeting or in the notice of the meeting (hereinafter referred to as "the adjourned meeting") (Article 13.2). The quorum for the commencement of the adjourned meeting shall be any number of participants.

The Articles of Association provide that all shareholder resolutions shall be passed by an ordinary (simple) majority of the votes cast, unless another majority is specified in the Companies Law or in the Articles (Article 14.3).

6. Limitations on the rights to own securities

There are no limitations on the rights to own the Company's securities, including the rights of non-residents or foreign shareholders to do so.

7. Change of Control

Under the 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. 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, unless determined otherwise by the court. A majority of votes approving the merger shall suffice, unless the company (like ours) was incorporated in Israel prior to the Companies Law of 1999, in which case a majority of 75% of the voting power is needed in order to approve the merger. Additionally, unless the court determines differently, a merger will not be approved if it is objected to by a majority of the shareholders present at the meeting, after excluding the shares held by the other party to the merger, by any person who holds 25% or more of the other party to the merger and by the relatives of and corporations controlled by these persons. Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties of the merger. Also, a merger can be completed only after all approvals have been submitted to the Israeli Registrar of Companies and provided that 30 days have elapsed since shareholder approval was received and 50 days have elapsed from the time that a proposal for approval of the merger was filed with the Registrar.

The Companies Law also 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. This rule does not apply if there is already another holder of 25% or more of the voting power at general meetings. Similarly, the 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 more than 45% of the voting power of the company. This rule does not apply if someone else already holds 45% of the voting power of the company. 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 tender offer requirements do not apply to companies whose shares are listed for trading outside of Israel if, under local law or the rules of the stock exchange on which their shares are traded, there is a limitation on the percentage of control which may be acquired or the purchaser is required to make a tender offer to the public.

Under the Companies Law, a person may not acquire shares in a public company if, after the acquisition, he will hold more than 90% of the shares or more than 90% of any class of shares of that company, unless a tender offer is made to purchase all of the shares or all of the shares of the particular class. The Companies Law also provides that as long as a shareholder in a public company holds more than 90% of the company's shares or of a class of shares, that shareholder shall be precluded from purchasing any additional shares (an exemption exists where the shareholder held prior to and following February 2000, over 90% of any class of shares, in which case he may purchase additional shares by a tender offer that was accepted by a majority of the offerees). If a tender offer is accepted and less than 5% of the shares of the company are not tendered, all of the shares will transfer to the ownership of the purchaser. If 5% or more of the shares of the company are not tendered, the purchaser may not purchase shares in a manner which will grant him more than 90% of the shares of the company.

8. Disclosing share ownership

The Company has no bylaw provisions governing the ownership threshold, above which shareholder ownership must be disclosed.

10C. Material Contracts

All material contracts have been described in detail throughout this form, wherever applicable.

10D. Exchange Controls

All exchange control restrictions imposed by the State of Israel have been removed, although there are still reporting requirements for foreign currency transactions. Legislation remains in effect, however, pursuant to which currency controls can be imposed by administrative action at any time.

Pursuant to the General Permit issued by the Israeli Controller of Foreign Currency, at the Bank of Israel (under the Currency Control Law, 1978), non-residents of Israel who purchase our ordinary shares will be able to convert any proceeds from the sale of these ordinary shares, as well as dividend and liquidation distributions, if any, into non-Israeli currency, provided that Israeli Income Tax has been paid (or withheld) on such amounts (to the extent applicable).

There are no limitations on the Company's ability to import and export capital.

10E. Taxation

The following is a summary of the material Israeli tax consequences, Israeli foreign exchange regulations and certain Israeli government programs affecting the Company.

To the extent that the discussion is based on new tax or other legislation that has not been subject to judicial or administrative interpretation, there can be no assurance that the views expressed in the discussion will be accepted by the tax or other authorities in question. The discussion is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations.

ISRAELI TAX CONSIDERATIONS

On January 1, 2003 a comprehensive tax reform took effect in Israel. Pursuant to the reform, resident companies are subject to Israeli tax on income accrued or derived in Israel or abroad. In addition, the concept of "controlled foreign corporation" was introduced according to which an Israeli company may become subject to Israeli taxes on certain income of a non-Israeli subsidiary if the subsidiary's primary source of income is passive income. The tax reform also substantially changes the taxation of capital gains.

General Corporate Tax Structure

Israeli companies are generally subject to income tax on their taxable income at the rate of 31% for the year 2006, 29% for 2007, 27% for 2008, 26% for 2009 and 25% for year 2010 and thereafter, and are subject to capital gains tax at a rate of 25% for capital gains (other than gains deriving from the sale of listed securities) derived after January 1, 2003.

Tax benefits under the Law for the Encouragement of Capital Investments, 1959.

The Law for the Encouragement of Capital Investments, 1959 (the "Investment Law") provides certain tax and financial benefits to investment programs that have been granted such status. The Investment Law provides that a proposed capital investment in eligible facilities may, upon application to the Investment Center of the Ministry of Industry and Trade of the State of Israel, be designated as an "Approved Enterprise". Each certificate of approval for an Approved Enterprise relates to a specific investment program delineated both by its financial scope, including its capital sources, and by its physical characteristics, e.g., the equipment to be purchased and utilized pursuant to the program. The tax benefits derived from any such certificate of approval relate only to taxable income attributable to the specific Approved Enterprise. If a company has more than one approval or only a portion of its capital investments are approved, its effective tax rate is the result of a weighted combination of the applicable rates. Income derived from activity that is not integral to the activity of the enterprise should not be divided between the different enterprises and should not enjoy tax benefits.

The principal stated objectives of the Investment Law are to promote the development of industry, the creation of jobs and the growth of exports. An amendment to the Investment Law that became effective on April 1, 2005, limits the scope of enterprises which may be approved by the Investment Center by setting criteria for the approval of a facility as an Approved Enterprise, such as provisions generally requiring that at least 25% of the Approved Enterprise's income will be derived from export. Additionally, the amendment enacted major changes in the manner in which tax benefits are awarded so that companies no longer require Investment Center approval in order to qualify for tax benefits (although approval is required if grants are sought). Rather, a company may claim the tax benefits offered by the Investment Law directly in its tax returns, provided that its facilities meet the criteria for tax benefits set out by the amendment (a "Benefited Enterprise"). We cannot assure that we will receive approvals in the future for Approved or Benefited Enterprise status.

Generally, taxable income of a company derived from an Approved Enterprise is subject to company tax at a maximum rate of 25% (subject to the percentage of the foreign shareholders holding in the company), rather than at the regular rate, for the benefit period. This period is ordinarily seven years or up to ten years if the company qualifies as Foreign Investors' Company, commencing with the year in which the Approved Enterprise first generates taxable income, and is limited to 12 years from completion of the investment under the approved plan (commencement of production) or 14 years from the date of approval, whichever is earlier. The Investment Law also provides that a company that has an Approved Enterprise is entitled to accelerated depreciation on its property and equipment that are included in an approved investment program.

A company owning an Approved Enterprise may elect to receive an alternative package of benefits, in lieu of entitlement to grants. Under the alternative package, a company's undistributed income derived from an Approved Enterprise will be exempt from company tax for a period of between two and ten years from the first year of taxable income, depending on the geographic location of the Approved Enterprise within Israel, and such company will be eligible for a reduced tax rate for the remainder, if any, of the otherwise applicable benefits period.

The tax-exempt income attributable to the Approved or Benefited Enterprise can be distributed to shareholders without imposing tax liability on the Company only upon the complete liquidation of the Company. In the event of a distribution of such tax-exempt income as a cash dividend in a manner other than in the complete liquidation, the Company will be to tax in respect of the gross amount of the dividend at the otherwise applicable rate of 25%, (or lower in the case of a qualified foreign investment company which is at least 49% owned by non-Israeli residents). Dividends paid out of income derived by an Approved or Benefited Enterprise (or out of dividends received from a company whose income is derived from a Benefited Enterprise) are generally subject to withholding tax at the rate of 15% (deductible at source). The reduced rate of 15% is limited to dividends and distributions out of income derived from an Approved or Benefited Enterprise during the benefits period and actually paid at any time up to 12 years thereafter (this time limit does not apply to an FIC).

However, the Investment Law provides that terms and benefits included in any certificate of approval already granted will remain subject to the provisions of the Law as they were on the date of such approval. Therefore a facility that was approved as an Approved Enterprise prior to the amendment will generally not be subject to the provisions of the amendment.

The Investment Center of the Ministry of Industry and Trade granted BOScom an Approved Enterprise status under the alternative package of benefits. Since BOScom is located in "Zone A", the portion of income derived from this Approved Enterprise program will be exempt from tax for a period of ten years, commencing when BOScom begins to realize net income from this programs. The period of tax benefits of BOScom Approved Enterprise has not yet commenced, because we have yet to realize taxable income. BOS was also granted an Approved Enterprise status which entitled the BOS for some tax benefits, but during 2002, as part of the transfer of operations from the BOS to BOScom, all tax benefits that were related to the Approved Enterprise of BOS, were transferred to BOScom.

The Investment Center of the Ministry of Industry and Trade bases its decision as to whether or not to approve an application, on the criteria set forth in the Investment Law and regulations, the then prevailing policy of the Investment Center, and the specific objectives and financial criteria of the applicant. Accordingly, there can be no assurance that any such application will be approved. In addition, the benefits available to an Approved Enterprise are conditional upon the fulfillment of conditions stipulated in the Investment Law and its regulations and the criteria set forth in the specific certificate of approval, as described above. In the event that a company does not meet these conditions, it would be required to refund the amount of tax benefits, with the addition of the consumer price index linkage adjustment and interest. If BOScom derives income from sources other than the Approved Enterprise, such income will be taxable at the regular corporate tax rate. Odem and Quasar Telecom do not enjoy the status of an Approved Enterprise.

Tax Benefits and Grants for Research and Development

Israeli tax law allows, under certain conditions, a tax deduction in the year incurred for expenditures (including capital expenditures) in scientific research and development projects, if the expenditures are approved by the relevant Israeli government ministry, determined by the field of research, the research and development is for the promotion of the enterprise and is carried out by or on behalf of the company seeking such deduction.

In case the tax deduction, in the year research and development expenditures are incurred, is not approved by the relevant Israeli government ministry, the Company will be entitled for the tax deduction over a period of three years.

Tax Benefits Under the Law for the Encouragement of Industry (Taxation), 1969

According to the Law for the Encouragement of Industry (Taxation), 1969, or the Industry Encouragement Law, an “Industrial Company” is a company resident in Israel that at least 90% of its income, in any tax year, determined in Israeli currency, exclusive of income from certain government loans, capital gains, interest and dividends, is derived from an “Industrial Enterprise” owned by it. An “Industrial Enterprise” is defined as an enterprise whose major activity in a given tax year is industrial production activity.

The following preferred corporate tax benefits are available to Industrial Companies, among others: (a) deduction of purchases of know-how and patents over an eight-year period for tax purposes; (b) deduction over a three-year period of expenses involved with the issuance and listing of shares on the Tel Aviv Stock Exchange or, on or after January 1, 2003, on a recognized stock market outside of Israel; (c) an election under certain conditions to file a consolidated tax return with additional related Israeli Industrial Companies that satisfy conditions set forth in the law; and (d) accelerated depreciation rates on equipment and buildings.

Eligibility for the benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority.

Until December 31, 2001 the Company qualified as an “Industrial Company” within the definition of the Industry Encouragement Law. In January 2002, subsequent to the Company’s restructure transforming it into a holding company by transferring its industrial operations to its wholly-owned subsidiary, BOScom, the Company disqualified from being an “Industrial Company” and therefore the benefits described above are not available since then. We believe that BOScom is qualified as an Industrial Company under the Industry Encouragement Law but we cannot provide any assurance that the Israeli authorities will agree with our assessment, nor continue to qualify as an Industrial Company or that the benefits described above will be available in the future.

Special Provisions Relating to Taxation Under Inflationary Conditions

The Income Tax Law (Inflationary Adjustments), 1985, generally referred to as the Inflationary Adjustments Law, is intended to adjust the corporate tax system to the rate of inflation, i.e., to tax profits on an inflation-adjusted basis.

Under the Inflationary Adjustments Law, results for tax purposes are measured in historical cost terms and are subject to a series of adjustments based on movements in the Israel consumer price index. We are taxed under this law. The discrepancy between the change in (1) the Israel consumer price index and (2) the exchange rate of the NIS to the dollar, each year and cumulatively, may result in a significant difference between taxable income and the income denominated in dollars as reflected in our financial statements. In addition, subject to certain limitations, depreciation of fixed assets and losses carried forward are adjusted for inflation on the basis of changes in the Israel consumer price index.

The salient features of the Inflationary Adjustments Law can be described generally as follows:

(a) A special tax adjustment for the preservation of equity whereby certain corporate assets are classified broadly into fixed (inflation immune) assets and non-fixed assets. Where a company's equity, as defined in such law, exceeds the depreciated cost of fixed assets, a deduction from taxable income that takes into account the effect of the applicable annual rate of inflation on such excess is allowed, up to a ceiling of 70% of taxable income in any single tax year, with the unused portion permitted to be carried forward, linked to the increase in the consumer price index. If the depreciated cost of fixed assets exceeds a company's equity, then such excess multiplied by the applicable annual rate of inflation is added to taxable income.

(b) Subject to certain limitation set forth in the Inflationary adjustments Law, depreciation deductions on fixed assets and losses carried forward are adjusted for inflation based on the increase in the Israel consumer price index.

(c) Gains on the sale of certain listed securities which are taxed at a reduced rate with respect to individuals are taxable at a company tax rate in certain circumstances. However, dealers in securities are subject to the regular tax rules applicable to business income in Israel. As of January 1, 2006, the relevant provisions governing taxation of companies on capital gains derived from the sale of traded securities are included in the Tax Ordinance, and the Adjustments Law no longer includes provisions in this regard.

(d) Accelerated depreciation rates on equipment and buildings.

Capital Gains Tax on Sales of Ordinary Shares

Israeli law generally imposes a capital gains tax on the sale of any capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of assets located in Israel, including shares in Israeli companies by both residents and non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. The law distinguishes between the real gain and the inflationary surplus. The real gain is the excess of the total capital gain over the inflationary surplus, computed on the basis of the increase in the Israel consumer price index between the date of purchase and the date of sale. Generally, up until the 2006 tax year, capital gains tax was imposed on Israeli resident individuals at a rate of 15% on real gains derived on or after January 1, 2003 from the sale of shares in, among others, Israeli companies publicly traded on Nasdaq or on a recognized stock exchange or regulated market in a country that has a treaty for the prevention of double taxation with Israel (such as our company). This tax rate was contingent upon the shareholder not claiming a deduction for financing expenses in connection with such shares (in which case the gain will be taxed at a rate of 25%), and did not apply to: (i) the sale of shares to a relative (as defined in the Israeli Income Tax Ordinance); (ii) the sale of shares by dealers in securities; (iii) the sale of shares by shareholders that report in accordance with the Inflationary Adjustment Law (that will be taxed at corporate tax rates for corporations and at marginal rates for individuals); or (iv) the sale of shares by shareholders who acquired their shares prior to an initial public offering (that may be subject to a different tax arrangement).

As of January 1, 2006, the tax rate applicable to capital gains derived from the sale of shares, whether listed on a stock market or not, is 20% for Israeli individuals, unless such shareholder claims a deduction for financing expenses in connection with such shares, in which case the gain will generally be taxed at a rate of 25%. Additionally, if such shareholder is considered a "significant shareholder" at any time during the 12-month period preceding such sale (i.e. such shareholder holds directly or indirectly, including jointly with others, at least 10% of any means of control in the company), the tax rate will be 25%. Israeli companies are subject to the corporate tax rate on capital gains derived from the sale of shares, unless such companies were not subject to the Adjustments Law (or certain regulations) at the time of publication of the aforementioned amendment to the Tax Ordinance, in which case the applicable tax rate is 25%. However, the different tax rates will not apply to dealers in securities and shareholders who acquired their shares prior to an initial public offering.

The tax basis of shares acquired prior to January 1, 2003 will be determined in accordance with the average closing share price in the three trading days preceding January 1, 2003. However, a request may be made to the tax authorities to consider the actual adjusted cost of the shares as the tax basis if it is higher than such average price.

Non-Israeli residents are exempt from Israeli capital gains tax on any gains derived from the sale of shares of Israeli companies publicly traded on a recognized stock exchange or regulated market outside of Israel, provided that such capital gains are not derived from a permanent establishment in Israel, that such shareholders are not subject to the Inflationary Adjustment Law and that such shareholders did not acquire their shares prior to the issuer's initial public offering. However, non-Israeli corporations will not be entitled to such exemption, if an Israeli resident (i) has a controlling interest of 25% or more in such non-Israeli corporation, or (ii) is the beneficiary or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

In some instances where our shareholders may be subject to Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at the source.

The US-Israel Tax Treaty

Pursuant to the Convention Between the Government of the United States of America and the Government of Israel with Respect to Taxes on Income, as amended (the "United States- Israel Tax Treaty"), the sale, exchange or disposition of ordinary shares by a person who qualifies as a resident of the United States within the meaning of the United States-Israel Tax Treaty and who is entitled to claim the benefits afforded to such person by the United States- Israel Tax Treaty (a "Treaty United States Resident") generally will not be subject to the Israeli capital gains tax unless such Treaty United States Resident holds, directly or indirectly, shares representing 10% or more of the Company's voting power during any part of the 12- month period preceding such sale, exchange or disposition, subject to certain conditions. A sale, exchange or disposition of ordinary shares by a Treaty United States Resident who holds, directly or indirectly, shares representing 10% or more of the Company's voting power at any time during such preceding 12-month period would be subject to such Israeli tax, to the extent applicable; however, under the United States-Israel Tax Treaty, such Treaty United States Resident would be permitted to claim a credit for such taxes against the United States federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations specified in the treaty. The United States-Israel Tax Treaty does not relate to United States state or local taxes.

Taxation of Non-Resident Holders of Ordinary Shares

Non-residents of Israel are subject to income tax on income accrued or derived from sources in Israel. These sources of income include passive income such as dividends, royalties and interest, as well as non-passive income from services rendered in Israel. On distributions of dividends other than bonus shares or stock dividends, income tax is withheld at the source at the following rates: (i) for dividends distributed prior to January 1, 2006 – 25%; and (ii) for dividends distributed on or after January 1, 2006, 20%, or 25% for a shareholder that is considered a significant shareholder at any time during the 12-month period preceding such distribution; unless a different rate is provided in a treaty between Israel and the shareholder's country of residence. Under the U.S.-Israel Tax Treaty, the maximum tax on dividends paid to a holder of shares who is a resident of the United States is 25% or 12.5% if such U.S. resident is a corporation which holds, directly or indirectly, shares representing at least 10% or more of our issued voting power during the part of the tax year which precedes the date of payment of the dividend and during the whole of its prior tax year. However, under the U.S.-Israel Tax Treaty and the Investments Law, dividends generated by an Approved Enterprise (or Benefiting Enterprise) are taxed at the rate of 15%.

Foreign Exchange Regulations

Dividends, if any, paid to the holders of the ordinary shares, and any amounts payable upon dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of the ordinary shares to an Israeli resident, may be paid in non-Israeli currency or, if paid in Israeli currency, may be converted into dollars at the rate of exchange prevailing at the time of conversion.

UNITED STATES FEDERAL INCOME TAXES

The following general discussion sets forth the material United States federal income tax consequences applicable to the following persons who purchase, hold or dispose of the ordinary shares as capital assets ("U.S. Shareholders"): (i) citizens or residents (as defined for U.S. federal income tax purposes) of the United States; (ii) corporations or other entities taxable as corporations created or organized in or under the laws of the United States or any state thereof; (iii) estates, the income of which is subject to United States federal income taxation regardless of its source; and (iv) a trust if (a) a U.S. court is able to exercise primary supervision over its administration and (b) one or more U.S. persons have the authority to control all of its substantial decisions. This discussion is based on the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), United States Treasury Regulations promulgated thereunder and administrative and judicial interpretations thereof, all as in effect as of the date of this Annual Report on Form 20-F. This discussion generally considers only U.S. Shareholders that will hold the ordinary shares as capital assets and does not consider (a) all aspects of U.S. federal income taxation that may be relevant to particular U.S. Shareholders by reason of their particular circumstances (including potential application of the alternative minimum tax), (b) U.S. shareholders subject to special treatment under the U.S. federal income tax laws, such as financial institutions, insurance companies, broker-dealers, tax-exempt organizations, financial institutions or foreign individuals or entities, (c) U.S. Shareholders owning directly or by attribution 10% or more of the Company's outstanding voting shares, (d) U.S. Shareholders who hold the ordinary shares as part of a hedging, straddle or conversion transaction, (e) U.S. Shareholders who acquire their ordinary shares in a compensatory transaction, (f) U.S. Shareholders whose functional currency is not the dollar, or (g) any aspect of state, local or non-United States tax law.

THE FOLLOWING SUMMARY DOES NOT ADDRESS THE IMPACT OF AN INVESTOR'S INDIVIDUAL TAX CIRCUMSTANCES. ACCORDINGLY, EACH INVESTOR SHOULD CONSULT HIS OR HER OWN TAX ADVISOR AS TO THE PARTICULAR TAX CONSEQUENCES TO HIM OR HER OF AN INVESTMENT IN THE ORDINARY SHARES, INCLUDING THE EFFECTS OF APPLICABLE STATE, LOCAL OR FOREIGN TAX LAWS AND POSSIBLE CHANGES IN THE TAX LAWS.

Dividends Paid on the Ordinary Shares

Distributions paid on ordinary shares (including any Israeli taxes withheld) to a U.S. Shareholder will be treated as ordinary dividend income for United States federal income tax purposes to the extent of the Company's current and accumulated earnings and profits (as computed for U.S. federal income tax purposes). Such dividends, which will be treated as foreign source income for U.S. foreign tax credit purposes, generally will not qualify for the dividends-received deduction available to corporations. Distributions in excess of such earnings and profits will be applied against and will reduce the shareholder's tax basis in the ordinary shares and, to the extent in excess of such tax basis, will be treated as gain from a sale or exchange of such ordinary shares. The amount of the distribution will equal the US Dollar value of the distribution, calculated by reference to the exchange rate in effect on the date the distribution is received (or otherwise made available to the U.S. Shareholders), regardless of whether a payment in Israeli currency is actually converted to US Dollars at that time. U.S. Shareholders should consult their own tax advisors concerning the treatment of foreign currency gain or loss, if any, on any Israeli currency received which is converted into US Dollars subsequent to receipt.

Qualified dividend income received by an individual (as well as certain trusts and estates) U.S. Shareholder for taxable years beginning before January 1, 2009 are taxed at reduced rates of either 5 or 15 percent, depending upon the amount of such shareholder's taxable income. If a non-corporate U.S. Shareholder does not hold ordinary shares for more than 60 days during the 120 day period beginning 60 days before an ex-dividend date, dividends received on ordinary shares are not eligible for reduced rates. Dividends received from a foreign corporation that was a passive foreign investment company (as further discussed below) in either the taxable year of the distribution or the preceding taxable year are not qualified dividend income. Qualified dividend income includes dividends received from a "qualified foreign corporation." A "qualified foreign corporation" includes a foreign corporation whose shares are readily tradable on an established securities market in the United States as well as a foreign corporation that is entitled to the benefits of a comprehensive income tax treaty with the United States which includes an exchange of information program. Israel and the United States are parties to a comprehensive income tax treaty which includes an exchange of information program. The United States Treasury Department will periodically issue guidance regarding which income tax treaties will be satisfactory for treating a corporation as a "qualified foreign corporation". In the event ordinary shares should not be readily tradable on an established securities market in the United States, non-corporate U.S. Shareholders should consult their own tax advisors as to whether any distributions paid on ordinary shares will be taxed for United States federal income tax purposes at reduced tax rates.

Credit for Israeli Taxes Withheld

Subject to certain conditions and limitations, any Israeli tax withheld or paid with respect to dividends on the ordinary shares generally will be eligible for credit against a U.S. Shareholder's United States federal income tax liability at such U.S. Shareholder's election. The Code provides limitations on the amount of foreign tax credits that a U.S. Shareholder may claim, including extensive separate computation rules under which foreign tax credits allowable with respect to specific categories of income cannot exceed the United States federal income taxes otherwise payable with respect to each such category of income. Dividends with respect to the ordinary shares generally will be classified as foreign source "passive income" for the purpose of computing a U.S. Shareholder's foreign tax credit limitations for U.S. foreign tax credit purposes. The availability of the Israeli withholding tax as a foreign tax credit will also be subject to certain restrictions on the use of such credits, including a prohibition on the use of the credit to reduce liability for the United States individual and corporate minimum taxes by more than 90%. Alternatively, U.S. Shareholders that do not elect to claim a foreign tax credit may instead claim a deduction for Israeli income tax withheld or paid, but only for a year in which these U.S. Shareholders elect to do so for all foreign income taxes. The rules relating to foreign tax credits are complex, and you should consult your tax advisor to determine whether and if you would be entitled to this credit.

Disposition of the Ordinary Shares

Subject to the discussion under the heading "Passive Foreign Investment Company Status" the sale or exchange of ordinary shares generally will result in the recognition of capital gain or loss in an amount equal to the difference between the amount realized on the sale or exchange and the U.S. Shareholder's tax basis in the ordinary shares. Such gain or loss generally will be long-term capital gain or loss if the U.S. Shareholder's holding period of the ordinary shares exceeds one year at the time of the disposition. Certain limitations apply to the deductibility of capital losses by both corporate and non-corporate taxpayers. Under the Code, gain or loss recognized by a U.S. Shareholder on a sale or exchange of ordinary shares generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes. Under the tax treaty between the United States and Israel, however, gain derived from the sale, exchange or other disposition of ordinary shares by a holder who is a resident of the United States for purposes of the treaty and who sells the ordinary shares within Israel may be treated as foreign source income for U.S. foreign tax credit purposes. U.S. Shareholders should consult their own tax advisors regarding the treatment of any foreign currency gain or loss on any Israeli currency received in respect of the sale, exchange or other disposition of ordinary shares.

Passive Foreign Investment Company Status

A foreign corporation generally will be treated as a "passive foreign investment company" ("PFIC") if, after applying certain "look-through" rules, either (i) 75% or more of its gross income is passive income or (ii) 50% or more of the average value of its assets is attributable to assets that produce or are held to produce passive income. Passive income for this purpose generally includes dividends, interest, rents, royalties and gains from securities and commodities transactions. The look-through rules require a foreign corporation that owns at least 25% by value, of the stock of another corporation to treat a proportionate amount of assets and income as held or received directly by the foreign corporation.

The Company has not made the analysis necessary to determine whether or not it is currently a PFIC or whether it has ever been a PFIC. However, the Company does not believe that it was a PFIC in 2005. However, there can be no assurance that the Company is not, has never been or will not in the future be a PFIC. If the Company were to be treated as a PFIC, any gain recognized by a U.S. Shareholder upon the sale (or certain other dispositions) of ordinary shares (or the receipt of certain distributions) generally would be treated as ordinary income, and a U.S. Shareholder may be required, in certain circumstances, to pay an interest charge together with tax calculated at maximum rates on certain "excess distributions," including any gain on the sale or certain dispositions of ordinary shares. In order to avoid this tax consequence, a U.S. Shareholder (i) may be permitted to make a "qualified electing fund" election, in which case, in lieu of such treatment, such holder would be required to include in its taxable income certain undistributed amounts of the Company's income or (ii) may elect to mark-to-market the ordinary shares and recognize ordinary income (or possible ordinary loss) each year with respect to such investment and on the sale or other disposition of the ordinary shares. Additionally, if the Company is deemed to be a PFIC, a U.S. Shareholder who acquires ordinary shares in the Company from a decedent will be denied the normally available step-up in tax basis to fair market value for the ordinary shares at the date of the death and instead will have a tax basis equal to the decedent's tax basis if lower than fair market value. Neither the Company nor its advisors have the duty to or will undertake to inform U.S. Shareholders of changes in circumstances that would cause the Company to become a PFIC. U.S. Shareholders should consult their own tax advisors concerning the status of the Company as a PFIC at any point in time after the date of this Annual Report on Form 20-F. The Company does not currently intend to take the action necessary for a U.S. Shareholder to make a "qualified electing fund" election in the event the Company is determined to be a PFIC.

Tax Consequences for Non-U.S. Holders of Ordinary Shares

Except as described in "Information Reporting and Back-up Withholding" below, a non-U.S. holder of ordinary shares will not be subject to U.S. federal income or withholding tax on the payment of dividends on, and the proceeds from the disposition of, ordinary shares, unless:

- the item is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States and:

  (i) in the case of a resident of a country which has a treaty with the United States, the item is attributable to a permanent establishment; or

  (ii) in the case of an individual, the item is attributable to a fixed place of business in the United States;

- the non-U.S. holder is an individual who holds the ordinary shares as a capital asset and is present in the United States for 183 days or more in the taxable year of the disposition and does not qualify for an exemption; or

- the non-U.S .holder is subject to tax under the provisions of U.S. tax law applicable to U.S. expatriates.

Information Reporting and Back up Withholding.

A non-corporate U.S. Shareholder may, under certain circumstances, be subject to information reporting requirements and "backup withholding" at a 30% rate on cash payments in the United States of dividends on, and the proceeds of disposition of, ordinary shares. Backup withholding will apply only if a U.S. Shareholder: (a) fails to furnish its social security or other taxpayer identification number ("TIN") within a reasonable time after the request therefore; (b) furnishes an incorrect TIN; (c) is notified by the IRS that it has failed properly to report payments of interest and dividends; or (d) under certain circumstances, fails to certify, under penalty of perjury, that it has furnished a correct TIN and has not been notified by the IRS that it is subject to backup withholding for failure to report interest and dividend payments. U.S. Shareholders should consult their tax advisors regarding their qualification for exemption, if applicable. The amount of backup withholding from a payment to a U.S. Shareholder generally will be allowed as a credit against such U.S. Shareholder's federal income tax liability and may entitle such U.S. Shareholder to a refund, provided that the required information is furnished to the IRS.

10F. Dividends and Paying Agents

Not applicable.

10G. Statement by Experts

Not applicable.

10H. Documents on Display

The documents concerning the Company that are referred to in the form may be inspected at the Company's office in Israel.

10I. Subsidiary Information

For information relating to the Company's subsidiaries, see Item 4 – "Organizational Structure" as well as the Company's Consolidated Financial Statements (Items 8 and 18 of this form).

Item 11: Quantitative and Qualitative Disclosure about Market Risk.

Currency Exchange Rate Risk Management

The Company's functional currency is the US Dollar. Since the Company operates in Israel and Europe it manages assets and liabilities in currencies other than US Dollar such as Israeli Shekel and Euro.

The excess balance of monetary assets on liabilities in non-dollar currencies in the Balance Sheet as of 31.12.05 and 31.12.04 ("Balance Sheet Exposure") is presented in the table below. The data is presented in US Dollars (in thousands):

	December 31, 2005		December 31, 2004	
	Israeli currency (1)	non-dollar Currencies (2)	Israeli currency (1)	non-dollar Currencies (2)
	U.S.$	U.S.$	U.S.$	U.S.$
Current assets:				
Cash and cash equivalents	$ 655	$ 152	$ 873	$ 244
Trade receivables	3,847	260	3,794	121
Other accounts receivable	499		390	-
Total assets	$ 5,001	$ 412	$ 5,057	$ 365
Current liabilities:				
Short term loans from banks	$ 2271	$ -	$ 1,354	$ -
Current maturities of long-term bank loans and convertible note	28	-	48	-
Trade payables	1,643	91	1,514	21
Other accounts payable	887	-	988	-
	$ 4,829	$ 91	$ 3,904	$ 21
Bank loans (net of current maturities)	$ 17	$ -	$ 54	$ -
Total liabilities	$ 4,846	$ 91	$ 3,958	$ 21
Net	$ 155	$ 321	$ 1,099	$ 344

(1) The above does not include balances in Israeli currency linked to the US dollar.

(2) Primarily Euro.

The Company does not use financial instruments and derivatives, but manages the risk of Balance Sheet Exposure by attempting to maintain a similar balance of assets and liabilities in Israeli Shekels and the USD currencies.

The selling prices of our products in Israel and Europe are collected in the local currency. The purchases and salary expenses in Israel are paid in the local currency.

A material change in currency exchange rate of the NIS or Euro compared to the US Dollar may have an effect on the Company's financial results and cash flow.

Credit Risk Management

The company sells its products and purchases products from vendors on credit terms.

The trade receivables of the Company are derived from sales to customers located primarily in the United States, Europe and Israel. The Company generally does not require collateral; however, in certain circumstances, the Company may require letters of credit, other collateral, additional guarantees or advanced payments.

Provisions are made for doubtful debts on a specific basis and, in management's opinion, appropriately reflect the loss inherent in collection of the debts. Management bases this provision on its assessment of the risk of the debt.

The table below presents the accounts receivables balance by geographical market as of 31.12.05 and 31.12.04:

	December 31,	
	2005	2004
United States	$ 799	$ 734
Europe	$ 467	$ 345
Far East	$ 44	$ 170
Israel and others	$ 3,889	$ 3,308
	$ 5,199	$ 4,557

Interest Rate Risk

The Company's exposure to market risk for changes in interest rates, is due to its investment of its surplus funds, loans and Convertible Note that carried variable interest.

The Company has a conservative investment policy. According to this policy the Company invests in bank deposits and in high level marketable securities.

A material change in yields of the securities which the company invests in and the need of cash before the securities' maturation, may have an effect on the Company's financial results and cash flow.

A material change in interest we receive on our bank deposits or pay on our loans and Convertible Note may have an effect on the Company's financial results and cash flow.

Bank Risk

The Company invests and manages the majority of its funds in two banks which are among the five largest in Israel.

Item 12: Description of Securities Other than Equity Securities.

Not applicable.

PART II

Item 13: Defaults, Dividend Arrearages and Delinquencies.

Not applicable.

Item 14: Material Modifications to the Rights of Security Holders and Use of Proceeds.

Not applicable.

Item 15: Controls and Procedures

(a) Disclosure controls and procedures.

The Company's principal executive officer and its principal financial officer evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Such disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the appropriate management, including the principal executive officer and financial officer, on a basis that permits timely decisions regarding timely disclosure. Based on that evaluation, such principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures as of the end of the period covered by this report have been designed and are functioning effectively to provide reasonable assurance that the information required to be disclosed by the Company in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

(b) Change in Internal Control over Financial Reporting.

There were no changes in the Company's internal controls over financial reporting that occurred during the fiscal year ended December 31, 2005, that have materially affected or are reasonably likely to materially affect these controls.

(c) Other.

The Company believes that a control system, no matter how well designed and operated, can not provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, with the Company have been determined.

Item 16: [Reserved]

Item 16A: Audit Committee Financial Expert

The Company's Board of Directors has determined that Prof. Adi Raveh and Mr. Ronen Zavlik, both members of the audit committee, are "audit committee financial experts", as defined by the applicable SEC regulations. The experience of each is listed under Item 6A. Both are "independent" under the applicable SEC and Nasdaq regulations.

Item 16B: Code of Ethics

The Company has adopted a Code of Ethics applicable to its executive officers, directors and all other employees. A copy of the code is posted on our website and may also be obtained, without charge, upon a written request addressed to the Company's investor relations department.

Item 16C: Principal Accountant Fees and Services

The Company's principal accountants for the years 2004 and 2005 were Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global.

The table below summarizes the audit and other fees paid and accrued by the Company and its consolidated subsidiaries to Kost Forer Gabbay & Kasierer, during each of 2004 and 2005:

	Year Ended December 31, 2005		Year Ended December 31, 2004	
	Amount	Percentage	Amount	Percentage
Audit Fees	64,000	50%	81,000	75%
Audit-Related Fees (1)	25,000	20%	19,000	18%
Tax Fees (2)	16,000	13%	3,000	3%
All Other Fees (3)	22,000	17%	4,000	4%
Total	127,000	100%	107,000	100%

(1) "Audit-related fees" are fees related to assurance and associated services that traditionally are performed by the independent auditor, including consultation concerning reporting standards.

(2) "Tax fees" are fees for professional services rendered by the Company's auditors with respect to tax advice related to acquisitions and tax compliance with the Israeli law for encouragement of investment, and issuance of annual tax reports.

(3) "All Other Fees" are fees for consulting services rendered by the Company's auditors with respect to government incentives.

Audit Committee's pre-approval policies and procedures:

The Audit Committee is responsible for the oversight of the independent auditors' work, including the approval of services provided by the independent auditor. These services may include audit, audit-related, tax or other services, as described above. On an annual basis the audit committee pre-approves audit and non-audit services to be provided to the Company by its auditors, listing the particular services or categories of services, and sets forth a specific budget for such services. Additional services not covered by the annual pre-approval may be approved by the Audit Committee on a case-by-case basis as the need for such services arises. Furthermore, the Audit Committee has authorized the Committee Chairman to pre-approve engagements of the Company's auditors so long as the fee for each such engagement does not exceed $5,000 and so long as the engagement is notified to the Committee at its next subsequent meeting. Any services pre-approved by the Audit Committee (or by the Chairman) must be permitted by applicable law. Once services have been pre-approved, the audit committee receives a report on a periodic basis regarding the extent of the services actually provided and the fees paid.

Item 16D: Exemptions from the Listing Standards for Audit Committees

Not applicable to Registrant

Item 16E: Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The Company (or anyone acting on its behalf) did not purchase any of the Company's securities in 2005.

PART III

Item 17: Financial Statements

Not applicable.

Item 18: Financial Statements

The following financial statements are filed as part of this Annual Report:

The audited financial statements filed as part of this Form 20-F are identical to the audited financial statements that were filed as part of the Form 6-K on March 27, 2006, except for the addition of Note 21.

Item 19: Exhibits

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

1.1	Memorandum of Association, as amended.
1.2	Articles of Association, as amended.
4.1	Form of Indemnification Agreement between the Company and its officers and directors, as amended.
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	Management Agreement between Signum Ltd., Adiv Baruch and the Registrant, dated as of January 1, 2004 (incorporated by reference to the Company's Annual Report on Form 20-F filed on June 17, 2004).
4.6	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).

4.7	Securities Purchase Agreement and Master Security Agreement, dated as of September 29, 2005, 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. 333-130048).
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.
4.12	Share Purchase Agreement, dated as of November 2, 2004, by and between Telsys Ltd., Odem Electronic Technologies 1992 Ltd. and the Registrant (incorporated by reference to the Company's Registration Statement on Form F-3 no. 333-117529).
4.13	Share Purchase Agreement, dated as of October 31, 2005, by and between Telsys Ltd. and the Registrant.
4.14	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).
4.15	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, 2005, respectively.
4.16	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.
4.17	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).
10.1	Consent of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global.
10.2	Consent of Kesselman & Kesselman, a member of PriceWaterhouseCoopers International Limited.
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.

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.

Signatures

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

B.O.S. Better Online Solutions Ltd.

By: /s/ Adiv Baruch
Adiv Baruch
President and Chief Executive Officer

By: /s/ Nehemia Kaufman
Nehemia Kaufman
Chief Financial Officer

Date: June 28, 2006

B.O.S. BETTER ONLINE SOLUTIONS LTD.

AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2005

U.S. DOLLARS IN THOUSANDS

INDEX

ERNST & YOUNG

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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, 2005 and 2004, 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, 2005. 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 assets constituting 30.6% as of December 31, 2004, and 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, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

Tel-Aviv, Israel
March 27, 2006

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,346	$ 2,578
Marketable securities (Note 5)	1,333	2,324
Trade receivables (net of allowance for doubtful accounts of $ 3 and $ 38 at December 31, 2005 and 2004, respectively)	5,199	4,557
Other accounts receivable and prepaid expenses (Note 3)	592	722
Inventories (Note 4)	3,323	3,086
Total current assets	12,793	13,267
LONG-TERM ASSETS:		
Long term marketable securities (note 5)	-	757
Severance pay fund	937	1,143
Investment in an affiliated company (note 6)	722	2,472
Investment in other companies (note 7)	4,690	-
Total long-term assets	6,349	4,372
OTHER ASSETS	49	395
PROPERTY, PLANT AND EQUIPMENT, NET (Note 8)	667	1,019
GOODWILL (Note 10)	952	1,569
CUSTOMER LIST AND OTHER INTANGIBLE ASSETS, NET (Note 9)	1,836	1,860
ASSETS RELATED TO DISCONTINUED OPERATIONS (Note 1c)	-	3
	$ 22,646	$ 22,485

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

CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2005	2004
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short term loans from banks (Note 11)	$ 2,271	$ 1,354
Current maturities of long-term bank loans and convertible note	354	643
Trade payables	3,367	3,845
Employees and payroll accruals	772	664
Deferred revenues	258	364
Accrued expenses and other liabilities (Note 12)	1,571	1,141
Total current liabilities	8,593	8,011
LONG-TERM LIABILITIES:		
Bank loans (net of current maturities) (Note 13)	17	54
Convertible note (net of current maturities) (Note 14)	921	1,151
Put option issued to minority shareholders in a subsidiary	-	359
Deferred taxes	422	348
Accrued severance pay	1,190	1,468
Total long-term liabilities	2,550	3,380
MINORITY INTEREST IN A SUBSIDIARY	-	809
LIABILITIES RELATED TO DISCONTINUED OPERATIONS (Note 1c)	237	237
COMMITMENTS AND CONTINGENT LIABILITIES (Note 15)		
SHAREHOLDERS' EQUITY (Note 16):		
Share capital		
Ordinary shares of NIS 4.00 par value: Authorized: 8,750,000 shares at December 31, 2005 and 2004; Issued and outstanding: 6,589,385 and 4,737,658 shares at December 31, 2005 and 2004, respectively;	6,432	4,823
Additional paid-in capital	47,588	44,426
Deferred stock-based compensation	(112)	(174)
Accumulated other comprehensive income	21	31
Accumulated deficit	(42,663)	(39,058)
Total shareholders' equity	11,266	10,048
Total liabilities and shareholder's equity	$ 22,646	$ 22,485

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31,		
	2005	2004	2003
Revenues	$ 27,053	$ 8,282	$ 5,728
Cost of revenues	20,109	4,608	1,794
Reversal of Royalties (Note 18a)	84	-	339
Gross profit	7,028	3,674	4,273
Operating costs and expenses:			
Research and development	2,608	2,296	2,129
Less - grants and participation	(296)	(492)	(283)
Sales and marketing	3,563	1,706	2,178
General and administrative	3,267	1,705	1,317
Restructuring and related costs	-	-	678
Total operating costs and expenses	9,142	5,215	6,019
Operating loss	(2,114)	(1,541)	(1,746)
Financial income (expenses), net (Note 18b)	(448)	(158)	109
Other income, net (Note 1c)	1,134	-	45
Loss before taxes on income	(1,428)	(1,699)	(1,592)
Taxes on income (Note 17)	(204)	(20)	-
Net loss after taxes	(1,632)	(1,719)	(1,592)
Equity in losses of an affiliated company	(1,750)	(308)	(465)
Minority interest in earnings of a subsidiary	(223)	(17)	-
Loss from continuing operations	(3,605)	(2,044)	(2,057)
Income (loss) related to discontinued operations (Note 1c)	-	(9)	2,036
Net loss	$ (3,605)	$ (2,053)	$ (21)
Basic and diluted net loss per share from continuing operations (Note 18c)	$ (0.64)	$ (0.44)	$ (0.56)
Basic and diluted net income (loss) per share from discontinued operations (Note 18c)	$ 0.00	$ 0.00	$ 0.55
Basic and diluted net loss per share (Note 18c)	$ (0.64)	$ (0.44)	$ (0.01)

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share data

	Ordinary shares	Share capital	Additional paid in capital	Deferred stock-based compensation	Accumulated other comprehensive income	Treasury shares	Accumulated deficit	Total comprehensive loss	Total shareholders' equity
Balance at January 1, 2003	3,177,264	$ 3,690	$41,319	$ -	$ -	$ (150)	$ (36,844)		$ 8,015
Issuance of shares related to share swap transaction	633,102	537	1,059	-	-	-	-		1,596
Issuance of shares related to the private placement	357,143	82	846	-	-	-	-		928
Stock-based compensation related to warrants issued to service providers	-	-	23	-	-	-	-		23
Net loss	-	-	-	-	-	-	(21)	$ (21)	(21)
Total other comprehensive loss	-	-	-	-	-	-	-	-	-
Total comprehensive loss								$ (21)	
Balance at December 31, 2003	4,167,509	4,309	43,247	-	-	(150)	(36,865)		10,541
Deferred employee share-based compensation	-	-	179	(179)	-	-	-		-
Amortization of deferred employee stock-based compensation	-	-		5	-	-	-		5
Issuance of shares related to the acquisitions of Quasar and Odem, net	570,149	514	784		-	150	(140)		1,308
Stock based compensation related to warrants issued to service providers	-	-	117		-	-	-		117
Warrants issued related to convertible note	-	-	99	-	-	-	-		99
Other comprehensive loss									
Net loss	-	-	-	-	-	-	(2,053)	$ (2,053)	(2,053)
Unrealized gain on available for sales 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

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share data

	Ordinary shares	Share capital	Additional paid in capital	Deferred stock-based compensation	Accumulated other comprehensive income	Treasury shares	Accumulated deficit	Total comprehensive loss	Total shareholders' equity
Balance at January 1, 2005	4,737,658	$ 4,823	$ 44,426	$ (174)	$ 31	$ -	$ (39,058)	$ -	$ 10,048
Amortization of deferred employee stock-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
Exercise of employee options	25,088	22	28	-	-	-	-	-	50
Stock-based compensation related to warrants issued to service providers	-	-	348	-	-	-	-	-	348
Warrants issued related to convertible note	-	-	185	-	-	-	-	-	185
Net loss	-	-	-	-	-	-	(3,605)	(3,605)	(3,605)
Loss on available for sales marketable securities	-	-	-	-	(4)	-	-	(4)	(4)
Foreign currency translation adjustment	-	-	-	-	(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.

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2005	2004	2003
Cash flows from operating activities:			
Net loss	$ (3,605)	$ (2,053)	$ (21)
Adjustments to reconcile net loss to net cash used in operating activities:			
Loss (income) from discontinued operations	-	9	(2,036)
Depreciation and amortization of intangible assets	581	351	307
Amortization of premium and accretion of accrued interest on available-for-sale marketable securities	35	47	101
Impairment of property and equipment	-	-	110
Increase (decrease) in accrued severance pay, net	(72)	8	36
Equity in losses of an affiliated company	1,750	308	465
Minority interest in earnings in a subsidiary	223	17	-
Stock based compensation related to employees	59	5	-
Capital gain from sale of product line	(273)	-	-
Capital gain from sale of Communication Division	(779)	-	-
Net loss from decrease in value of put options	8	-	-
Capital loss from sale of property and equipment	3	5	6
Gain on sale of marketable securities	-	-	(13)
Stock based compensation related to warrants issued to service providers	244	121	23
Financial expenses related to warrants issued in connection with long-term convertible note	120	78	-
Decrease (increase) in trade receivables	(678)	(342)	448
Decrease in deferred taxes	(88)	(47)	-
Decrease in other accounts receivable and prepaid expenses	125	33	131
Increase in inventories	(1,156)	(461)	(106)
Increase (decrease) in trade payables	(308)	961	(580)
Decrease in employees and payroll accruals, deferred revenues, accrued expenses and other liabilities	(90)	(63)	(808)
Net cash used in operating activities from continuing operations	(3,901)	(1,023)	(1,937)
Net cash used in operating activities from discontinued operations	(3)	(96)	(1,032)
Net cash used in operating activities	(3,904)	(1,119)	(2,969)
Cash flows from investing activities:			
Purchase of property and equipment	(272)	(214)	(64)
Proceeds from sale of property and equipment	13	38	8
Proceeds from sale of product line	257	-	-
Payment on account of sale of Communication division	(1,060)	-	-
Investment in long-term marketable securities	(607)	(1,247)	(971)
Proceeds from redemption of marketable securities	2,316	1,000	1,001
Investment in an affiliated company	-	-	(155)
Acquisitions, net of cash acquired (a,b)	(1,124)	(1,443)	-
Realization of restricted cash	-	-	700
Net cash provided by (used in) investing activities	(477)	(1,866)	519
Cash flows from financing activities:			
Repayment of short term and long term bank loans	(55)	(93)	-
Proceeds from short term bank loans	933	-	-
Proceeds from long term convertible note and warrants, net of issuance expenses	1,246	1,787	-
Payment of long term convertible note	(55)	(80)	-
Proceeds from issuance of shares and exercise of options, net	2,090	-	928
Issuance expenses related to investment in an affiliated company	-	-	(159)
Net cash provided by financing activities from continuing operations	4,159	1,614	769
Net cash used in financing activities from discontinued operations	-	-	(47)
Net cash provided by financing activities	4,159	1,614	722

Decrease in cash and cash equivalents	(222)	(1,371)	(1,728)
Decrease in cash and cash equivalents from discontinued operations	3	66	354
Effect of exchange rate changes on cash and cash equivalents	(13)	11	-
Cash and cash equivalents at the beginning of the year	2,578	3,872	5,246
Cash and cash equivalents at the end of the year	$ 2,346	$ 2,578	$ 3,872

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2005	2004	2003
Supplemental disclosure of cash flow activities:			
(i) Net cash paid during the year for:			
Interest	$ 126	$ 129	$ 1
Income tax	$ 309	$ -	$ -
(ii) Non-cash activities:			
Investment in an affiliated company against issuance of shares	$ -	$ -	$ 1,755
Conversion of convertible note into shares	$ 1,614	$ -	$ -
Sale of Communication division in consideration for shares in Qualmax	$ 4,690	$ -	$ -
Sale of PrintBos			
Consideration	$ 275	$ -	$ -
Disposal of fixed assets	(28)	-	-
Disposal of liability	100	-	-
Related expenses	(74)	-	-
Capital gain	$ 273	$ -	$ -
Sale of Communication division			
Consideration, net	$ 3,690	$ -	$ -
Disposal of tangible and intangible assets	(2,425)	-	-
Related expenses	(486)	-	-
Capital gain	$ 779	$ -	$ -
(a) Acquisition of Quasar:			
Fair value of net assets acquired (excluding cash and cash equivalents) and liabilities assumed at acquisition date:	$ -	$ 597	$ -
Less - amount acquired by issuance of shares	-	(539)	-
	$ -	$ 58	$ -

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2005	2004	2003
(b) Acquisition of Odem:			
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 -			
Amount acquired by issuance of shares	532	769	-
Payables	219	139	-
Add-			
Cancellation of Put and Call options	137	-	-
	$ 1,124	$ 1,385	$ -

The accompanying notes are an integral part of the 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's wholly-owned subsidiary BOScom Ltd. ("BOScom") develops high technology connectivity solutions that provide PC emulation products for the IBM iSeries (AS/400). BOScom was involved in cross platform printing solutions answering a demand for central printing and output management solutions in organizations which was sold during 2005 (see note 1c).

B.O.S. Communication Division Segment included: BOScom's business of communication solutions which provide multi-path, intelligent routing voice over IP gateways and the Company's wholly-owned subsidiary Quasar Telecom (2004) Ltd. ("Quasar"), which provide communication solutions based on cellular technology. The assets and liabilities of the Communication Segment have been disposed of as part of the disposal of the Communication Division (see note 1c)

In September and November 2005, the Company purchased an additional 23.9% and 12.3%, respectively, of the outstanding shares of Odem Electronic Technologies 1992 Ltd. ("Odem"). Following these purchase, the Company owns 100% of Odem. Odem is a solutions supplier of electronic components and systems to the technologies sector (see note 1b).

The Company's products are sold and supported directly and through a network of distributors and value-added resellers.

In addition, the Company holds shares in two affiliated companies:

1) 8.7% interest in Surf Communication Solutions Ltd. ("Surf"), a developer and supplier of access and network convergence software solutions to the wire line and wireless telecommunications and data communications industries.

2) Approximately 16% interest in Qualmax Inc. a US corporation ("Qualmax") which is a developer and supplier of Voice over IP technology products and services. The Company's holdings in Qualmax were received as the consideration for the sale of the communication division (See note 1c).

b. Business combinations:

1) Acquisition of Quasar Communication systems Ltd. assets ("QCS").

In September 2004, the Company entered into an agreement with QCS, to purchase the assets of QCS, for an aggregate consideration of $ 539 by the issuance of 285,000 of the Company's ordinary shares. The assets of QCS were transferred to Quasar Telecom (2004) Ltd., a wholly owned subsidiary of the Company. The results of Quasar's operations have been included in the consolidated financial statements since September 28, 2004 ("the closing date"). On December 31, 2005, the Company sold the assets of Quasar as part of the disposal of the Communication Division.

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

NOTE 1: – GENERAL (Cont.)

The Company's consolidated financial statements reflect the purchase price determined as follows:

	Quasar
	September 30, 2004
Issuance of shares (1)	$ 539
Transaction costs	58
Total purchase price	$ 597

(1) The value of the Ordinary shares issued was determined based on the average market price of the Company's Ordinary shares over the period of two days before and after the terms of the transaction were agreed to and announced.

The acquisition has been treated using the purchase method of accounting in accordance with SFAS141 "Business Combinations". The purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair value at the date of acquisition. The excess of the purchase price over the estimated fair value of the tangible and intangible assets acquired has been recorded as goodwill.

The Company has allocated the total cost of the acquisition in 2004 as follows.

Allocation of purchase consideration	Quasar	Estimated useful life
Tangible assets	$ 77	
Inventory purchase commitment (1)	(147)	
Trade name (2)	180	7 years
Core technology (3)	125	5 years
Distribution networks (4)	200	5 years
Goodwill	162	
Total purchase price	$ 597	

(1) The Company purchased Quasar Communication Systems Ltd inventory in the ordinary course of business for a cash consideration of $ 517. The fair value of Quasar's inventory at the purchase date amounted to $ 370. A provision in the amount of $ 147 has been recorded at the date of the acquisition.

(2) The Company's allocation of purchase price valuated the acquired trade name using the relief from royalty approach.

(3) The Company's allocation of purchase price valuated the acquired core technology using the discounted cash flows to be derived from the sales of these products to present value.

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

NOTE 1: – GENERAL (Cont.)

(4) The Company's allocation of purchase price valuated the acquired distribution networks by calculating the savings realized by the Company through obtaining a pre-existing distribution network.

2) Acquisition of Odem:

On November 18, 2004 the Company purchased 63.8% of the outstanding shares of Odem, from Odem's existing shareholders. In consideration for Odem's shares the Company (i) issued 290,532 of the Company's ordinary shares subject to "lock-up"periods of 2 to 4 years and (ii) paid an amount of $ 1,971 in cash. In addition, Odem's selling shareholders and the Company had certain put and call options, based on performance, with respect to all of the remaining Odem shares held by such sellers, exercisable for a consideration comprised of additional cash and issuance of additional ordinary shares of the Company. The Company recorded assets and liability with respect to these options at fair value. The put option liability will be measured periodically until it expires or is exercised and the changes in the fair value will be charged to finance expenses.

On September 29, 2005 and November 1, 2005, the Company purchased an additional 23.9% and 12.3%of the outstanding shares of Odem respectively, from Odem's minority shareholders. Following these purchases, the Company owns 100% of Odem. In consideration for the 12.3% of Odem's shares purchased on November, 2005 the Company paid $ 554, in cash and for the 23.9% of Odem's shares purchase on September, 2005 the Company (i) issued 232,603 of the Company's ordinary shares subject to "lock up"periods of 2 to 4 years and (ii) $ 716 to be paid in cash.

The Company's consolidated financial statements reflect the purchase price determined as follows:

	Odem			
	November 1, 2005	September 29, 2005	November 18, 2004	Total
Issuance of shares (1)	$ -	$ 532	$ 769	$ 1,301
Cash consideration	554	716	1,971	3,241
Transaction costs	19	54	139	212
Cancellation of put and call options	(33)	(104)	-	(137)
Total purchase price	$ 540	$ 1,198	$ 2,879	$ 4,617

(1) The value of the Ordinary shares issued was determined based on the average market price of the Company's Ordinary shares over the period of two days before and after the terms of the transaction were agreed to and announced.

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

NOTE 1: – GENERAL (Cont.)

The acquisitions have been treated using the purchase method of accounting in accordance with SFAS141 "Business Combinations". The purchase price has been allocated to the assets and liabilities assumed acquired based on their estimated fair value at the date of acquisition. The excess of the purchase price over the estimated fair value of the tangible and intangible assets acquired has been recorded as goodwill.

The Company has allocated the total cost of Odem acquisition in 2005 as follows.

Allocation of purchase consideration	November 1, 2005	September 29, 2005	Total	Estimated useful life
Tangible assets	$ 340	$ 681	$ 1,021	
Customer list (1)	85	509	594	9 years
Deferred tax liability	(23)	(136)	(159)	9 years
Goodwill	138	144	282	
Total purchase price	$ 540	$ 1,198	$ 1,738	

(1) The Company's allocation of purchase price valuated the acquired customer list by calculating cash flow as a direct result of the customer relationship.

The Company has allocated the total cost of the acquisition in 2004 as follows:

Allocation of purchase consideration	Odem	Estimated useful life
Cash	$ 586	
Tangible assets	780	
Put option to minority shareholders (2)	(359)	
Call option to minority shareholders (2)	230	
Customer list (1)	1,406	10 years
Deferred tax liability	(430)	10 years
Goodwill	666	
Total purchase price	$ 2,879	

(1) The Company's allocation of purchase price valuated the acquired customer list by calculating cash flow benefit as a direct result of the customer relationship.

(2) The put and call options were valuated by using the Black & Scholes option pricing model.

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

NOTE 1: – GENERAL (Cont.)

The following unaudited pro forma financial information presents the Company's results of operations as if the acquisitions had occurred as of the beginning of the fiscal years 2003 and 2004, after giving effect to certain adjustments, including amortization of intangible assets. The unaudited pro forma financial information does not necessarily reflect the results of operations that would have occurred, and is not necessarily indicative of results which may be obtained in the future.

	Year ended December 31, 2004
Pro forma revenues	$ 24,154
Pro forma net loss from continuing operations	$ (2,631)
Pro forma basic and diluted net loss per share from continuing operations	$ (0.56)

c. 1) Sale of product line

On July 18, 2005, BOScom signed an asset purchase agreement with Consist Technologies Ltd. and Consist International Inc. (collectively, "Consist"), for the sale of its PrintBOS product line in consideration of $ 500 and a contingent payment in each of the next three years equal to 6-10% of future revenues exceeding $1,000 per year, generated by Consist from the PrintBOS product line. The Company has accounted for a gain of $ 273 in 2005. As of December 31, 2005, the Company has received $ 375 and the remaining $ 125 has been placed in escrow, pending repayment of royalties to the Office of the Chief Scientist ("OCS") on sales of PrintBOS products.

2) Sale of Communication Division:

On December 31, 2005, the Company sold its Communications Division Segment (hereinafter "Communications Division"), including its property and equipment, goodwill, technology, trade name, existing distribution channels and related contingent liability to the Office of the Chief Scientist to IP Gear Ltd. ("IP Gear"), a wholly owned Israeli subsidiary of Qualmax. The consideration paid to the Company in the transaction was approximately 3.2 million Qualmax shares of common stock constituting approximately 16% of Qualmax's total issued and outstanding Common Stock and $800 in royalties to be paid at a rate of 4% from future revenues IP Gear will generate from the disposed division ("Royalties") with the entire $ 800 due no later than 90 days from the third anniversary of the closing of the transaction. Additional shares may be issued to the Company at the end of four consecutive fiscal quarters following the closing of the transaction, contingent upon IP Gear generating by then a certain level of revenues from the disposed division ("Earn Out Shares"). The maximum number of Earn Out Shares that may further be issued to the Company is approximately 1 million, constituting an additional 5%, of Qualmax outstanding shares. The Company received certain piggy-back registration rights with respect to the Qualmax shares. The Company does not have a representative on the Board of Directors of Qualmax.

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

NOTE 1: – GENERAL (Cont.)

The Company accounted for its holdings in Qualmax shares on the cost basis since these shares are restricted stock.

In addition, the Company and IP Gear entered into an Outsourcing Agreement, pursuant to which the Company will provide IP Gear with certain operating services relating to the sold Communications Division. The first three months of services will be provided for no charge and IP Gear shall pay for these services starting from April 2006. IP Gear can elect to pay for the services rendered in April thru June 2006 by issuance to the Company of Qualmax shares valued at a predetermined price of $1.43 per share. The Company undertook to provide these services at least until December 31, 2006 (12 months from closing).

The Company also granted a bridge loan to IP Gear in the amount of $1,000. 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, IP Gear shall pay only the interest accrued on the loan and monthly principal and interest payments shall commence thereafter. The loan granted to IP Gear is secured by a first priority floating charge, which may be subordinated to a charge in favor of Bank of America, NA in the event such charge is recorded. In addition repayment is guaranteed by Qualmax Inc.

The loan agreement provides that if the disposed division would incur in the first quarter of 2006, losses that exceed $250, the principal amount to be repaid under the loan shall be reduced by the excess losses. In such event, Qualmax shall issue to the Company additional shares of Common Stock against such reduction, valued at a predetermined price of $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 $ 4,500.

Qualmax also issued to the Company a five-year warrant for the purchase of up to 107,143 shares, constituting less than 1%, of its outstanding shares in Qualmax, at the exercise price of $2.80 per share (“Warrants”). The Company received certain piggy-back registration rights with respect to the shares underlying the warrant.

	December 31, 2005
Consideration:	
Approximately 3.2 million ordinary shares of Qualmax (1)	$ 4,586
107,143 warrants (2)	104
Loan granted to IP Gear	(1,000)
Total consideration	3,690
Cost:	
Disposal of inventory, property and equipment and intangible assets related to the Communication segment	2,425
Transactions related cost	486
Total cost	2,911
Capital gain	$ 779

(1) Valuated at $ 1.43 per share
(2) Valuated at $ 0.97 per warrant

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

NOTE 1: – GENERAL (Cont.)

The Company has not accounted for the Communication Division as a "discontinued operation" due to its continuing involvement reflected in the loan and the outsourcing agreement, in accordance with EITF 03-13.

d. Discontinued operations:

On June 1, 1998, the Company acquired 100% of the share capital of Pacific Information Systems Inc. ("Pacinfo"), a U.S. corporation. Pacinfo was a reseller of computer networking products.

During the fourth quarter of 2002, the Company initiated a plan to cease operations of Pacinfo.

The results of operations including revenues, operating expenses and other income and expenses of Pacinfo for 2004 and 2003 have been reclassified in the accompanying statements of operations as discontinued operations. The Company's balance sheets at December 31, 2005 and 2004 reflect the net assets and liabilities of Pacinfo as liabilities and assets related to discontinued operations.

The carrying amounts of the major classes of assets and liabilities included as part of the discontinued operations are:

	December 31,	
	2005	2004
Cash	$ -	$ 3
Trade receivables, other receivables and prepaid expenses	-	-
Property and equipment, net	-	-
Assets of discontinued operations	$ -	$ 3
Trade payables	$ 194	$ 194
Accrued expenses and other liabilities	43	43
Liabilities of discontinued operations	$ 237	$ 237

The results of operations, including revenues, cost of revenues and operating expenses of Pacinfo's operations for 2004 and 2003 have been reclassified in the statements of operations. Taxes were not attributed to the discontinued operations due to utilization of losses from previous years, for which a valuation allowance was provided.

Summarized selected financial information of the discontinued operations is as follows:

	Year ended December 31,		
	2005	2004	2003
Revenues	$ -	$ -	$ 25
Net income (loss)	$ -	$ (9)	$ 2,036

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

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared according to United States generally accepted accounting principles ("U.S. GAAP").

a. Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

b. Financial statements in U.S. dollars (“dollar”):

A substantial portion of the Company’s revenues is generated in U.S. dollar (“dollars”). In addition, most of the Company’s costs are incurred in dollars. Company’s management believes that the dollar is the primary currency of the economic environment in which the Company operates. Thus, the functional and reporting currency of the Company is the dollar.

Accordingly, monetary accounts maintained in currencies other than the dollar are remeasured into U.S. dollars in accordance with Statement No. 52 of the Financial Accounting Standards Board (“FASB”) “Foreign Currency Translation”. All transactions gains and losses from the remeasurement of monetary balance sheet items are reflected in the statements of operations as financial income or expenses as appropriate.

The functional currency of the Odem subsidiary, whose functional currency as of December 31, 2004, was other than dollar and has been translated into U.S. dollars, has changed on April 1, 2005, due to significant changes in circumstances initiated by management, which consisting of; Odem transition from New Israeli Shekels (NIS) to U.S. dollars of Odem’s majority sales, majority expenses and budget, which indicate a functional currency change. In accordance with FAS 52, “Foreign Currency Translation” and since the functional currency changed from a foreign currency to the reporting currency, dollars, the translation adjustments as of March 30, 2005, prior to the change have not been removed from equity and the translated amounts for nonmonetary assets as of March 30, 2005, prior to the change became the accounting basis for those assets in the periods starting April 1, 2005.

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. Inter-company transactions and balances including profits from inter-company sales not yet realized outside the Company have been eliminated upon consolidation.

d. Cash equivalents:

Cash equivalents are short-term highly liquid investments that are readily convertible to cash originally purchased with maturities of less than three months.

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Marketable securities:

The Company accounts for investments in debt securities in accordance with Statement of Financial Accounting Standard No.115, "Accounting for Certain Investments in Debt and Equity Securities" ("FAS 115"). Management determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date. Until November 30, 2005, debt securities have been classified as held-to-maturity since the Company had the positive intent and ability to hold the securities to maturity and they are stated at amortized cost. The amortized cost of held-to-maturity securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and decline in value judged to be other than temporary and interest are included in financial income, net. Beginning December 1, 2005, the debt securities are classified as "available-for-sale" since the Company does not have the intent to hold the securities to maturity, and are stated at fair value. Due to the change in classification of the securities to "available-for-sale", the unrealized holding gain at the date of transfer has been reported in other comprehensive income.

Available-for-sale securities are carried at fair value with unrealized gains, and are reported as a separate item under "other comprehensive loss".

f. Inventories:

Inventory write-offs are provided to cover risks arising from slow-moving items or technological obsolescence. As of December 31, 2005 and 2004, inventory is presented net of $ 100 and $ 300, respectively, for technological obsolescence and slow moving items (see also Note 4).

Inventories are valued at the lower of cost or market value. Cost is determined as follows:

Raw and packaging materials – moving average cost method. Products in progress and finished products – on the production costs basis.

g. Grants and royalty-bearing grants:

Grants and royalty-bearing grants from the Chief Scientist of the Ministry of Industry and Trade in Israel for funding certain approved research projects are recognized at the time the Company is entitled to such grants, on the basis of the related costs incurred, and are presented as a deduction of research and development costs.

h. Investment in an affiliated company:

An affiliated company is a company in which the Company is able to exercise significant influence, but that is not a consolidated subsidiary and is accounted for by the equity method, net of write-down for decrease in fair value which is not of a temporary nature. The Company's investment in Surf has been included as an affiliated company until September 30, 2005 (see note 6).

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

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The investment in an affiliated company represents investments in Ordinary shares and Preferred shares of that Company. The Company applies EITF 99-10, "Percentage Used to Determine the Amount of Equity Method Losses". Accordingly, losses of the affiliated company are recognized based on the ownership level of the particular security of the affiliated company held by the Company.

The Company's investment in this company is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable, in accordance with Accounting Principle Board Opinion No. 18 "The Equity Method of Accounting for Investments in Common Stock" ("APB No. 18"). During 2005, an impairment of 1,385 has been recorded in "equity in losses of an affiliated company" in the statement of operations. In 2004 and 2003, based on management's analyses, no impairment losses were identified.

i Investment in other companies:

Investment in companies are investments through which the Company is not able to exercise significant influence over the investee's financial policies and which do not meet the fair value availability criteria of FAS 115 ("readily determined sales price currently available on a security exchange"), consequently such investments are accounted for by the cost method.

The Company's investment in such companies is reviewed for impairment whenever events of changes in circumstances indicate that the carrying amount of the investment may not be recoverable in accordance with APB No. 18. No impairment has been identified during 2005.

j. Property plant and equipment:

Property, plant and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated by using the straight-line method over the estimated useful lives of the assets, at the following annual rates:

	%	
Computers and software	20 - 33	(mainly 33%)
Office furniture and equipment	6 - 15	(mainly 10%)
Leasehold improvements-	10	(over the period of the lease 10 years or the shorter of the life of the assets)
Vehicles	15	
Plant	4	

k. Impairment of long-lived assets:

The Company's long-lived assets are reviewed for impairment in accordance with Statement of Financial Accounting Standard No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144") whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. The Company has recorded impairment losses of $ 0, $ 0 and $ 110 for the years ended December 31, 2005, 2004 and 2003, respectively.

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Goodwill:

Goodwill represents excess of the costs over the net assets of businesses acquired. SFAS No. 142 requires goodwill to be tested for impairment at least annually or between annual tests in certain circumstances, and written-down when impaired. Goodwill attributable to each of the reporting units is tested for impairment by comparing the fair value of each reporting unit with its carrying value. Fair value is determined using income and market approaches. Significant estimates used in the methodologies include estimates of future cash flows, future short-term and long-term growth rates, weighted average cost of capital and estimates of market multiples for each of the reportable units. During 2005, 2004 and 2003 no impairment losses have been identified.

m. Research and development costs:

Statement of Financial Accounting Standards No. 86 “Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed,” (“SFAS No. 86”) requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. Based on the Company’s product development process, technological feasibility is established upon completion of a working model. Research and development costs incurred in the process of developing product improvements or new products, are generally charged to expenses as incurred, net of participation of the Office of the Chief Scientist of the Israeli Ministry of Industry and Trade. Costs incurred by the Company between completion of the working model and the point at which the product is ready for general releases are insignificant.

n. Severance pay:

The Company’s liability for severance pay for Israeli resident employees is calculated pursuant to the Israeli severance pay law based on the most recent salary of the employees multiplied by the number of years of employment as of the balance sheet date. Employees are entitled to one month’s salary for each year of employment or a portion thereof. The Company’s liability for its Israeli resident employees is covered by insurance policies designed solely for distributing severance pay. The value of these policies is recorded as an asset in the Company’s balance sheet.

The insurance policies include profits accumulated up to the balance sheet date. The insurance policies may be withdrawn only upon complying with the Israeli severance pay law or labor agreements. The value of the deposited funds is based on the cash surrendered value of these policies and includes profits.

Severance expenses for 2005, 2004 and 2003 amounted to $ 256, $ 214 and $ 178, respectively.

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

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Revenue recognition:

The Company sells its products through direct sales, distributors and resellers channels.

The Company derives its revenues from the sale of products, license fees for its products, commissions, support and services.

Revenues from product sales are recognized in accordance with Staff Accounting Bulletin No. 104 "Revenue Recognition in Financial Statements" ("SAB 104") when delivery has occurred, persuasive evidence of an arrangement exists, the vendor's fee is fixed or determinable, no further obligation exists, and collectibility is reasonably assured.

Revenue from license fees is recognized in accordance with Statement of Position ("SOP") 97-2 "Software Revenue Recognition", when persuasive evidence of an agreement exists, delivery of the product has occurred, no significant obligations with regard to implementation remain, the fee is fixed or determinable, and collectibility is probable. The Company generally does not grant a right of return to its customers. When a right of return exists, the Company defers revenue until the right of return expires, at which time revenue is recognized provided that all other revenue recognition criteria have been met.

Revenues support are recognized ratably over the period of the support contract. The fair value of the support is determined based on the price charged when it is sold separately or renewed.

Revenues from commissions are recognized upon their actual receipt, since under agreements with suppliers consideration is received on the basis of collection from customers.

p. Warranty:

BOScom provides a warranty of between 3 to 36 months at no extra charge, whereby defective hardware covered by the warranty should be sent back to the Company. The Company estimates the costs that may be incurred under its warranty and records a liability in the amount of such costs at the time product revenue is recognized. Factors that affect the Company's warranty liability include the number of installed units, historical and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. As of December 31, 2005 and 2004, the Company's product warranty amounted to $ 73 and $ 132, respectively.

q. Income taxes:

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No 109, "Accounting for Income Taxes". This Statement prescribes the use of the liability method whereby deferred tax assets and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company has provided valuation allowances, in respect of deferred tax assets resulting from tax loss carryforward and other reserves and allowances due to its history of operating losses and current uncertainty concerning its ability to realize these deferred tax assets in the future.

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, trade receivables, other accounts receivable and marketable securities.

Cash and cash equivalents are invested mainly in U.S. dollars in deposits with major banks in Israel. Management believes that the financial institutions that hold the investments of the Company are financially sound and, accordingly, minimal credit risk exists with respect to these investments.

The trade receivables of the Company are derived from sales to customers located primarily in Israel, United States and Europe. The Company generally does not require collateral; however, in certain circumstances, the Company may require letters of credit, other collateral, additional guarantees or advanced payments. An allowance for doubtful accounts is determined with respect to specific debts that are doubtful of collection.

Investments in marketable securities are conducted through a bank in Israel and include investments in corporate and governmental debentures. Management believes that the financial institutions that hold the Company's investments are financially sound, the portfolio is well diversified and accordingly, minimal credit risk exists with respect to these investments.

The loan granted to IP Gear is secured by a first priority floating charge, which may be subordinated to a charge in favor of Bank of America, NA in the event such charge is recorded. In addition repayment is guaranteed by Qualmax Inc. (see note 1c(2)).

The Company has no off-balance-sheet concentrations of credit risk such as foreign exchange contracts, option contracts or other foreign hedging arrangements.

s. Basic and diluted net loss per share:

Basic net loss per share is calculated based on the weighted average number of Ordinary shares outstanding during each year. Diluted net loss per share is calculated based on the weighted average number of Ordinary shares outstanding during each year, plus dilutive potential Ordinary shares considered outstanding during the year, in accordance with SFAS No. 128, "Earnings Per Share".

The total number of shares related to the outstanding options and warrants excluded from the calculations of diluted net loss per share, since they would have an anti-dilutive effect, were 1,506,803, 855,783 and 505,178 for the years ended December 31, 2005, 2004 and 2003, respectively.

t. Accounting for stock-based compensation:

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB-25"), and Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" ("FIN 44"), in accounting for its employee stock option plan. Under APB-25, when the exercise price of the Company's employee stock options equals or is above than the market price of the underlying shares on the date of grant, no compensation expense is recognized.

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

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Pro-forma disclosure is required by SFAS No. 123, had the compensation expense for stock options granted under the Company's plans been determined based on the fair value at the date of grant. The Company's net loss and loss per Ordinary share in 2005, 2004 and 2003 would have changed to the pro forma amounts shown below:

	Year ended December 31,		
	2005	2004	2003
Net loss from continuing operations as reported	$ (3,605)	$ (2,044)	$ (2,057)
Add: stock-based compensation expense determined under intrinsic value method	62	5	-
Deduct: stock-based compensation expense determined under fair value method for all awards	246	96	124
Pro forma net loss from continuing operations	(3,789)	(2,135)	(2,181)
Pro forma net income (loss) from discontinued operations	-	(9)	2,036
Pro forma net loss	(3,789)	(2,144)	(145)
Basic and diluted earning (loss) per share as reported:			
Continuing operations	$ (0.64)	$ (0.44)	$ (0.56)
Discontinued operations	$ 0.00	$ 0.00	$ 0.55
Net loss	$ (0.64)	$ (0.44)	$ (0.01)
Pro forma earning (loss) per share:			
Continuing operations	$ (0.67)	$ (0.46)	$ (0.59)
Discontinued operations	$ 0.00	$ 0.00	$ 0.55
Net loss	$ (0.67)	$ (0.46)	$ (0.04)

The fair value of each option granted is estimated on the date of grant, using the Black &Scholes option pricing model with expected volatility of approximately 120%, 68% and 64% in 2005, 2004 and 2003, respectively and using the following weighted average assumptions: (1) Dividend yield of zero percent for each year; (2) Risk-free interest rate of 4%, 2.5% and 1.8% in 2005, 2004 and 2003, respectively and (3) Expected average lives of the options of three years from the date of grant as of 2005, 2004 and 2003.

The Company applies SFAS No. 123 "Accounting for stock Based Compensation"("SFAS No. 123") and EITF 96-18, "Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction With, Selling, Goods or Services", with respect to warrants issued to non-employees. SFAS No. 123 requires the use of option valuation models to measure the fair value of the warrants at the date of grant.

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

u. Fair value of financial instruments:

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

The carrying amounts of cash and cash equivalents, trade receivables, other accounts receivable, and trade payables approximate their fair value due to the short-term maturities of such instruments. The fair value for marketable securities is based on quoted market prices. The fair value of investments in other companies is based on independent third-party evaluations.

v. Reclassification:

Certain amounts from prior years have been reclassified to conform to the current year presentation.

w. Impact of recently issued accounting pronouncements:

In November 2004, the FASB issued Statement of Financial Accounting Standard No. 150, “Inventory Costs, an Amendment of ARB No. 43, Chapter 4.” (“SAFS No. 151”). SFAS No. 151 amends Accounting Research Bulletin (“ARB”) No. 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight handling costs and wasted materials (spoilage) should be recognized as current-period charges. In addition, SFAS No.151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SAFS No. 151 is effective for inventory costs incurred during fiscal years beginning after September 15, 2005. As of December 31, 2005, the Company does not expect that the adoption of SFAS No. 151 will have a material effect on its financial position or results of operations.

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued Statement No. 123 (revised 2004), “Share-Based Payment” (“Statement 123R”), which is a revision of FASB Statement No. 123, “Accounting for Stock-Based Compensation”(“Statement 123”). Generally, the approach in Statement 123R is similar to the approach described in Statement 123. However, Statements 123 permitted, but did not require, share-based payments to employees to be recognized based on their fair values while Statement 123R requires all share-based payments to employees to be recognized based on their fair values. Statement 123R also revises, clarifies and expands guidance in several areas, including measuring fair value, classifying an award as equity or as a liability and attributing compensation cost to reporting periods. The new Standard will be effective for the Company in the first fiscal year beginning after December 15, 2005. On March 29, 2005, the SEC published Staff Accounting Bulletin (“SAB”) No. 107, which provides the staff’s views on a variety of matters relating to stock-based payments. SAB 107 requires stock-based compensation to be classified in the same expense line items as cash compensation.

The Company will adopt Statement 123R and SAB 107 as of the financial statements of the first quarter of 2006.

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

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In May 2005, the FASB issued Statement of Financial Accounting Standard No. 154 ("FAS 154"), "Accounting Changes and Error Corrections" – a replacement of APB No. 20, Accounting Changes" and FAS NO. 3, "Reporting Accounting Changes in Interim Financial Statement". FAS 154 provides guidance on accounting for and reporting of accounting changes and error corrections.

APB Option 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. FAS 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. FAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company is currently assessing the impact of FAS 154 on its results of operations, financial condition and liquidity.

In June 29, 2005, the FASB issued FSP FAS 115-1 and FAS 124-1. The guidance in FSP FAS 115-1 and FAS 124-1 addresses the determination of when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. The FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FSP amends FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and FASB Statement No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations," and adds a footnote to APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." The guidance in this FSP nullifies certain requirements of EITF Issue No. 03-1 and supersedes EITF. Abstracts, Topic D-44, "Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value." The guidance in this FSP is required to be applied to reporting periods beginning after December 15, 2005. Because the impact of adopting the provisions of FSP FAS 115-1 will be dependent on future events and circumstances, management cannot predict such impact.

NOTE 3: – OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2005	2004
Government authorities - Income tax advances and V.A.T	$ 315	$ 287
Grants receivables	24	103
Accrued interest on marketable securities	106	96
Prepaid expenses	124	231
Other	23	5
	$ 592	$ 722

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

NOTE 4: – INVENTORIES

Raw materials (including packaging materials)	$ 107	$ 809
Products in progress	56	367
Finished products	3,160	1,910
	$ 3,323	$ 3,086

The inventories are presented net of provision for technological obsolescence and slow-moving items of $ 100 and $ 300 as of December 31, 2005 and 2004, respectively.

NOTE 5: – MARKETABLE SECURITIES

The following is a summary of securities:

	December 31,							
	2005				2004			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair market value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair market value
Available-for-sale:								
Corporate debentures	$ 1,332	$ 1	$ -	$ 1,333	$ 802	$ 5	$ -	$ 807
Held-to-maturity:								
Corporate debentures	$ -	$ -	$ -	$ -	$ 2,279	$ 14	$ -	$ 2,293

Aggregate maturities of available-for-sale securities for years subsequent to December 31, 2005 are:

	Amortized cost	Estimated fair market value
Available for sale:		
2006	$ 286	$ 286
2007	790	791
2008	256	256
	$ 1,332	$ 1,333

NOTE 6: – INVESTMENT IN AN AFFILIATED COMPANY

Investment in Surf:

In November 2001, the Company invested $ 1,000 as part of a private placement in Surf Communication System Ltd. (“Surf”). At the same time, the Company converted its convertible loan in the amount of $ 1,042 (principal and accrued interest) into Preferred shares in Surf at an exercise price equal to Surf’s fair value as determined in the investment agreement. As a result of this private placement, the Company’s holding in Surf was diluted to 17%. Accordingly, the investment was accounted based on the cost accounting method.

NOTE 6: – INVESTMENT IN AN AFFILIATED COMPANY (Cont.)

In March 2003, the Company engaged with Catalyst Investors L.P. ("Catalyst"), in order to purchase additional 191,548 series C Preferred shares of Surf. In consideration, the Company issued to Catalyst 633,102 Ordinary shares, at a purchase price of $ 2.77, aggregating to $ 1,755 and incurred transaction cost of $ 155. The value of the Ordinary shares issued was determined based on the average market price of the Company's ordinary shares over the period including two days before and after the terms of the transaction were agreed to and announced.

Catalyst also granted the Company, at no additional consideration, an option to purchase on or prior to January 31, 2006, any shares of Surf then held by Catalyst at an exercise price of $ 9.1632 plus interest of 4.75% and until such purchase shall be granted voting rights in Surf shares. In the event that Catalyst will sell its remaining shares in Surf in or prior to January 31, 2006 (or by July 31, 2007, provided that the negotiations with respect to the sale commenced before January 31, 2006), the Company will be entitled to the gain that will be realized in such sale. To the best of the Company's knowledge, Catalyst has not sold its Surf securities as of January 31, 2006, nor entered into negotiations for their sale. The Company has not exercised the option and it expired on January 31, 2006.

As a result of this investment, the Company had the ability to exercise significant influence over Surf. As a result the investment in Surf had become qualified to be accounted for under the equity method. According to APB 18 when an investment qualifies for use of the equity method, the investor should adopt the equity method of accounting by adjusting retroactively the investment, results of operations (current and prior periods presented), and retained earnings, in a manner consistent with the accounting for a step-by-step acquisition of a subsidiary.

In September 2005, Surf completed a private placement that is considered an event of change in circumstances that has a significant adverse effect on the fair value of the investment. Therefore, the Company has evaluated its investment in Surf and determined that it amounts to $ 722 as of December 31, 2005 based on management's analysis (supported by an independent third-party valuation). As a result, the Company has recorded an impairment of $ 1,385, which has been included in the equity in losses of an affiliated company in the statement of operations for the year December 31, 2005.

Moreover, following the private placement in Surf, the Company's voting rights have been diluted to 8.7% of the total voting rights in Surf. As a result, the Company ceased to have the ability to exercise significant influence over Surf and, accordingly, the adjusted carrying amount of the investment of $ 722 is accounted for based on the cost accounting method.

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

NOTE 6: – INVESTMENT IN AN AFFILIATED COMPANY (Cont.)

Summarized combined financial information of surf for the year in which the investment was accounted using the equity method was as follows:

	December 31, 2004
Balance sheet items:	
Current assets	$ 3,764
Non-current assets	$ 879
Current liabilities	$ 1,431
Non-current liabilities	$ 525
Shareholders' equity	$ 2,687

	Year ended December 31,		
	2005	2004	2003
Statement of operations items:			
Revenues	$ 2,055	$ 2,762	$ 1,403
Cost of sales	$ 660	$ 700	$ 563
Operating expenses from continuing operation	$ 3,694	$ 4,037	$ 4,332
Net loss	$ 2,334	$ 1,971	$ 3,427

NOTE 7: – INVESTMENT IN OTHER COMPANIES

The Company’s investments in companies comprise of:

	December 31, 2005
Qualmax (see Note 1(b) - disposal of Communication Division)	$ 4,690

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

NOTE 8: – PROPERTY AND EQUIPMENT

	December 31,	
	2005	2004
Cost:		
Computers and software	$ 1,683	$ 2,108
Office furniture and equipment	448	560
Leasehold improvements and plant	1,116	1,137
Vehicles	89	112
	3,336	3,917
Accumulated depreciation:		
Computers and software	1,511	1,812
Office furniture and equipment	288	291
Leasehold improvements and plant	816	749
Vehicles	54	46
	2,669	2,898
Depreciated cost	$ 667	$ 1,019

Depreciation expenses amounted to $ 345, $ 300 and $ 307 for the years ended December 31, 2005, 2004 and 2003, respectively.

NOTE 9: – INTANGIBLE ASSETS

	December 31,	
	2005	2004
Cost:		
Trade name	$ -	$ 180
Core technology	-	125
Distribution network	-	200
Customer list	2,010	1,406
	2,010	1,911
Accumulated amortization:		
Trade name	-	6
Core technology	-	6
Distribution network	-	22
Customer list	174	17
	174	51
Amortized cost	$ 1,836	$ 1,860

Amortization expenses amounted to $ 236 and $ 50 for the years ended December 31, 2005 and 2004, respectively.

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

NOTE 9: – INTANGIBLE ASSETS (Cont.)

Estimated amortization expenses for the years ended:

	December 31,
2006	$ 207
2007	207
2008	207
2009	207
2010	207
2011-2014	801

NOTE 10: – GOODWILL

Goodwill attributed to operating segments for the years ended December 31, 2005 and 2004 is as follows:

	Communication	Electronic component	Total
Balance as of January 1, 2004	$ 741	$ -	$ 741
Acquisition of Odem	-	666	666
Acquisition of Quasar	162	-	162
Balance as of December 31, 2004	903	666	1,569
Foreign currency translation adjustment	-	4	4
Exercise of options in Odem	-	282	282
Disposal of Communication Division	(903)	-	(903)
Balance as of December 31, 2005	$ -	$ 952	$ 952

NOTE 11: – SHORT TERM BANK LOANS

	Weighted interest rate	December 31,	
	%	2005	2004
NIS	6.62	$ 2,271	$ 1,354

Regarding collateral given to insure short-term credit and loans see note 13c.

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

NOTE 12: – ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31,	
	2005	2004
Government of Israel - royalties and V.A.T	$ 306	$ 349
Provision for warranty	73	132
Issuance cost related to accrued convertible note	-	160
Inventory purchase commitment liability	147	147
Accrued expenses on account of business combinations	738	-
Other	307	353
	$ 1,571	$ 1,141

NOTE 13: – LONG-TERM BANK LOANS

a. Classified by linkage terms and interest rates, the total amount of the loans is as follows:

	Weighted interest rate	December 31,	
	%	2005	2004
NIS linked to the Israeli CPI	7.95	$ 33	$ 51
NIS	6.95	12	51
		45	102
Less - current maturities		(28)	(48)
		$ 17	$ 54

b. The loans mature in the following years after the balance sheet dates:

	December 31,	
	2005	2004
First year (current maturities)	$ 28	$ 48
Second year	16	36
Third year	1	17
Fourth year	-	1
	$ 45	$ 102

c. Odem has registered fixed pledges on its real estate, plant and equipment and vehicles.

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

NOTE 14: – LONG-TERM CONVERTIBLE NOTE

On June 10, 2004, the Company entered into a Securities Purchase Agreement ("the Purchase Agreement"), with Laurus Master Fund Ltd. ("the Investor"), under which the Company issued to the Investor in a private placement (i) a Secured Convertible Term Note of a $ 2,000 principal amount, due June 10, 2007 ("the Note"); and (ii) a warrant to purchase 130,000 ordinary shares at an exercise price of $ 4.04 per share ("the Warrant"). According to the agreement, several fees in the amount of $ 115 were paid to the Investor. These fees are presented as discount of the principal convertible loan. The Note is convertible into Ordinary shares at a price of $ 3.08 per share. The principal amount of the Note is repayable in monthly installments, commencing September, 2004, in the initial amount of $ 20 eventually increasing to $ 74. The Note bears prime interest rate plus 3% which subject to reduction in certain conditions. The Warrant is exercisable, in whole or in part, until June 10, 2011.Pursuant to its undertaking in the Registration Rights Agreement with the Investor the Company filed with the Securities and Exchange Commission a registration statement on Form F-3 covering the resale of Ordinary Shares that are issuable upon conversion of the Note and/or exercise of the Warrants, and/or issuable in payment of principal and interest on the Note. The Registration Rights Agreement provided that any delay in registration and/or effectiveness of the underlying shares of the transaction, or failure to maintain their effectiveness, will result in penalties to be paid in cash, as liquidated damages. The registration statement became effective on March 11, 2005. Due to the delay in the effectiveness of the registration of the shares, the Company paid the Investor liquidated damages of $92.

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 the Company 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 fair value of the warrants was calculated using the Black and Scholes Option Pricing Model with the following assumptions: a risk-free interest rate of 3.34%, a dividend yield of 0%, a volatility of the expected market price of the Company's Ordinary shares of 100% and a weighted-average contractual life of 7 year. The fair value of the warrants in the amount of $ 99 is presented as a component in shareholders' equity. Since the effective conversion price was grater than the share price at the commitment date, no beneficial conversion feature exists.

In March 2005, the Investor elected to convert $ 308 of the Convertible note principal into 100,000 Ordinary shares of the Company. Due to the private placement agreement secured by the Company in June 2005, the conversion price was adjusted to $2.94 per share, and in July 2005, the Investor completed the conversion of the balance of the Convertible Note principal, which had not been previously converted or repaid, and the accrued interest into an additional 540,293 Ordinary shares for approximately $ 1,580.

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

NOTE 14: – LONG-TERM CONVERTIBLE NOTE (Cont.)

In September 2005, the Company entered into a Second Securities Purchase Agreement ("the Purchase Agreement") with the Investor, under which the Company issued to the Investor in a private placement (i) a Secured Convertible Term Note of a $ 1,500 principal amount, due September 2008 ("the Note"), and (ii) a warrant to purchase 73,052 ordinary shares at an exercise price of $ 4.04 per share ("the Warrant"). According to the agreement, several fees in the total amount of $ 116 were paid to the Investor. These fees are presented as a discount of the principal convertible loan. The Note is convertible into Ordinary shares at a price of $ 3.08 per share. The principal amount of the Note is repayable in monthly installments, commencing as of January 2006, in the initial amount of $ 15 eventually increasing to $ 55. The Note bears prime interest rate plus 1.5% which is subject to reduction under certain conditions. The Warrant is exercisable, in whole or in part, until September 29, 2012. Pursuant to its undertaking in the Registration Rights agreement with the Investor the Company filed with the Securities and Exchange Commission a registration statement on Form F-3 covering the resale of Ordinary Shares that is issuable upon conversion of the Note and/or exercise of the Warrants, and/or issuable in payment of principal and interest on the Note. The Registration Rights agreement provided that any delay in registration and/or effectiveness of the underlying shares of the transaction, or failure to maintain their effectiveness, will result in penalties to be paid in cash, as liquidated damages. The registration statement became effective on February 8, 2006.

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 fair value of the warrants was calculated using the Black- Scholes Option Pricing Model with the following assumptions: a risk-free interest rate of 4.08%, a dividend yield of 0%, a volatility of the expected market price of the Company's Ordinary shares of 100% and a weighted-average contractual life of seven years. The fair value of the warrants in the amount of $ 144 is offset against the note, amortized over the period of the note and presented as a component in shareholders' equity.

The maturity of the loan is as follows:

	December 31, 2005	December 31, 2004
First year (current maturities)	$ 326	$ 595
Second year	663	883
Third year	496	442
	1,485	1,920
Less - discount	238	174
	$ 1,247	$ 1,746

NOTE 15: – COMMITMENTS AND CONTINGENT LIABILITIES

a. Commitments:

1. Royalty commitments:

a) Under the Company's research and development agreements with the Office of the Chief Scientist ("OCS") and pursuant to applicable laws, the Company is required to pay royalties at the rate of 3.5% of sales of products developed with funds provided by the OCS, up to an amount equal to 100% of the research and development grants (dollar-linked) received from the OCS. The obligation to pay these royalties is contingent upon actual sales of the products. 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 at the time the grants are received.

As of December 31, 2005, the Company has an outstanding contingent obligation to pay royalties in the amount of approximately $ 3,500, in respect of these grants.

b) The Israeli Government, through the Overseas Marketing Fund, awarded the Company grants for participation in expenses for overseas marketing. The Company is committed to pay royalties to the Fund for Encouragement of Marketing Activities at the rate of 3% of the increase in export sales, up to the amount of the grants received by the Company linked to the dollar and bearing interest of LIBOR (for a period of six months).

As of December 31, 2005, the Company has an outstanding contingent obligation to pay royalties of $ 110 with respect to these grants.

2. Other commitments:

The facilities of the Company are rented under operating lease agreements that expire on various dates ending in 2009. Minimum future rental payments for 2006 are $ 51, for 2007 $10, for 2008 $10 and for 2009 $6.

The Company's motor vehicles are rented under various cancelable operating lease agreements. The lease agreements for the motor vehicles expire on various dates ending in 2008. The maximum breach of contract fees can amounted to $ 74.

Lease payments for the facilities occupied by the Company and the Company's motor vehicles in 2005, 2004 and 2003 amounted to $ 408, $ 385 and $ 426, respectively.

NOTE 15: – COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

b. (1) In July 2002, the Company received a claim letter from a car leasing vendor, under which it claims that the Company's termination notice of the leasing agreement in March 2002 constitutes a breach of the agreement and the vendor is demanding compensation in which the nominal claim amount is of $ 292. No legal proceeding has yet been filed. At this stage, according to the Company's counsel assessment, the prospects of vendor to prevail and recover a significant amount, seem remote. The financial statements do not include any provision in that regard.

(2) In September 2003, a supplier filed a legal claim in the amount of $107 against the Company's subsidiary. The claim alleges the breach of an agreement for the purchase of products. The Company's legal counsel is unable to reasonably estimate the outcome of this claim. In addition, the Company's management believes that the chances of the claim are remote. Accordingly, no provision has been included in the financial statements in respect of this claim.

(3) In 1998, as part of Pacinfo Share Purchase Agreement between the Company and Mr. Lee and Ms. Lee ("the Seller"), the Company may be obligated to grant the Sellers a loan on a full recourse basis for certain tax payments the Sellers may be liable for and reimburse the Sellers for certain interest on taxes that they may owe, currently estimated at approximately $ 2 millions. The Company will receive a security interest in shares of the Company that the Sellers holds 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. 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 an obligation by the Company to lend the Sellers such amount and to reimburse them for interest expenses incidental to the tax event. Based on the Company's legal consul opinion and management estimation, no provision was recorded.

(4) In March 2006, BOSâNOVA EURL, a French company and former distributor of the Company, field against the Company and others a claim with the French Tribunal. The claim is on amount of 1.4 million Euros and it alleges breach of exclusive distributor rights in France. An initial hearing is scheduled to take place in France on June 29, 2006. This claim follows a previous motion for temporary injunctive relief that was field against the Company's new French distributor, said motion ultimately denied by French Trade Tribunal. The Company assesses the prospects of claim to prevail and recover a significant amount, are remote. The financial statements do not include any provision in that regard.

NOTE 16: – SHAREHOLDERS' EQUITY

a. Private placement:

In June 2005, the Company completed a private placement for the Company's Ordinary shares. The Company issued to the investors 953,698 Ordinary Shares at a purchase price of $ 2.30 per share, for a consideration of approximately $ 2,040 (net of $ 154 in issuance expenses).

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

NOTE 16: – SHAREHOLDERS' EQUITY (Cont.)

The private placement included warrants of 572,219 for ordinary shares. The exercise price of the warrants is $2.50 per ordinary share during 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 warrant is exercisable, in whole or in part during a period of three years from issuance, of the warrants. Pursuant to its undertaking in the Registration Rights Agreement, the Company filed with the Securities and Exchange Commission a registration statement on Form F-3 covering the Ordinary Shares (including those underlying the warrants). The registration statement became effective with no delay on February 8, 2006.

The Company's outstanding warrants to shareholders as of December 31, 2005 are as follows:

Issuance date	Warrants for Ordinary shares	Exercise price per share	Warrants exercisable	Exercisable through
June 2005	441,785	$ (*)	441,785	June 2008
July 2005	130,434	$ (*)	130,434	June 2008
	572,219		572,219	

(*) The exercise price of the warrants is $2.50 per ordinary share during 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.

b Stock option plans:

During 1994, 1995, 1999, 2000, 2001, the Board of Directors of the Company adopted stock option plans ("the Plans") pursuant to which 656,250 options for the purchase of the Company's Ordinary shares may be granted to officers, directors, consultants and employees of the Company. The Board of Directors has resolved that no further grants shall be made from the above mentioned plans. In May 2003, the Company's shareholders approved the adoption of the 2003 Stock Option Plan, pursuant to which 625,000 Ordinary shares are reserved for purchase by employees, directors, consultants and service providers of the Company. As of December 31, 2005 an aggregate 27,410 these options are still available for future grant. Each option granted under the Plans expires between 5-10 years from the date of the grant. The options vest gradually over a period of up to four years. Options, that are cancelled or forfeited, become available for future grants.

In June 2005 the Company's shareholders approved an increase of the number of Ordinary shares reserved for issuance under the 2003 Israeli Stock Option Plan, to 1,000,000. The additional shares shall be reserved after the registered share capital of the Company is increased.

On November 18, 2004, upon acquisition of Odem, the Company granted 73,000 options to one of Odem's key employee. Each option can be exercised to purchase one ordinary share of the Company without consideration. The options vest at the end of three years from the grant date and expire ten years from the date of the grant. The market price of the Company's shares on the date of grant was $ 2.5. Accordingly, the Company recorded in the year ended December 31, 2005, a compensation expense of $ 62. This expense was included as part of general and administrative expenses.

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

NOTE 16: – SHAREHOLDERS' EQUITY (Cont.)

Except for these options, all other options granted to employees in 2005, 2004 and 2003, have an exercise price equal to or higher than the market value of the Ordinary shares at the date of grant. The weighted average fair values of the options granted during 2005, 2004 and 2003 were $ 2.13, $ 2.58 and $ 3.91, respectively.

The following is a summary of the Company's stock options granted to officers, directors, and employees among the various plans:

	Year ended December 31,					
	2005		2004		2003	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding at beginning of year	430,576	$ 9.47	426,252	$ 11.93	211,929	$ 16.00
Changes during the year:						
Granted	107,000	$ 2.91	92,500	$ 0.54	278,076	$ 8.97
Exercise	(25,088)	$ 2.00	-	$ -	-	$ -
Forfeited or cancelled	(112,238)	$ 21.66	(88,176)	$ 11.97	(63,753)	$ 12.53
Options outstanding at end of year	400,250	$ 4.77	430,576	$ 9.47	426,252	$ 11.93
Options exercisable at the end of the year	217,750	$ 7.40	248,790	$ 5.49	194,926	$ 20.36

The options outstanding as of December 31, 2005, have been separated into ranges of exercise price as follows:

Range of exercise price	Options outstanding as of December 31, 2005	Weighted average exercise price	Weighted average remaining contractual life (years)	Options exercisable as of December 31, 2005	Weighted average exercise price of options exercisable
$ 0	73,000	$ 0.00	7.39	-	$ 0.00
$ 1.84-2.00	140,221	$ 1.94	4.89	122,721	$ 1.95
$ 2.28-3	113,000	$ 2.92	8.58	21,000	$ 3.00
$ 6.8	31,241	$ 6.80	4.80	31,241	$ 6.80
$ 17.00-18.00	9,463	$ 17.24	1.55	9,463	$ 17.24
$ 28.00	33,325	$ 28.00	4.10	33,325	$ 28.00
	400,250	$ 4.77	6.23	217,750	$ 7.40

c. Options issued to service providers:

The Company accounts for these options in accordance with the provisions of SFAS 123 and EITF 96-18. The fair value for these options was estimated at the date of grant using Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 1.5%, dividend yields of 0% volatility of 70%, and an expected life of 2.5 years.

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

NOTE 16: – SHAREHOLDERS' EQUITY (Cont.)

The compensation expenses that have been recorded in the consolidated financial statements regarding these warrants for the years 2005, 2004 and 2003 were $ 348, $ 117 and $ 23, respectively.

The Company's outstanding warrants to service providers as of December 31, 2005 are as follows:

Issuance date	Warrants for Ordinary shares	Exercise price per share	Warrants exercisable	Exercisable through
October 2002	75,000	$ 4.00	75,000	June 2011
January 2004	216,282	$ 3.00	144,188	May 2013
June 2004	130,000	$ 4.04	130,000	June 2011
March 2005	10,000	$ 3.08	10,000	March 2007
March 2005	10,000	$ 3.08	-	March 2010
June 2005	20,000	$ 3.08	5,000	June 2010
September 2005	73,052	$ 4.04	73,052	September 2012
	534,334		437,240	

NOTE 17: – TAXES ON INCOME

a. Reduction in corporate tax rate:

On June 2004, the Israeli Parliament approved an amendment to the Income Tax Ordinance (No. 140 and Temporary Provision) (the "Amendment"), which progressively reduces the regular corporate tax rate from 36% to 35% in 2004, 34% in 2005, 32% in 2006 and to a rate of 30% in 2007. The amendment was signed and published in July 2004 and is, therefore, considered enacted in July 2004.

On July 25, 2005, the Knesset (Israeli Parliament) passed the Law for the Amendment of the Income Tax Ordinance (No. 147), 2005, which prescribes, among others, a gradual decrease in the corporate tax rate in Israel to the following tax rates: in 2006 – 31%, in 2007 – 29%, in 2008 – 27%, in 2009 – 26% and in 2010 and thereafter –25%.

Odem and Quasar operations are subject to regular income tax rate while the Company and BOScom enjoy the status of an "Approved Enterprise", as described below.

b. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 ("the Investment Law"):

The Company's production facilities have been granted an "Approved Enterprise"status under the Investment Law, with respect to four separate investment programs. According to the Investments Law, the Company has elected to receive for the first program state-guaranteed loans and grants and for the second and third programs, the Company has elected to receive only state-guaranteed loans. As for the fourth program, the Company has elected the "alternative benefits" and has waived Government grants in return for a tax exemption.

NOTE 17: – TAXES ON INCOME (Cont.)

The Company is also a "Foreign Investors' Company", as defined by the abovementioned law, and as such, is entitled to a 10-year period of benefits and to an additional reduction in tax rates, up to 10% or 25% (based on the percentage of foreign ownership in each taxable year).

Income from the second, third and fourth programs, which commenced operations in 1992, 1994, 1997, respectively, are exempt from income tax for a period of ten years commencing with the first year in which they generate taxable income. During 2002, as part of the transfer of operations from the Company to BOScom, all tax benefits that were related to the Approved Enterprise of the Company were transferred to BOScom. In addition, since 2002, the Company's investments are not subject to the Approved Enterprise program. Accordingly, taxable income generated in that period will be split by the assets ratio into a taxable income that is entitled to the benefits of the approved enterprise and into an income that will be taxed at the corporate tax rate as described in article a above.

BOScom also has a production facility, which was granted an "Approved Enterprise"status and had a separate investment program. BOScom elected to receive the "alternative benefits". Income derived from BOScom's investment programs, which commenced operations in 1997 and 2002, is exempt from income tax for a period of ten years commencing with the first year in which taxable income is generated.

The period of tax benefits detailed above is subject to limits of the earlier of 12 years from commencement of production, or 14 years from receiving the approval. Accordingly, the period of benefits relating to all investment programs expire in the years 2001 through 2014.

The entitlement to the above benefits is conditional upon the Company's and BOScom's fulfilling the conditions stipulated by the above law, regulations published thereunder and the instruments of approval for the specific investments in "Approved Enterprises". In the event of failure to comply with these conditions, the benefits may be canceled and the Company and BOScom may be required to refund the amount of the benefits, in whole or in part, including interest.

The tax-exempt income attributable to the "Approved Enterprise" can be distributed to shareholders without imposing tax liability on the Company only upon the complete liquidation of the Company. In the event of a distribution of such tax-exempt income as a cash dividend in a manner other than in the complete liquidation of the Company and BOScom, the Company and BOScom will be required to pay tax at the rate of 10% to 25% on the amount distributed. In addition, these dividends will be subject to 15% withholding tax. Since there was no distribution of dividends with respect to the period ended on December 31, 2005, the Company did not record a deferred tax liability.

If the Company and BOScom derive income from sources other than an "Approved Enterprise", such income will be taxable at the regular corporate tax rate as described in article (a) above.

NOTE 17: – TAXES ON INCOME (Cont.)

On April 1, 2005, an amendment to the Investment Law came into effect ("the Amendment") and has significantly changed the provisions of the Investment Law. The Amendment limits the scope of enterprises which may be approved by the Investment Center by setting criteria for the approval of a facility as an Approved Enterprise, such as provisions generally requiring that at least 25% of the Approved Enterprise's income will be derived from export. Additionally, the Amendment enacted major changes in the manner in which tax benefits are awarded under the Investment Law so that companies no longer require Investment Center approval in order to qualify for tax benefits.

However, the Investment Law provides that terms and benefits included in any certificate of approval already granted will remain subject to the provisions of the law as they were on the date of such approval. Therefore the Israeli subsidiary's existing Approved Enterprise will generally not be subject to the provisions of the Amendment. As a result of the amendment, tax-exempt income generated under the provision of the new law will subject the Company to taxes upon distribution or liquidation and the Company may be required to record deferred tax liability with respect to such tax-exempt income. As of December 31, 2005, the Company did not generate income subject to the provision of the new law.

c. Loss carryforward:

Domestic (Israel):

The Company and its Israeli subsidiary have accumulated losses for Israel income tax purposes as of December 31, 2005, in the amount of approximately $ 21,600. These losses may be carryforward (linked to the Israeli Consumer Price Index ("CPI")) and offset against taxable income in the future for an indefinite period.

Foreign:

As of December 31, 2005, the U.S. subsidiaries which were classified as discontinued operations had U.S. Federal and State net operating loss carryforward of approximately $ 10,264, that can be carried forward and offset against taxable income and expire through 2022. Utilization of U.S. net operating losses may be subject to substantial annual limitations due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state law provisions. The annual limitations may result in the expiration of net operating losses before utilization.

As of December 31, 2005, B.O.S. U.K. had net operating loss carryforward of approximately $ 3,500. In February, 2006 B.O.S. U.K. the Company filed with the UK Companies House an application to dissolve BOS U.K.

d. Deferred income taxes:

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows:

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

NOTE 17: – TAXES ON INCOME (Cont.)

	December 31,	
	2005	2004
Assets in respect of:		
Property, plant and equipment	$ 3	$ 21
Allowances and provisions	865	239
Net operating loss carry forward	9,350	13,851
	10,218	14,111
Liabilities in respect of intangible assets and goodwill	(511)	(424)
Net deferred tax assets before valuation allowance	9,707	13,687
Valuation allowance (1)	(10,162)	(14,039)
Net deferred tax liability	$ (455)	$ (352)
Presented in balance sheet:		
Current assets	$ 13	$ -
Long-term assets	18	-
Current liabilities	(64)	$ (4)
Long-term liabilities	(422)	(348)
Net deferred tax liability	$ (455)	$ (352)
Net deferred tax - domestic	$ (455)	$ (352)

(1) The Company has provided valuation allowances, for BOS, BOScom and Quasar in respect of deferred tax assets resulting from tax loss carryforward and other reserves and allowances due to its history of operating losses and current uncertainty concerning its ability to realize these deferred tax assets in the future.

e. Income (loss) before taxes on income:

	Year ended December 31,		
	2005	2004	2003
Domestic	$ (3,195)	$ (1,883)	$ 320
Foreign	1,767	184	(1,912)
Total	$ (1,428)	$ (1,699)	$ (1,592)

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

NOTE 17: – TAXES ON INCOME (Cont.)

f. Effective tax

	Year ended December 31,		
	2005	2004	2003
Loss before taxes on income, as reported in the consolidated statements of operation	$ (1,428)	$ (1,699)	$ (1,592)
Statutory tax rate	34%	35%	36%
Provision at statutory tax rate	(485)	(595)	(573)
Non deductible expenses	219	16	13
Valuation allowance	470	599	560
Total tax expenses	$ 204	$ 20	$ -

g. Tax assessments:

BOS, BOScom and Odem have final assessments through the 2000 tax year.

NOTE 18: – SUPPLEMENTARY INFORMATION TO STATEMENTS OF OPERATIONS

a. Royalty reversal:

Certain research and development activities of the Company are supported by the OCS. In return for the OCS's participation, the Company was committed to pay royalties as described in Note 14 a.1. During the third quarter of 2003, the OCS completed its examination of the Company's technology and use of grant funding for the years 1991 through 1999, which reduced the royalties' expenses provision. Accordingly, the Company reversed $ 339 of accrued royalties as a reduction in cost of sales during the third quarter of 2003. During the fourth quarter of 2005, the Company reversed an additional amount of $84 related to a balance report received from the OCS in the fourth quarter of 2005.

		Year ended December 31,		
		2005	2004	2003
b.	Financial income (expenses), net:			
	Financial income:			
	Interest on bank deposits and marketable securities	$ 57	$ 98	$ 158
	Other (mainly foreign currency translation income)	-	100	48
		57	198	206
	Financial expenses:			
	In respect of long-term bank loans and convertible note	(427)	(324)	-
	Other (mainly foreign currency translation losses)	(78)	(32)	(97)
		(505)	(356)	(97)
		$ (448)	$ (158)	$ 109

NOTE 18: – SUPPLEMENTARY INFORMATION TO STATEMENTS OF OPERATIONS (Cont.)

c. Loss per share:

1. Numerator:

Numerator for basic and diluted net loss per share -			
Net loss from continuing operations	$ (3,605)	$ (2,044)	$ (2,057)
Net income (loss) from discontinued operation	$ -	$ (9)	$ 2,036
Net loss available to Ordinary shareholders	$ (3,605)	$ (2,053)	$ (21)
2. Denominator (in thousands):			
Denominator for basic and diluted net loss per share -			
Weighted average number of shares	5,616	4,631	3,683

NOTE 19: – SEGMENTS AND GEOGRAPHICAL INFORMATION

Commencing in 2004 and subsequent to the acquisition of Odem and Quasar, the Company managed its business on three reportable segments, which consisted of Connectivity solutions, Communication solution and supply of Electronic Components.

The Company's management makes financial decisions and allocates resources, based on the information it receives from its internal management system. The Company allocates resources and assesses performance for each operating segment using information about revenues, gross profit and operating income (loss) before interest and taxes.

Segment information for prior years was not presented on the new basis of segmentation since it is impracticable to do so.

a. Revenues, gross profit and operating profit (loss) for operating segments for the year ended 2005 and 2004 were as follow:

	Year ended December 31, 2005				
	Connectivity	Communication *	Electronics components	Not allocated	Consolidated
Revenues	$ 3,926	$ 2,954	$ 20,253	$ (80)	$ 27,053
Gross profit	$ 2,425	$ 783	$ 3,820	$ -	$ 7,028
Operating profit (loss)	$ 235	$ (2,374)	$ 727	$ (702)	$ (2,114)
Assets related to segment	$ 391	$ 439	$ 11,535	$ 10,281	$ 22,646

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

NOTE 19: – SEGMENTS AND GEOGRAPHICAL INFORMATION (Cont.)

	Year ended December 31, 2004				
	Connectivity	Communication *	Electronics components	Not allocated	Consolidated
Revenues	$ 5,011	$ 1,363	$ 1,908	$ -	$ 8,282
Gross profit	$ 2,933	$ 414	$ 327	$ -	$ 3,674
Operating profit (loss)	$ 1,009	$ (1,846)	$ 66	$ (770)	$ (1,541)
Assets related to segment	$ 616	$ 2,397	$ 8,880	$ 10,592	$ 22,485

* In December 2005 the Company has disposed of the Communication Division (see note 1(c)).

b. The following presents total revenues and long-lived assets for the years ended December 31, 2005, 2004 and 2003 based on the customers' location:

	Year ended December 31,					
	2005		2004		2003	
	Total Revenues	Long-lived assets *)	Total revenues**)	Long-lived assets *)	Total revenues	Long-lived assets *)
United States	$ 3,615	$ -	$ 3,252	$ -	$ 2,974	$ 5
Far East	6,083	-	701	-	-	-
Europe	2,887	-	1,066	-	1,198	-
Israel and others	14,468	3,455	3,263	4,448	1,556	1,334
	$ 27,053	$ 3,455	$ 8,282	$ 4,448	$ 5,728	$ 1,339

Total revenues are attributed to geographic areas based on the location of customers in accordance with Statement of Financial Accounting No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131").

*) Long-lived assets comprise goodwill intangible assets, property and equipment.
**) Reclassified.

c. Major customer's data as a percentage of total revenues:

	Year ended December 31,		
	2005	2004	2003
Customer A	9%	39%	52%
Customer B	14%	-%	-%

Major customer's debt balances as of December 31, 2005 and 2004 are $ 1,433 and $ 603, respectively.

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

NOTE 20: – RELATED PARTIES

a. M&A Addendum to the Services Agreement of Cukierman & Co.

In 2003, the Company's audit committee and Board of Directors approved the engagement of Cukierman & Co. Investment House Ltd., to provide non-exclusive investment-banking services and business development services to the Company, effective April 15, 2003. Cukierman & Co. is a company indirectly controlled by Mr. Edouard Cukierman. Since June 26, 2003, serves as Chairman of the Company's Board of Directors, and he is also a co-manager of the Catalyst Fund, the Company's largest shareholder. For its services, Cukierman & Co. is paid a monthly sum of $10,000 plus VAT, in addition to a success fee of 4-6% for a consummated private placement. According to its terms the Company may terminate the agreement at any time, by giving one month prior written notice. The agreement provided that the success fees for securing M&A transactions shall be discussed and drafted as an Addendum to the Services Agreement. Such an Addendum was approved on August 22, 2004, and it provides for a success fee of 3.5% of the proceeds exchanged in such a transaction.

The payments the Company paid according to the Service Agreement are:

	December 31,	
	2005	2004
Business development	$ 109	$ 120
Success fee in respect of issuance of convertible loan, investment in Odem and private placements	397	15
	$ 506	$ 135

Current liabilities in respect of related parties as of December 31, 2005 and 2004 were $ 23 and $ 234, respectively.

b. Assignment of Voting Rights to Mr. Yair Shamir

On February 5, 2004 the Audit Committee and Board of Directors approved an Assignment and Assumption Agreement, between the Company, Catalyst Investments L.P, and Mr. Yair Shamir (who was at the time director of the Company and the Chairman of Catalyst Investments), according to which the voting rights in all but one of the Surf shares that the Company has an option to purchase from Catalyst (see Note 6), have been assigned to Yair Shamir. Pursuant to the agreement, Yair Shamir irrevocably undertook to assign the voting rights to the Company immediately upon the earlier to occur of the following, and subject to the receipt of a written request from the Company to effect such assignment: a) at the time Surf's shares are offered to the public in a public offering pursuant to a registration statement filed by Surf under the Securities Act of 1933 or a similar act of another jurisdiction, or b) the Company exercises its option to purchase the additional shares from Catalyst. In January 2006, the option to purchase from Catalyst shares in Surf has expired.

NOTE 21: – SUBSEQUENT EVENT (UNAUDITED)

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 IDEAL 1.13 million EUR for license fees including interest. In 1999, the Company and IDEAL entered into a license agreement according to which the Company was granted the right to distribute IDEAL's print engine embedded into the Company's PrintBOS product, and was to buy IDEAL's license for each installation for an agreed upon price. IDEAL claims that the number of installations performed by the Company in its PrintBOS product during the period of 1999 thru 2005, exceeded the licenses bought by the Company. The parties agreed that Company will cooperate with an Auditor appointed by IDEAL to check the number of licenses distributed by the Company. Based upon the Auditor's report rendered on May 1, 2006, IDEAL sent the above-mentioned demand letter. The Company rejects IDEAL's demand, inter alia due to the fact that it is based on erroneous findings contained in the Auditor's report. On June 11, 2006 the Company filed with the Haifa District Court in Israel a claim seeking, among other remedies, a declaratory judgment stating that the Auditor's report is materially flawed and should be disregarded. The Company's German counsel is of the opinion that a German court, if and when IDEAL files a claim against the Company in Germany pursuant to its demand, might very well summarily bar such a claim and transfer the matter to the jurisdiction of an Israeli court or stay such a claim until a verdict is handed down in the claim filed by the Company with the Haifa District Court. However, if such a claim is ultimately tried in Germany, then German counsel is of the opinion that there is a fair probability that the Company will be able to successfully defend a portion of the claim, the size of which cannot yet be determined. At this early stage the Company is not yet able to assess the final outcome of this demand. The financial statements do not include any provision in respect of this claim.

Exhibit 1.1

(translated from the Hebrew)

MEMORANDUM OF ASSOCIATION

1. The company's name – B.O.S. Better Online Solutions Ltd.

2. The objects for which the company is formed:

   (a) The development of sophisticated interfaces for IBM mainframe computers.

   (b) The export of hi-tech products to Europe and the USA.

   (c) The sale of the said products on the domestic market.

   (d) Research, development and manufacture of products in the sphere of communication networks.

   (e) To prepare, write, publish, update, collect together, import, export, market and sell books, brochures, collections, procedures and any ancilliary material whatsoever on the matters set out above and on any other matter as the company deems fit.

   (f) To provide training and teaching in the scope of any courses whatsoever in the branches set out above and on other matters directly or indirectly connected with the said branches and on any other matters as the company deems fit.

   (g) To design, develop, manage, purchase, take on short or long lease, sell and grant on short lease and otherwise market any data, computer, control and communication services whatsoever.

   (h) To purchase or otherwise acquire and obtain rights in and rights to use or exploit all manner of patents, patent rights, invention rights, copyrights, licenses, protections and concessions (hereinafter together referred to as "patent rights") which might, in the company's opinion, be of benefit to it and to protect, extend and renew them and to exercise patent rights, work pursuant thereto, exploit them and produce any benefit therefrom, to make agreements or transactions in respect of the use or exploitation of patent rights or the production of benefit therefrom and to grant licenses and rights in connection therewith.

   (i) To carry on business as general merchants, importers, exporters and agents of all manner of machinery, appliances, equipment and materials connected with the branches of work set out above.

(j) To enter into partnership with partnerships, companies, cooperative societies and other bodies corporate, public or private holders of capital or with any other entity for the purpose of establishing enterprises and for the purpose of engaging in agencies, consultancy, and manufacturing in the branches set out above.

(k) To carry on all branches of investment and financing business, to invest funds in industry, commerce, banks and financial institutions, in housing and construction enterprises, agriculture, development enterprises, transportation, shipping, aviation and in any other investments whatsoever, whether by way of purchase or against collateral of shares, share stock, debentures, debenture stock, promissory notes, value notes, covenants or securities of any type or without any collateral, as the company's management deems fit and beneficial.

(l) To encourage, seek, direct, supervise, initiate, broke, finance and manage the transfer of capital and capital investments in Israel and from overseas to Israel and generally to engage in the business of investors, investments and finance and produce benefit therefrom as the company's management deems fit.

(m) To promote, construct, erect, develop, plan, implement, manage, operate, finance, encourage and improve in Israel or overseas all manner of economic, industrial, agricultural and commercial enterprises, businesses and undertakings and to engage in any business as brokers, promoters and founders of corporations, companies, enterprises, holders of capital, concessionaires, contractors, property owners, merchants, agents and attorneys in order to do or perform any act or transaction which might directly or indirectly assist the achievement of any object as the company deems fit.

(n) To lend any funds and give advances or credit, to accept funds and securities and any valuables whatsoever, to guarantee the debts and contracts of such persons, companies and corporations and on such terms as the company deems fit and in particular the persons and companies with whom the company maintains business relations and to accept from those to whom the company lends funds or grants credit or guarantees all manner of guarantees and securities as aforesaid and to redeem them on such terms as the company deems fit.

(o) To purchase, take on long lease or by barter, to take on short lease or otherwise acquire and hold for the company any property or beneficial interest, all manner of land, buildings, rights, privileges, concessions, licenses, machinery, plant, merchandise and all manner of movable or immovable property which are needed by the company or suitable for the purposes of its business.

(p) To do any legal act which a corporation may legally do.

3. The members' liability is limited.

4. The company's share capital is NIS 140,000,000 (one hundred and forty million New Israeli Shekels) divided into 35,000,000 ordinary shares of NIS 4 nominal value each. *(amended May 2003 and May 2006)*

We the undersigned are desirous of becoming incorporated in accordance with this memorandum of association and each agree to take the number of shares in the company's capital as appearing against our respective names.

Subscribers' Names	I.D. number	Address	Description	No. of shares taken	Signature
1. Israel Gad	5009749	Moshav Yaad	Electronic Engineer	55 ordinary class A shares 55 ordinary class B shares	-
2. Yael Gal	5044063	Moshav Yaad	Computer Engineer	45 ordinary class A shares 45 ordinary class B shares	-

*(*Note: class A and B shares since abolished and shareholdings have changed)*

Dated this 5th day of November 1990

Witness to the aforegoing signatures:

(Signed)
Doran Goshen, Adv.

Exhibit 1.2

B.O.S BETTER ON-LINE SOLUTIONS LTD.

ARTICLES OF ASSOCIATION

IN ACORDANCE WITH THE COMPANIES LAW, 5759-1999

1. **The Company's Name**

The Company's name is "B.O.S. Better On-Line Solutions Ltd".

2. **The Company's Objects**

The Company's object is to engage in any legal business.

3. **Interpretation**

3.1 Everything mentioned in the singular shall include the plural and vice versa, and everything mentioned in the masculine shall include the feminine and vice versa.

3.2 Unless these articles include special definitions for certain terms, every word and expression herein shall bear the meaning attributed thereto in the Companies Law, 5759-1999 (hereinafter referred to as "the Companies Law"), unless the context otherwise admits.

3.3 For the avoidance of doubt, it is expressed that in respect of matters regulated in the Companies Law such that it is possible to qualify the arrangements in respect thereof in articles, and these articles do not include in respect thereof provisions different from those of the Companies Law – the provisions of the Companies Law shall apply in respect thereof.

4. **The Company's Share Capital and the Rights Attached to Shares**

4.1 The Company's authorized capital is NIS 140,000,000 divided into 35,000,000 ordinary shares of NIS 4 n.v. each. *(amended May 2003 and May 2006)*.

4.2 The ordinary shares shall vest the holders thereof with -

4.2.1 an equal right to participate in and vote at the Company's general meetings, whether ordinary or special, and each of the shares in the Company shall entitle its holder, present at the meeting and participating in the vote, himself, by proxy or through a voting instrument, to one vote;

4.2.2 an equal right to participate in a distribution of dividends, whether in cash or by way of bonus shares, in a distribution of assets or in any other distribution, pro rata to the nominal value of the shares held by them;

4.2.3 an equal right to participate in a distribution of the Company's surplus assets on winding up pro rata to the nominal value of the shares held by them.

4.3 The board of directors may issue shares and other securities which are convertible or exercisable into shares up to the limit of the Company's authorised share capital. With regard to computing the limit of the authorised capital, securities convertible or exercisable into shares shall be deemed to have been converted or exercised on the date of their issue. The board of directors may delegate such authority as permitted by law. *(amended May 2006)*

5. **Limited Liability**

The shareholders' liability for the Company's debts shall be limited to the full amount (nominal value plus premium) they are required to pay the Company for the shares and not yet paid by them.

6. **Joint Shareholders and Share Certificates**

6.1 Where two or more persons are listed in the shareholders' register as the joint holders of a share, each of them may give binding receipts for any dividend or other monies in connection with such share.

6.2 A shareholder who is listed in the shareholders' register may receive from the Company, without payment, within three months of the allotment or registration of the transfer, one share certificate bearing a seal in respect of all the shares registered in his name, which shall specify the number of shares. In the case of a jointly held share, the Company shall issue one share certificate to all the joint shareholders, and the delivery of such a certificate to one of the joint shareholders shall be deemed delivery to all of them.

Each share certificate shall bear the signature of at least one director together with the Company's stamp or its printed name.

6.3 A share certificate which has been defaced, destroyed or lost may be renewed in reliance upon proof and guarantees as required by the Company from time to time.

7. **The Company's Reliefs in relation to Shares Not Paid in Full**

7.1 If the consideration which the shareholder undertook to pay the Company for his shares or any part thereof is not paid at the time and on the terms prescribed in the shares'allotment terms and/or in the payment call mentioned in paragraph 7.2 below, the Company may, pursuant to the board of directors' resolution, forfeit the shares whose consideration has not been paid in full. The shares shall be forfeited, provided that the Company has sent the shareholder written warning of its intention to forfeit his shares, at least seven days from the date of receiving the warning if the payment is not effected during the period specified in the warning letter.

The board of directors may, at any time prior to the date on which a share forfeited is sold, re-allotted or otherwise transferred, cancel the forfeiture on such terms as it deems fit.

The shares forfeited shall be held by the Company as dormant shares or shall be sold to another.

7.2 If pursuant to the issue terms of shares there is no fixed date for payment of any part of the price payable therefor, the board of directors may from time to time make calls for payment on the shareholders in respect of the monies not yet paid for the shares held by them, and every shareholder shall be liable to pay the Company the amount of the call made on him on the date specified as aforesaid, provided that he receives 14 days' notice of the date and place for payment (hereinafter referred to as "call"). The notice shall state that non-payment on the date specified or prior thereto at the place specified might result in the forfeiture of the shares in relation to which the call was made. A call may be cancelled or postponed to another date, as resolved by the board of directors.

7.3 In the absence of another provision in the shares' allotment terms, a shareholder shall not be entitled to receive dividend or to exercise any right as a shareholder in respect of shares not yet paid up in full.

7.4 Persons who are joint holders of a share shall be jointly and severally liable for payment of the amounts due to the Company in respect of the share.

7.5 The provisions of this paragraph are not such as to derogate from any other relief available to the Company vis-a-vis a shareholder who has not paid his debt to the Company in respect of his shares.

8. **Transfer of Shares**

8.1 The Company's shares may be transferred.

8.2 A share transfer shall be effected in writing and shall not be registered unless –

8.2.1 a due share transfer instrument is furnished to the Company at its registered office together with the certificates relating to the shares to be transferred, if issued. The transfer instrument shall be signed by the transferor and a witness verifying the transferor's signature. In the case of a transfer of shares which are not fully paid up on the date of the transfer, the transfer instrument shall also be signed by the transferee and a witness verifying the transferee's signature; or

8.2.2 the Company is given a court order to amend the registration; or

8.2.3 it is proved to the Company that the legal conditions for transmission of the right to the share have been fulfilled.

8.3 A transfer of shares which are not fully paid up requires the approval of the board of directors, which may refuse to grant its approval in its absolute discretion and without giving grounds therefor.

8.4 The transferee shall be deemed the shareholder in relation to the shares being transferred from the moment his name is listed in the shareholders' register.

9. **Alteration to Capital**

9.1 The general meeting may increase the Company's authorized share capital by creating new shares of an existing class or of a new class, as determined in the general meeting's resolution.

9.2 The general meeting may cancel authorized share capital which has not yet been allotted, provided that the Company has not undertaken, including conditionally, to allot the shares.

9.3 The general meeting may, subject to the provisions of any law:

9.3.1 consolidate and re-divide its share capital, or any part thereof, into shares of a nominal value greater than that of the existing shares;

9.3.2 sub-divide its existing shares, or any of them, or its share capital, or any part thereof, into shares of a nominal value smaller than that of the existing shares;

9.3.3 reduce its share capital and any capital redemption reserve fund in such manner and on such terms and conditions and with the receipt of such approval as the Companies Law requires.

10. **Alteration of the Rights Attached to Classes of Shares**

10.1 So long as not otherwise provided in the shares' issue terms and subject to the provisions of any law, the rights attached to a particular class of shares may be altered, after a resolution is passed by the Company and with the approval of a resolution passed at a general meeting of the holders of the shares of such class or the written agreement of all the class holders.

The provisions of the Company's articles regarding general meetings shall apply, mutatis mutandis, to a general meeting of the holders of a particular class of shares.

10.2 The rights vested in the holders of shares of a particular class that were issued with special rights shall not be deemed to have been altered by the creation or issue of further shares ranking equally with them, unless otherwise provided in such shares'issue terms.

11. **General Meetings**

11.1 The Company's resolutions on the following matters shall be passed at the general meeting –

11.1.1 alterations to the articles;

11.1.2 the exercise of the board of directors' powers when the board of directors is unable to function;

11.1.3 the appointment and dismissal of the Company's auditor;

11.1.4 the appointment of directors, including external directors;

11.1.5 the approval of acts and transactions requiring the general meeting's approval pursuant to the provisions of the Companies Law and any other law;

11.1.6 increasing and reducing the authorized share capital;

11.1.7 a merger as defined in the Companies Law.

12. **Convening General Meetings**

12.1 General meetings shall be convened at least once a year at such place and time as determined by the board of directors but no later than 15 months from the last general meeting. Such general meetings shall be called "annual meetings". The Company's other meetings shall be called "special meetings".

12.2 The annual meeting's agenda shall include a discussion of the board of directors' reports and the financial statements as required at law. The annual meeting shall appoint an auditor, appoint the directors pursuant to these articles and discuss all the other matters which must be discussed at the Company's annual general meeting, pursuant to these articles or the Law, as well as any other matter determined by the board of directors.

12.3 The board of directors may convene a special meeting pursuant to its resolution and it must convene a general meeting if it receives a written requisition from any one of the following (hereinafter referred to as "requisition"):

12.3.1 two directors or one quarter of the directors holding office; and/or

12.3.2 one or more shareholders holding at least 5% of the issued capital and at least 1% of the voting rights in the Company; and/or

12.3.3 one or more shareholders holding at least 5% of the voting rights in the Company.

12.4 A requisition must detail the objects for which the meeting must be convened and shall be signed by the persons requisitioning it and sent to the Company's registered office. The requisition may be made up of a number of documents in an identical form of wording, each of which shall be signed by one or more of the persons requisitioning the meeting.

12.5 Where the board of directors is required to convene a special meeting, it shall do so within 21 days of the requisition being submitted to it, for a date that shall be specified in the invitation pursuant to paragraph 12.6 below and subject to the law.

12.6 Notice to the Company's members regarding the convening of a general meeting shall be sent to all the shareholders listed in the Company's shareholders' register at least 21 days prior to the meeting and shall be published in other ways insofar as required by the law. The notice shall include the agenda, proposed resolutions and arrangements with regard to a written vote.

The accidental omission to give notice of a meeting to any member, or the non-receipt of notice sent to such member, shall not invalidate the proceedings at such meeting.

13. **The Discussion at the General Meetings**

13.1 No discussions may be commenced at the general meeting unless a quorum is present at the time of the discussion's commencement. A quorum is the presence of at least two shareholders holding at least $33^{1}/_{3}$% of the voting rights (including presence through a proxy or a voting instrument), within half an hour of the time fixed for the meeting's commencement. *(amended August 2004)*

13.2 If no quorum is present at a general meeting within half an hour of the time fixed for the commencement thereof, the meeting shall be adjourned for one week, to the same day, time and place, or to a later time if stated in the invitation to the meeting or in the notice of the meeting (hereinafter referred to as "the adjourned meeting".)

13.3 The quorum for the commencement of the adjourned meeting shall be any number of participants.

13.4 The board of directors' chairman shall serve as the general meeting's chairman. If the board of directors' chairman is not present at the meeting within 15 minutes of the time fixed therefor or if he refuses to chair the meeting, the chairman shall be elected by the general meeting.

13.5 A general meeting at which a quorum is present may resolve to adjourn the meeting to another place and time determined by it, and in such case notices and invitations in respect of the adjourned meeting shall be given as provided in paragraph 12.6 above.

14. **Voting at the General Meeting**

14.1 A shareholder of the Company may vote at the general meetings himself or through a proxy or a voting instrument.

The shareholders entitled to participate in and vote at the general meeting are the shareholders on the date specified by the board of directors in the resolution to convene the general meeting, and subject to the law.

14.2 In every vote each shareholder shall have a number of votes according with the number of shares held by him.

14.3 A resolution at the general meeting shall be passed by an ordinary majority unless another majority is specified in the Companies Law or these articles.

14.4 The declaration of the meeting's chairman that a resolution has been passed unanimously or by a particular majority, or that it has been defeated or not passed by a particular majority, shall constitute prima facie proof of that stated therein.

14.5 If the votes at a meeting are tied, the chairman of the meeting shall not have an additional or deciding vote, and the resolution that was put to the vote shall be defeated.

14.6 The Company's shareholders may, in respect of any matter on the meeting's agenda, vote at a general meeting (including a class meeting) through a voting instrument, provided that the board of directors does not, subject to any law, rule out the possibility of voting through a proxy instrument on such matter in its resolution to convene the general meeting.

If the board of directors prohibits voting through a voting instrument, the fact that the possibility of voting through a voting instrument has been ruled out shall be stated in the notice of the meeting pursuant to paragraph 12.6 above.

14.7 A shareholder may state the way in which he is voting in the voting instrument and send it to the Company's registered office at least 48 hours prior to the meeting's commencement. A voting instrument in which a shareholder states the way in which he is voting, which reaches the Company's registered office at least 48 hours prior to the meeting (including the adjourned meeting), shall be deemed presence at the meeting for the purpose of constituting the quorum as provided in paragraph 13.1 above. *(amended May 2003)*

14.8 A proxy shall be appointed in a written instrument signed by the appointor. A corporation shall vote through its representatives who shall be appointed by a document duly signed by the corporation.

14.9 Voting in accordance with the terms and conditions of a proxy instrument shall be legal even if prior thereto the appointor dies or becomes legally incapacitated, is wound up, becomes bankrupt, cancels the proxy instrument or transfers the share in relation to which it was given, unless written notice is received at the office prior to the meeting that the shareholder has died, become legally incapacitated, been wound up, become bankrupt, cancelled the appointment instrument or transferred the share as aforesaid.

14.10 The proxy instrument and the power of attorney or a copy certified by an attorney shall be deposited at the Company's registered office at least 48 hours prior to the time fixed for the meeting or the adjourned meeting at which the person mentioned in the document intends voting pursuant thereto.

14.11 A shareholder of the Company shall be entitled to vote at meetings of the Company through a number of proxies appointed by him, provided that each proxy is appointed in respect of different parts of the shares held by the shareholder. There shall not be any impediment to any proxy as aforesaid voting differently at meetings of the Company.

14.12 If a shareholder is legally incapacitated, he may vote by his board of trustees, receiver, natural guardian or other legal guardian, and they may vote themselves or by proxy or through a voting instrument.

14.13 Where two or more persons are the joint holders of a share, in a vote on any matter the vote of the person whose name appears first in the shareholders' register as the holder of such share shall be accepted, himself or by proxy, and he is entitled to give the Company voting instruments.

15. **The Board of Directors**

The board of directors shall delineate the Company's policy and supervise the performance of the Managing Director's duties and actions. Any power of the Company which has not been vested in another organ pursuant to the Companies Law or the articles may be exercised by the board of directors.

16. **Appointment and Dismissal of Directors**

16.1 The number of directors in the Company (including external directors) shall be determined from time to time by the annual general meeting, provided that it shall not be less than four nor more than eleven.

16.2 The Company's directors shall be elected at the annual meeting and/or at a special meeting, and shall hold office until the end of the next annual meeting or until they cease to hold office pursuant to the provisions of the articles. If at a general meeting of the Company new directors in the minimum amount specified pursuant to the articles are not elected, the directors who held office until such time shall continue to hold office, until they are replaced by the Company's general meeting.

16.3 In addition to the provisions of paragraph 16.2 above, the board of directors may appoint a director instead of a director whose office has been vacated and/or as an additional director, subject to the maximum number of directors on the board of directors as provided in paragraph 16.1 above. The appointment of a director by the board of directors shall be valid until the next annual meeting or until he ceases to hold office pursuant to the provisions of the articles.

16.4 A director whose term of office has come to an end may be re-elected.

16.5 The office of a director shall commence on the date of his appointment by the annual meeting and/or the special meeting and/or the board of directors or on a later date if specified in the appointment resolution of the annual meeting and/or special meeting and/or board of directors.

16.6 The board of directors shall elect a board of directors' chairman from amongst its members. If a chairman is not elected or if the chairman is not present at the end of 15 minutes from the time fixed for the meeting, the directors present shall elect one of their number to chair such meeting, and the person chosen shall conduct the meeting and sign the discussion minutes.

The board of directors' chairman shall not be the Company's MD save on fulfillment of the conditions mentioned in section 121(c) of the Companies Law.

16.7 The general meeting may remove any director from his office before the end of his term of office, whether the director was appointed by it by virtue of paragraph 16.2 above or by the board of directors by virtue of paragraph 16.3 above, provided that the director is given a reasonable opportunity to state his case before the general meeting.

16.8 Where the office of a director is vacated, the remaining directors may continue to act so long as their number has not fallen below the minimum specified in the articles. Where the number of directors has fallen below the aforementioned minimum, the remaining directors may only act in order to fill the place of the director which has been vacated as mentioned in paragraph 16.3 above or in order to convene a general meeting of the Company, and until the general meeting is convened as aforesaid they may act to manage the Company's business only in respect of matters that cannot bear delay.

16.9 Every board of directors' member may appoint an alternate for himself, provided that such an appointment shall not be for a period exceeding one month, and that someone who was appointed as an alternate for another director and/or who is already serving as a director of the Company may not be appointed as an alternate, except as provided in section 237(d) of the Companies Law.

The appointment or termination of the office of an alternate shall be effected in a written document signed by the director who appointed him; however, in any event, the office of an alternate shall terminate if one of the events specified in paragraph 16.10 below befalls the alternate or if the office of the board of directors' member for whom he is acting as alternate is vacated for whatsoever reason.

An alternate shall be treated as a director and all the provisions of the law and these articles shall apply to him, save for the provisions regarding the appointment and/or dismissal of a director specified herein. *(amended May 2003 and May 2006)*

16.10 The office of a director shall be vacated in any one of the following cases:

16.10.1 he resigns from his office by a letter signed him and submitted to the Company which specifies the reasons for his resignation;

16.10.2 he is removed from his office by the general meeting;

16.10.3 he is convicted of an offence as provided in section 232 of the Companies Law;

16.10.4 pursuant to a court decision, as provided in section 233 of the Companies Law;

16.10.5 he is declared legally incapacitated;

16.10.6 he is declared bankrupt, and in the case of a corporation – it is resolved to wind it up voluntarily or a winding up order is given in respect thereof.

16.11 The terms of office of the board of directors' members shall be approved by the audit committee, the board of directors and the general meeting, in this chronological order.

17. **Board of Directors' Meetings**

17.1 The board of directors shall convene in accordance with the Company's requirements and at least once every three months.

17.2 The board of directors' chairman may convene the board of directors at any time. In addition, the board of directors shall hold a meeting, on a matter that shall be detailed, in the following cases:

17.2.1 on the demand of two directors; however, if at such time the board of directors consists of five directors or less – on the demand of one director;

17.2.2 on the demand of one director if he states in his demand to convene the board of directors that he has learned of a matter involving the Company in which a prima facie contravention of the Law or an infringement of proper business procedure has been discovered;

17.2.3 a notice or report of the managing director obliges action by the board of directors;

17.2.4 the auditor has notified the board of directors' chairman of materials deficiencies in the audit of the Company's accounts.

17.3 Notice of a board of directors' meeting shall be sent to all its members at least three days prior to the date of the meeting. The notice shall be sent to the address of the director which was furnished to the Company in advance, and shall state the date, time and place of the meeting, and reasonable details of all the matters on the agenda.

Notwithstanding the aforegoing, the board of directors may convene a meeting without notice, with all the directors' agreement.

17.4 The quorum for the commencement of a board of directors' meeting shall be a majority of the members of the board of directors. If no quorum is present at the board of directors' meeting within half an hour of the time fixed for the meeting's commencement, the meeting shall be adjourned to another date decided upon by the board of directors' chairman, or in his absence by the directors present at the meeting, provided that three days' notice shall be given to all the directors of the date of the adjourned meeting. The quorum for the commencement of an adjourned meeting shall be any number of participants. Notwithstanding the aforegoing, the quorum for discussions and resolutions at the board of directors on the auditor's dismissal or suspension shall be a majority of the board of directors' members.

17.5 The board of directors may hold meetings using any communications means, provided that all the directors participating may hear each other simultaneously.

17.6 The board of directors may also pass resolutions without actually convening, provided that all the directors entitled to participate in the discussion and vote on a matter that is brought for resolution agree not to convene for discussion of the matter. In such a case, minutes of the resolutions (including the decision not to convene) shall be signed by the chairman of the board of directors, or alternatively, signatures of the directors shall be attached to the minutes. Instead of a director's signature, the chairman of the board or the corporate secretary may attach a signed memo regarding the oral vote of a director. Resolutions passed without convening, as aforementioned, shall be passed by an ordinary majority and shall have the same effect as resolutions passed at a duly convened meeting. *(amended May 2006)*

18. **Voting at the Board of Directors**

18.1 In a vote at the board of directors, each director shall have one vote.

18.2 The board of directors' resolutions shall be passed on a majority. The board of directors' chairman shall not have an additional or deciding vote and where the votes are tied, the resolution that was put to the vote shall be defeated.

19. **Board of Directors' Committees**

19.1 The board of directors may establish committees and appoint members from the board of directors thereto (hereinafter referred to as "board of directors'committee"), and it may from time to time revoke such delegation or alter the composition of such committee. If board of directors' committees are established, the board of directors shall determine in their terms of authority whether certain powers of the board of directors will be delegated to the board of directors' committee such that a resolution of the board of directors' committee shall be deemed a resolution of the board of directors or whether a resolution of the board of directors'committee shall merely amount to a recommendation which is subject to the board of directors' approval, provided that powers to resolve on the matters specified in section 112 of the Companies Law shall not be delegated to a committee. If a committee merely has a recommendation role, the board of directors may also appoint to the committee members who are not directors. *(amended May 2006)*

19.2 The meetings and discussions of any board of directors' committee composed of two or more members shall be governed by the provisions of these articles regarding board of directors' meetings and the voting thereat, mutatis mutandis, and subject to the board of directors' resolutions regarding arrangements for the committee's meetings (if any).

20. **Audit Committee**

20.1 The Company's board of directors shall appoint an audit committee from amongst its members. The number of members on the audit committee shall not be less than three and all the external directors shall be members thereof. The board of directors' chairman and any director employed by the Company or providing services to it on a permanent basis and/or a control owner or his relative shall not be appointed as members of the committee.

20.2 The duties of the audit committee shall be -

20.2.1 to detect deficiencies in the Company's business management, inter alia through consultation with the Company's internal auditor or with the auditor, and to propose to the board of directors ways of rectifying them;

20.2.2 to resolve whether to approve acts and transactions requiring the audit committee's approval pursuant to the Companies Law.

21. **Managing Director**

The Company's board of directors shall appoint a managing director and may appoint more than one managing director. The managing director shall be responsible for the routine management of the Company's affairs within the framework of the policy determined by the board of directors and subject to its guidelines.

22. **Exemption, Insurance and Indemnity** *(amended May 2006)*

22.1 The Company may exempt an Office Holder therein in advance for his liability, or any part thereof, for damage in consequence of a breach of the duty of care vis-a-vis it, except with respect to Distribution (as defined in the Companies Law).

22.2 The Company may indemnify an Office Holder retroactively for an obligation or expense as specified in sub-paragraphs 22.2.1 22.2.2 and 22.2.3 below, imposed on him in consequence of act done in his capacity as an officer in the Company.

22.2.1 a monetary obligation imposed on him in favor of another person pursuant to a judgment, including a judgment given in settlement or an arbitrator's award that has been approved by a court;

22.2.2 reasonable litigation expenses, including advocates' professional fees, incurred by the Office Holder pursuant to an investigation or a proceeding commenced against him by a competent authority and that was terminated without an indictment and without having a monetary charge imposed on him in exchange for a criminal procedure (as such terms are defined in the Companies Law), or that was terminated without an indictment but with a monetary charge imposed on him in exchange for a criminal procedure in a crime that does not require proof of criminal intent;

22.2.3 reasonable litigation expenses, including advocates' professional fees, incurred by the Office Holder or which he is ordered to pay by a court, in proceedings filed against him by the company or on its behalf or by another person, or in a criminal indictment in which he is acquitted, or in a criminal indictment in which he is convicted of an offence that does not require proof of criminal intent.

22.3 The Company may give an advance undertaking vis-a-vis an Office Holder to indemnify him in respect of an obligation or expense as specified in paragraph 22.2 above, provided that the undertaking specified in paragraph 22.2.1 is limited to types of events which in the board of directors' opinion may be anticipated, in light of the Company's activities, at the time of giving the indemnity undertaking, and to an amount or criteria which the board of directors determines is reasonable in the circumstances of the case, both to be specified in the Company's undertaking.

22.4 A company may enter into a contract to insure the liability of an Office Holder therein for an obligation imposed on him in consequence of an act done in his capacity as an Office Holder therein, in any of the following cases:

22.4.1 a breach of the duty of care vis-a-vis the Company or vis-a-vis another person;

22.4.2 a breach of the duty of fidelity vis-a-vis the Company, provided that the Office Holder acted in good faith and had reasonable basis to assume that the act would not harm the Company;

22.4.3 a monetary obligation imposed on him in favor of another person.

22.5 Paragraphs 22.1 to 22.4 shall not apply in any of the following cases -

22.5.1 a breach of the duty of fidelity, save regarding insurance and indemnity provided that the Office Holder acted in good faith and had reasonable basis to assume that the act would not harm the Company;

22.5.2 an intentional or rash breach of the duty of care, except where the breach was negligent only;

22.5.3 an act done with the intention of unlawfully producing a personal profit;

22.5.4 a fine imposed on an Office Holder.

22.6 Resolutions regarding the grant of exemption, insurance, indemnity or the grant of an undertaking to indemnify an Office Holder shall be passed subject to the law.

22.7 "Office Holder" in this section shall include directors and officers as defined in the Companies Law 1999.

23. **Internal Auditor**

23.1 The Company's board of directors shall appoint an internal auditor in accordance with the audit committee's proposal. Interested parties in the Company, officers in the Company, relatives of any of the aforegoing and the auditor or someone on his behalf may not hold office as the Company's internal auditor.

23.2 The board of directors shall determine what officer shall be the organ to whom the internal auditor is subordinate, and in the absence of such a determination it shall be the board of directors' chairman.

23.3 The internal audit plan prepared by the auditor shall be submitted for the audit committee's approval; however, the board of directors may determine that the plan shall be submitted for the board of directors' approval.

24. **Auditor**

24.1 The annual meeting shall appoint an auditor for the Company. The auditor shall hold office until the end of the following annual meeting, or for a longer term as determined by the annual meeting, provided that his term of office shall not extend beyond the end of the third annual meeting following the one at which he was appointed.

24.2 The auditor's remuneration for the audit shall be determined by the board of directors. The board of directors shall report to the annual meeting on the auditor's remuneration.

25. **Signatory Rights**

25.1 The rights to sign on the Company's behalf shall be determined from time to time by the Company's board of directors.

25.2 The signatory on the Company's behalf shall sign together with the Company's stamp or its printed name.

26. **Dividend and Bonus Shares**

26.1 The Company's board of directors shall be the organ authorized to decide upon the distribution of a dividend and/or the distribution of bonus shares.

26.2 The shareholders who are entitled to dividend are the shareholders on the date of the resolution on the dividend or on a later date if another date is specified in the resolution on the dividend's distribution.

26.3 If the board of directors does not otherwise determine, any dividend may be paid by way of a cheque or payment order that shall be sent by mail in accordance with the registered address of the shareholder or person entitled thereto, or in the case of registered joint shareholders to the shareholder whose name appears first in the shareholders'register in relation to the joint shareholding. Every such cheque shall be drawn up to the order of the person to whom it is being sent. The receipt of a person who on the date of the dividend's declaration is listed in the shareholders' register as the holder of any share or, in the case of joint shareholders, of one of the joint shareholders shall serve as confirmation of all the payments made in connection with such share.

26.4 For the purpose of implementing any resolution pursuant to the provisions of this paragraph, the board of directors may settle, as it deems fit, any difficulty arising in relation to the distribution of the dividend and/or bonus shares, including determine the value for the purpose of the said distribution of certain assets and resolve that payments in cash shall be made to members in reliance upon the value thus determined, determine regulations in relation to fractions of shares or in relation to non-payment of amounts less than NIS 200.

27. **Redeemable Securities**

The Company may, subject to any law, issue redeemable securities on such terms as determined by the board of directors, provided that the general meeting approves the board of directors' recommendation and the terms determined.

28. **Contributions**

The Company may contribute a reasonable sum of money for an worthy object, even if the contribution is not within the scope of business considerations conducive to the Company's profits.

29. **Accounts**

29.1 The Company shall keep accounts and draw up financial statements pursuant to the Securities Law and any other law.

29.2 The books of account shall be kept at the office or at such other place as the directors deem fit, and shall always be open for the directors' inspection.

30. **Notices**

30.1 Subject to any law, notice or any other document which the Company sends and which it may or is required to give pursuant to the provisions of these articles and/or the Companies Law shall be sent by the Company to any person personally, by mail in a letter addressed in accordance with the registered address of such shareholder in the shareholders' register or in accordance with any address which the shareholder specifies in a letter to the Company as the address for the sending of notices or other documents, or by facsimile in accordance with the number specified by the shareholder as the number for sending notices by facsimile. Should the Company publish notice in at least two Israeli daily newspapers, notice shall be deemed to have been given to any member whose address as registered in the Company's Register is in Israel.

30.2 Any notices which must be given to the shareholders shall be given, in relation to shares which are jointly held, to the person whose name appears first in the shareholders'register as the holder of such share, and any notice given in this manner shall be adequate notice to the holders of such share.

30.3 Any notice or other document that is sent shall be deemed to have reached its destination within three business days – if sent by registered mail and/or ordinary mail in Israel, and if delivered by hand or sent by facsimile, it shall be deemed to have reached its destination on the first business day following its receipt. When coming to prove the delivery, it shall be adequate to prove that the letter that was sent by mail containing the notice or document was correctly addressed and delivered to the post office as a stamped letter or as a stamped registered letter, and in respect of a facsimile it is sufficient to furnish the transmission confirmation from the sending instrument.

30.4 Any entry effected in the ordinary way in the Company's register shall be deemed prima facie proof regarding the dispatch, as entered in such register.

30.5 Where it is necessary to give prior notice of a particular number of days or notice that is valid for any period, the date of delivery shall be taken into account in reckoning the number of days or the period.

Exhibit 4.1

INDEMNIFICATION AGREEMENT

This INDEMNIFICATION AGREEMENT (the "**Agreement**") is made as of _____, by and between B.O.S. Better Online Solutions Ltd., a company organized under the laws of the State of Israel with offices at Teradyon, Industrial Zone Misgav (the "**Company**"), and _____ ("**Indemnitee**").

WHEREAS, the Company desires to attract and retain Indemnitee to serve as an Office Holder in the Company and to provide Indemnitee with protection against liability and expenses incurred while acting in that capacity;

WHEREAS, the Company understands that Indemnitee has reservations about serving the Company without adequate protection against personal liability arising from such service, and that it is also of critical importance to Indemnitee that adequate provision be made for advancing costs and expenses of legal defense; and

WHEREAS, the Board of Directors and the shareholders of the Company have approved this Agreement as being in the best interests of the Company.

NOW, THEREFORE, in order to induce Indemnitee to serve or to continue to serve as an Office Holder of the Company the parties agree as follows:

1. Contractual Indemnity.

The Company hereby agrees, subject to the limitations of Sections 2, 3, and 6 hereof, and the limitations mentioned in the Company's Articles of Association, to indemnify Indemnitee, to the greatest extent possible under applicable law, against any liability or expense in respect of any act or omission of Indemnitee in his capacity as an Office Holder of the Company or of a company controlled, directly or indirectly, by the Company (a "Subsidiary"), or as a director or observer at Board meetings of a company not controlled by the Company but in which the appointment as a director or observer results from the Company's holdings in such company or is made at the Company's request ("Affiliate"), including: (i) a monetary obligation imposed on Indemnitee in favor of another person by a court judgment, including a judgment given in settlement or an arbitrator's award approved by court; (ii) reasonable litigation expenses, including advocates' professional fees, incurred by the Office Holder pursuant to an investigation or a proceeding commenced against him by a competent authority and that was terminated without an indictment and without having a monetary charge imposed on him in exchange for a criminal procedure (as such terms are defined in the Companies Law), or that was terminated without an indictment but with a monetary charge imposed on him in exchange for a criminal procedure in a crime that does not require proof of criminal intent; (iii) reasonable litigation expenses, including attorneys' fees, expended by Indemnitee or charged to Indemnitee by a court, in a proceeding instituted against Indemnitee by the Company or on its behalf or by another person, or in a criminal charge from which Indemnitee was acquitted, or in a criminal proceeding in which Indemnitee was convicted of an offense that does not require proof of criminal intent (collectively referred to hereinafter as "**Claim**").

The Company shall indemnify the Indemnitee with respect to actions or ommissions occurring during his position as an Office Holder, even if (i) occurred prior to the signing of this document or (ii) at the time of Claim Indemnitee is no longer an Office Holder.

The termination of any action or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that (i) Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in the best interests of the Company, or (ii) with respect to any criminal action or proceeding, Indemnitee had reasonable cause to believe that Indemnitee's conduct was unlawful.

2. Limitations on Contractual Indemnity.

2.1 Indemnitee shall not be entitled to indemnification under Section 1, for financial obligation imposed consequent to any of the following: (i) a breach of the duty of fidelity by Indemnitee, unless the Indemnitee acted in good faith and had reasonable basis to assume that the act would not harm the Company; or (ii) a violation of the Indemnitee's duty of care towards the Company, which was committed intentionally or recklessly (but not where the breach was negligent only); or (iii) an act committed with the intention to realize a personal unlawful profit; or (iv) a fine or monetary penalty imposed on Indemnitee; or (v) a counterclaim made by the Company or in its name in connection with a claim against the Company filed by Indemnitee.

2.2 The Company undertakes to indemnify all Office Holders it has resolved to indemnify for the matters and in the circumstances described herein, jointly and in the aggregate, in excess of the insurance proceeds received pursuant to Section 9, a total amount over the years, that shall not exceed an amount equal to US$2,500,000 (two million five hundred thousand US dollars), or such greater sum as shall, from time to time, be approved by the shareholders of the Company.

3. Limitation of Categories of Claims. The indemnification pursuant to sub-section (i) of the first paragraph of Section 1 above, shall only relate to liabilities arising in connection with acts or omissions of Indemnitee in respect of the following events and circumstances which are deemed by the Board of Directors of the Company to be foreseeable at the date hereof:

3.1 The offering of securities by the Company, a Subsidiary, or an Affiliate and/or by a shareholder thereof to the public and/or to private investors or the offer by the Company, a Subsidiary, and/or an Affiliate to purchase securities from the public and/or from private investors or other holders pursuant to a prospectus, agreements, notices, reports, tenders and/or other proceedings;

3.2 Occurrences including reporting obligations resulting from the status of the Company and/or a Subsidiary and/or an Affiliate as a public company, and/or from the fact that the securities thereof were offered to the public and/or are traded on a stock exchange, whether in Israel or abroad;

3.3 Occurrences in connection with investments the Company and/or Subsidiaries and/or Affiliates make in other corporations whether before and/or after the investment is made, entering into the transaction, the execution, development and monitoring thereof, including actions taken by an Office Holder in the name of the Company and/or a Subsidiary and/or an Affiliate as a director, officer, employee and/or board observer of the corporation the subject of the transaction and the like;

3.4 The sale, purchase and holding of negotiable securities or other investments for or in the name of the Company, a Subsidiary and/or an Affiliate;

3.5 Actions in connection with the merger of the Company, a Subsidiary and/or an Affiliate with or into another entity;

3.6 Actions in connection with the sale of the operations and/or business, or part thereof, of the Company, a Subsidiary and/or an Affiliate;

3.7 Without derogating from the generality of the above, actions in connection with the purchase or sale of companies, legal entities or assets, and the division or consolidation thereof;

3.8 Actions taken in connection with labor relations and/or employment matters in the Company, Subsidiaries and/or Affiliates and trade relations of the Company, Subsidiaries and/or Affiliates, including with employees, independent contractors, customers, suppliers and various service providers;

3.9 Actions in connection with the developing, testing and manufacturing of products by the Company, Subsidiaries and/or Affiliates or in connection with the distribution, sale, license or use of such products;

3.10 Actions taken in connection with the intellectual property of the Company, Subsidiaries and/or Affiliates, and its protection, including the registration or assertion of rights to intellectual property and the defense of claims related to intellectual property;

3.11 Actions taken pursuant to or in accordance with the policies and procedures of the Company, Subsidiaries and/or Affiliates, that have been decided upon, whether such policies and procedures are published or not.

4. Expenses; Indemnification Procedure. The Company shall advance Indemnitee all expenses incurred by Indemnitee in connection with a Claim on the date on which such amounts are first payable, but has no duty to advance payments in less than twenty (20) days following delivery of a written request therefor by Indemnitee to the Company. Advances given to cover legal expenses in criminal proceedings will be repaid by Indemnitee to the Company if Indemnitee is found guilty of a crime that requires criminal intent. Other advances will be repaid by Indemnitee to the Company if it is determined by the Company's legal counsel that Indemnitee is not lawfully entitled to such indemnification.

5. Notification and Defense of Claim. If any action, suit, proceeding or other Claim is brought against Indemnitee in respect of which indemnity may be sought under this Agreement:

5.1 Indemnitee will promptly notify the Company in writing of the commencement thereof, and the Company will be entitled to participate therein at its own expense or to assume the defense thereof and to employ counsel reasonably satisfactory to Indemnitee. Indemnitee shall have the right to employ his own counsel in connection with any such Claim and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of Indemnitee unless (i) the Company shall not have assumed the defense of the Claim and employed counsel for such defense, or (ii) the named parties to any such action include both Indemnitee and the Company, and Indemnitee shall have reasonably concluded that joint representation is inappropriate under applicable standards of professional conduct due to a material conflict of interest between Indemnitee and the Company.

5.2 The Company shall not be liable to indemnify Indemnitee for any amounts paid in settlement of any Claim effected without the Company's written consent, and the Company shall not settle any Claim in a manner which would impose any penalty or limitation on Indemnitee without Indemnitee's written consent; provided, however, that neither the Company nor Indemnitee will unreasonably withhold its consent to any proposed settlement and, provided further, that if a Claim is settled by the Indemnitee with the Company's written consent, or if there be a final judgment or decree for the plaintiff in connection with the Claim by a court of competent jurisdiction, the Company shall indemnify and hold harmless Indemnitee from and against any and all losses, costs, expenses and liabilities incurred by reason of such settlement or judgment.

5.3 Indemnitee shall give the Company such information and cooperation as it may reasonably require and as shall be within Indemnitee's power.

6. Partial Indemnification. If Indemnitee is entitled to indemnification by the Company for some or a portion of the expenses, judgments, fines or penalties incurred by him in the investigation, defense, appeal or settlement of any civil or criminal action or proceeding, but not, however, for the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion of such expenses, judgments, fines or penalties to which Indemnitee is entitled.

7. Other Indemnification. The Company will not indemnify Indemnitee for any liability with respect to which Indemnitee has received payment by virtue of an insurance policy or other indemnification agreement, other than for amounts which are in excess of the amount actually paid to Indemnitee pursuant to such agreements.

8. Collection from a Third Party. The Company will be entitled to any amount collected from a third party in connection with liabilities indemnified hereunder.

9. Insurance. The Company shall maintain an insurance with a reputable insurer (the "**Insurer**") to insure the liability of the Indemnitee for an obligation imposed on him in consequence of an act done in his capacity as an Office Holder of the Company, in any of the following cases:

9.1 a breach of the duty of care vis-a-vis the Company or vis-a-vis another person.

9.2 a breach of the duty of fidelity vis-à-vis the company, provided that the director acted in good faith and had reasonable basis to assume that the act would not harm the Company.

9.3 a monetary obligation imposed on him in favor of another person.

The abovementioned insurance for all of the Office Holders of the Company shall be in the total amount of not less than US$5,000,000 (five million US Dollars) (the "Insurance Policy"). The Company undertakes to maintain such insurance during the period the Indemnitee serves as a director of the Company and for a period of 7 (seven) years commencing on the day Indemnitee has ceased from serving as a director of the Company.

The Company shall give prompt written notice of any Claim to the Insurer in accordance with the procedures set forth in the Insurance Policy. The Company shall thereafter take all necessary or desirable action to cause the Insurer to pay, on behalf of the Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of the Insurance Policy.

10. No Restrictions. For the avoidance of doubt, it is hereby clarified that nothing contained in this Letter of Indemnification or in the above resolutions derogate from the Company's right to indemnify the Indemnitee post factum for any amounts which the Indemnitee may be obligated to pay as set forth in Section 1 above without the limitations set forth in Sections 2 and 3 above.

11. Severability. Each of the provisions of this Agreement is a separate and distinct agreement and independent of the others, so that if any provision hereof shall be held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect the validity or enforceability of the other provisions hereof. In any event, the undertakings of the Company and the categories of claims in Section 3, shall be construed as widely as permitted by law.

12. Attorneys' Fees. In the event of any litigation or other action or proceeding to enforce or interpret this Agreement, the prevailing party as determined by the court shall be entitled to an award of its reasonable attorneys' fees and other costs, in addition to such relief as may be awarded by a court or other tribunal.

13. Notice. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed duly given (i) if delivered by hand or by fax or other means of electronic communication and receipted for by the party addressee, on the date of such receipt, or (ii) if mailed by certified or registered mail with postage prepaid, on the third business day after the date postmarked.

14. Governing Law; Binding Effect; Amendment. This Agreement shall be governed by and construed under the laws of the State of Israel. The parties agree to submit themselves to the exclusive jurisdiction of the courts in Tel-Aviv or Jerusalem. This Agreement shall be binding upon Indemnitee and the Company, their successors and assigns, and shall inure to the benefit of Indemnitee, his heirs, personal representatives and assigns and to the benefit of the Company, its successors and assigns. No amendment, modification, termination or cancellation of this Agreement shall be effective unless in writing signed by both parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

B.O.S. Better Online Solutions Ltd.	Indemnitee
By:_____	
Name: Adiv Baruch	Name:_____
Title: CEO and President	Address:_____

Exhibit 4.7

B.O.S. BETTER ON-LINE SOLUTIONS LTD.

SECURITIES PURCHASE AGREEMENT

September 29, 2005

SECURITIES PURCHASE AGREEMENT

THIS SECURITIES PURCHASE AGREEMENT (this "Agreement") is made and entered into as of September 29, 2005, by and among B.O.S. BETTER ON-LINE SOLUTIONS LTD., a corporation incorporated under the laws of the State of Israel (p.c. number 520042565) (the "Company"), BOScom Ltd., a corporation incorporated under the laws of the State of Israel (organizational identification number (51-2236431) (solely with respect to the representations and warranties pertaining to it) (the "Subsidiary"), and Laurus Master Fund, Ltd., a Cayman Islands company (the "Purchaser").

RECITALS

WHEREAS, the Company has authorized the sale to the Purchaser of a Convertible Term Note in the aggregate principal amount of One Million and Five Hundred Thousand Dollars in the currency of the United States ($1,500,000) (the "Note"), which Note is convertible into shares of the Company's Ordinary Shares, NIS 4.00 nominal value per share (the "Ordinary Shares") at an initial fixed conversion price of $3.08 per share of Ordinary Shares (the "Fixed Conversion Price");

WHEREAS, the Company wishes to issue a warrant to the Purchaser to purchase up to 73,052 Ordinary Shares (subject to adjustment as set forth therein) in connection with Purchaser's purchase of the Note;

WHEREAS, Purchaser desires to purchase the Note and the Warrant (as defined in Section 2) on the terms and conditions set forth herein; and

WHEREAS, the Company desires to issue and sell the Note and Warrant to Purchaser on the terms and conditions set forth herein.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual promises, representations, warranties and covenants hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Agreement to Sell and Purchase. Pursuant to the terms and conditions set forth in this Agreement, on the Closing Date (as defined in Section 3), the Company agrees to sell to the Purchaser, and the Purchaser hereby agrees to purchase from the Company, a Note in the aggregate principal amount of $1,500,000 (the "Purchase Price") convertible into the Company's Ordinary Shares in accordance with the terms of the Note and this Agreement. The issuance of the Note purchased on the Closing Date shall be known as the "Offering." A form of the Note is annexed hereto as Exhibit A. The Note will mature on the Maturity Date (as defined in the Note). Collectively, the Note and Warrant and Ordinary Shares issuable in payment of the Note, upon conversion of the Note and upon exercise of the Warrant are referred to as the "Securities."

2. Fees and Warrant. On the Closing Date:

(a) The Company will issue and deliver to the Purchaser a Warrant (the "Warrant") to purchase up to 73,052 Ordinary Shares in connection with the Offering (the "Warrant Shares") pursuant to Section 1 hereof. The Warrant must be delivered on the Closing Date. A form of Warrant is annexed hereto as Exhibit B. All the representations, covenants, warranties, undertakings, and indemnification, and other rights made or granted to or for the benefit of the Purchaser by the Company are hereby also made and granted in respect of the Warrant and the Company's Ordinary Shares issuable upon exercise of the Warrant (the "Warrant Shares").

(b) Subject to the terms of Section 2(d) below, the Company shall pay to Laurus Capital Management, LLC, the manager of the Purchaser, a closing payment in an amount equal to $105,000. The foregoing fee is referred to herein as the "Closing Payment."

(c) The Company shall reimburse the Purchaser for its reasonable legal fees for services rendered to the Purchaser in preparation of this Agreement and the Related Agreements (as hereinafter defined), and expenses incurred in connection with the Purchaser's due diligence review of the Company and its Subsidiary and all related matters. Amounts required to be paid under this Section 2(c) for such legal fees and expenses shall be $10,000 (the "Expense Payment"), which will be paid on the Closing Date.

(d) The Closing Payment and the Expense Payment shall be on the Closing Date, as provided below out of funds held pursuant to a Funds Escrow Agreement of even date herewith among the Company, Purchaser, and an Escrow Agent (the "Funds Escrow Agreement") and a disbursement letter (the "Disbursement Letter").

3. Closing, Delivery, Payment and other Closing Conditions.

3.1 Closing. The execution and delivery of this Agreement and the Related Agreements shall occur upon exchange by facsimile of executed signature pages and all other documents, instruments and writings required to be delivered pursuant hereto and thereto. Subject to the terms and conditions herein, the closing of the transactions contemplated hereby (the "Closing"), shall take place on which date the conditions for Closing set forth in Section 9 herein shall be satisfied in full or waived by the Company, or at such different date as the Company and Purchaser may mutually agree (such date is hereinafter referred to as the "Closing Date").

3.2 Delivery. Pursuant to the Funds Escrow Agreement in the form attached hereto as Exhibit D at the Closing on the Closing Date, the Company will deliver to the Purchaser, among other things, (i) a Note in the form attached as Exhibit A representing the Purchase Price; (ii) a Warrant in the form attached as Exhibit B in the Purchaser's name representing 73,052 Warrant Shares, (iii) the Closing Payment, and (iv) the Expense Payment and the Purchaser will deliver to the Company, among other things, the Purchase Price (amounts set forth in the Disbursement Letter) by certified funds or wire transfer to an account designated by the Company.

3.3 Other Closing Conditions. Prior to closing of this transaction, the Company will obtain the necessary board approvals.

4. Representations and Warranties of the Company. The Company hereby represents and warrants to the Purchaser as follows (which representations and warranties are supplemented by the Company's filings under the Securities Exchange Act of 1934 (collectively, the "Exchange Act Filings") and the Company's Audited Consolidated Financial Statements as of December 31, 2004 (including the notes thereto) (the "Financial Statements")):

4.1 Organization, Good Standing and Qualification. Each of the Company and the Subsidiary is a corporation duly incorporated and validly existing under the laws of its jurisdiction of incorporation. Each of the Company and the Subsidiary has the corporate power and authority to own and operate its properties and assets and carry on its respective business as presently conducted, except as would not have a Material Adverse Effect (as defined below), and to execute and deliver, as applicable, (i) this Agreement, (ii) the Note and the Warrant to be issued in connection with this Agreement, (iii) the Master Security Agreement dated as of the date hereof among the Company and the Purchaser (as amended, modified or supplemented from time to time, the "Master Security Agreement"), (iv) the Registration Rights Agreement relating to the Securities dated as of the date hereof between the Company and the Purchaser, (v) the Escrow Agreement dated as of the date hereof among the Company, the Purchaser and the Escrow Agent referred to therein and (vi) all other agreements related to this Agreement and the Note and referred to herein (the preceding clauses (ii) through (vi), collectively, the "Related Agreements"), to issue and sell the Note and the Ordinary Shares issuable upon conversion of the Note (the "Note Shares"), to issue and sell the Warrant and the Warrant Shares, and to carry out the provisions of this Agreement and the Related Agreements and to carry on its business as presently conducted. Each of the Company and the Subsidiary is duly qualified and is authorized to do business and is in good standing as a foreign corporation in all jurisdictions in which the nature of its activities and of its properties (both owned and leased) makes such qualification necessary, except for those jurisdictions in which failure to do so has not, or could not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the business, assets, liabilities, condition (financial or otherwise), properties, or operations of the Company and it Subsidiary, taken as a whole (a "Material Adverse Effect").

4.2 [Reserved]

4.3 Capitalization; Voting Rights.

(a) The authorized capital stock of the Company, as of the date hereof consists of 8,750,000 Ordinary Shares nominal value NIS 4.00 per share, of which, as of September 29, 2005, 6,356,782 Ordinary Shares are issued and outstanding.

(b) Except as disclosed on Schedule 4.3, the Exchange Act Filings or the Financial Statements, other than: (i) the shares reserved for issuance under the Company's stock option plans; and (ii) shares which may be granted pursuant to this Agreement and the Related Agreements, there are no outstanding options, warrants, rights (including conversion or preemptive rights and rights of first refusal), proxy or shareholder agreements, or arrangements or agreements of any kind for the purchase or acquisition from the Company of any of its securities. Except as disclosed on Schedule 4.3, the Exchange Act Filings or the Financial Statements, neither the offer, issuance or sale of any of the Note or the Warrant, or the issuance of any of the Note Shares or Warrant Shares, nor the consummation of any transaction contemplated hereby will result in a change in the price or number of any securities of the Company outstanding, under anti-dilution or other similar provisions contained in or affecting any such securities.

(c) All issued and outstanding Ordinary Shares of the Company: (i) have been duly authorized and validly issued and are fully paid and nonassessable; and (ii) were issued in compliance with all applicable state and federal laws concerning the issuance of securities.

(d) The rights, preferences, privileges and restrictions of the Ordinary Shares are as stated in the Company's Articles of Association (the "Articles"). The Note Shares and Warrant Shares shall have been, on or before the Closing Date, duly and validly reserved for issuance. When issued in compliance with the provisions of this Agreement and the Company's Articles, the Securities will be validly issued, fully paid and nonassessable, and will be free of any liens or encumbrances; provided, however, that the Securities may be subject to restrictions on transfer under state, federal and/or Israeli securities laws as set forth herein or as otherwise required by such laws at the time a transfer is proposed.

4.4 Authorization; Binding Obligations. All corporate action on the part of the Company and the Subsidiary (including their respective officers and directors) necessary for the authorization of this Agreement and the Related Agreements, the performance of all obligations of the Company hereunder and under the other Related Agreements at the Closing and, the authorization, sale, issuance and delivery of the Note and Warrant has been taken or will be taken prior to the Closing. This Agreement and the other Related Agreements, when executed and delivered and to the extent it is a party thereto, will be valid and binding obligations of the Company and with respect to the representations and warranties pertaining to it the Subsidiary, enforceable against each such person in accordance with their terms, except:

(a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application affecting enforcement of creditors' rights; and

(b) general principles of equity that restrict the availability of equitable or legal remedies.

Except as disclosed on Schedule 4.4, in the Exchange Act Filings or the Financial Statements, the sale of the Note, the subsequent conversion of the Note into Note Shares, are not and will not be subject to any preemptive rights or rights of first refusal that have not been properly waived or complied with. The issuance of the Warrant and the subsequent exercise of the Warrant for Warrant Shares are not and will not be subject to any preemptive rights or rights of first refusal that have not been properly waived or complied with.

4.5 Liabilities. Neither the Company nor the Subsidiary has any material contingent liabilities, except current liabilities incurred in the ordinary course of business and liabilities disclosed in any Exchange Act Filings, in the Financial Statements or that would not be reasonably likely to have a Material Adverse Effect.

4.6 Agreements; Action. Except as set forth on Schedule 4.6 or as disclosed in any Exchange Act Filings or the Financial Statements:

(a) there are no agreements, understandings, instruments, contracts, judgments, orders, writs or decrees to which the Company or the Subsidiary is a party or by which it is bound which may involve: (i) obligations (contingent or otherwise) of, or payments to, the Company in excess of $500,000 (other than obligations of, or payments to, the Company arising from purchase or sale agreements entered into in the ordinary course of business); (ii) the transfer or license of any material patent, copyright, trade secret or other proprietary right to or from the Company (other than licenses arising from the purchase of "off the shelf" or other standard products); or (iii) provisions restricting the development, manufacture or distribution of the Company's products or services.

(b) Since December 31, 2004, neither the Company nor the Subsidiary has: (i) declared or paid any dividends, or authorized or made any distribution upon or with respect to any class or series of its share capital; (ii) incurred any indebtedness for money borrowed or any other liabilities (other than ordinary course obligations) individually in excess of $500,000 or, in the case of indebtedness and/or liabilities individually less than $500,000, in excess of $1,000,000 in the aggregate; (iii) made any loans or advances to any person (other than the Company's subsidiaries) in excess, individually or in the aggregate, of $500,000, other than ordinary course advances for travel expenses; or (iv) sold, exchanged or otherwise disposed of any of its material assets or rights, other than the sale of its inventory in the ordinary course of business or as a result of discontinued operations.

(c) For the purposes of subsections (a) and (b) above, all indebtedness, liabilities, agreements, understandings, instruments and contracts involving the same person or entity (including persons or entities the Company has reason to believe are affiliated therewith) shall be aggregated for the purpose of meeting the individual minimum dollar amounts of such subsections.

4.7 Obligations to Related Parties. Except as set forth on Schedule 4.7 or disclosed in any of the Exchange Act Filings or in the Financial Statements, there are no obligations of the Company or of the Subsidiary to officers, directors, shareholders or employees of the Company or the Subsidiary other than:

(a) for payment of salary or fees for services rendered and for bonus payments;

(b) reimbursement for reasonable expenses incurred on behalf of the Company and its Subsidiary;

(c) for other standard employee benefits made generally available to all employees (including stock option agreements outstanding or to be entered into under any stock option plan approved by the Board of Directors of the Company); and

(d) obligations listed in the Company's financial statements.

Except as listed in the Company's financial statements, disclosed in any of the Company's Exchange Act Filings, in the Financial Statements or set forth on Schedule 4.7, to the Company's knowledge, none of the officers, directors, key employees or shareholders holding 10% or more of the Company's share capital or any members of their immediate families, are indebted to the Company, individually, in excess of $50,000 or have any direct or indirect ownership interest in any firm or corporation with which the Company is affiliated or with which the Company has a business relationship, or any firm or corporation which competes with the Company, other than passive investments in publicly traded companies (representing less than one percent (1%) of such company) which may compete with the Company. Except as listed in the Financial Statements, disclosed in any of the Company's Exchange Act Filings or set forth on Schedule 4.7, (i) to the Company's knowledge no officer, director or shareholder holding 10% or more of the Company's share capital, or any member of their immediate families, is, directly or indirectly, interested in any material contract between any third party and the Company and (ii) except with respect to the Company's subsidiaries, the Company is not a guarantor or indemnitor of any indebtedness of any other person, firm or corporation.

4.8 Changes. Since December 31, 2004, except as disclosed in any Exchange Act Filing, in the Financial Statements or in any Schedule to this Agreement or to any of the Related Agreements, there has not been:

(a) any change in the business, assets, liabilities, condition (financial or otherwise), properties operations of the Company or its Subsidiary, which individually or in the aggregate has had, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect;

(b) any resignation or termination of any officer, key employee or group of employees of the Company or of its Subsidiary;

(c) any material change, except in the ordinary course of business or as would not have a Material Adverse Effect, in the contingent obligations of the Company or of its Subsidiary by way of guaranty, endorsement, indemnity, warranty or otherwise;

(d) any damage, destruction or loss, whether or not covered by insurance, which has had, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect;

(e) any waiver by the Company or its Subsidiary of a material right or of a material debt owed to it;

(f) any direct or indirect loans made by the Company or its Subsidiary to any stockholder, employee, officer or director of the Company or its Subsidiary, other than advances made in the ordinary course of business or loans which do not, in the aggregate, exceed $50,000;

(g) any material change in any compensation arrangement or agreement with any employee, officer, director or shareholder of the Company or its Subsidiary

(h) any declaration or payment of any dividend or other distribution of the assets of the Company or its Subsidiary;

(i) any labor organization activity related to the Company or its Subsidiary;

(j) any debt, obligation or liability incurred, assumed or guaranteed by the Company or its Subsidiary, except those for immaterial amounts and for current liabilities incurred in the ordinary course of business;

(k) any sale, assignment or transfer of any patents, trademarks, copyrights, trade secrets or other intangible assets owned by the Company or its Subsidiary;

(l) any change in any material agreement to which the Company or its Subsidiary is a party or by which either the Company or its Subsidiary is bound which either individually or in the aggregate has had, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect;

(m) any other event or condition of any character that, either individually or in the aggregate, has had, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect; or

(n) any arrangement or commitment by the Company or its Subsidiary to do any of the acts described in subsection (a) through (m) above.

4.9 Title to Properties and Assets; Liens, Etc. Except as set forth on Schedule 4.9, in the Company's Exchange Act Filings or in the Financial Statements, each of the Company and its Subsidiary has good and marketable title to its material properties and assets, and good title to its material leasehold estates, in each case subject to no mortgage, pledge, lien, lease, encumbrance or charge, other than:

(a) those resulting from taxes which have not yet become delinquent;

(b) minor liens and encumbrances which do not materially detract from the value of the property subject thereto or materially impair the operations of the Company or its Subsidiary; and

(c) those that have otherwise arisen in the ordinary course of business.

All material facilities, machinery, equipment, fixtures, vehicles and other properties owned, leased or used by the Company and its Subsidiary are in good operating condition and repair and are reasonably fit and usable for the purposes for which they are being used, except as would not have a Material Adverse Effect. Except as set forth on Schedule 4.9, the Company and its Subsidiary are in compliance with all material terms of each lease to which it is a party or is otherwise bound except those that would not be reasonably likely to have a Material Adverse Effect.

4.10 Intellectual Property.

(a) Each of the Company and its Subsidiary owns or possesses sufficient legal rights to use all material patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information and other proprietary rights and processes described or referred to in the Company's Exchange Act Filings or Financial Statements as necessary for its business as now conducted (the "Intellectual Property"), without any known infringement of the rights of others. Except as disclosed in the Company's Exchange Act Filings, in the Financial Statements, in connection with grants made by the OCS (as defined below) and for licenses granted in the ordinary course of business, there are no outstanding options, licenses or agreements of any kind relating to the foregoing proprietary rights.

(b) Neither the Company nor its Subsidiary has received any communications alleging that the Company or its Subsidiary has violated any of the patents, trademarks, service marks, trade names, copyrights or trade secrets or other proprietary rights of any other person or entity, nor is the Company or its Subsidiary aware of any basis therefor.

(c) The Company does not believe it is necessary to utilize any inventions, trade secrets or proprietary information of any of its employees made prior to their employment by the Company or its Subsidiary, except for inventions, trade secrets or proprietary information that have been rightfully assigned to the Company or its Subsidiary.

4.11 Compliance with Other Instruments. Neither the Company nor its Subsidiary is in violation or default of (x) any term of its Articles or Memorandum of Association, or (y) any material provision of any indebtedness, mortgage, indenture, contract, agreement or instrument to which it is party or by which it is bound or of any judgment, decree, order or writ, which violation or default, in the case of this clause (y), has had, or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. The execution, delivery and performance of and compliance with this Agreement and the Related Agreements to which it is a party, and the issuance and sale of the Note by the Company and the other Securities by the Company each pursuant hereto and thereto, will not, with or without the passage of time or giving of notice, result in any such material violation, or be in conflict with or constitute a default under any such term or provision, or result in the creation of any mortgage, pledge, lien, encumbrance or charge upon any of the properties or assets of the Company or its Subsidiary or the suspension, revocation, impairment, forfeiture or non-renewal of any material permit, license, authorization or approval applicable to the Company, its business or operations or any of its assets or properties, except as would not be reasonably expected to have a Material Adverse Effect.

4.12 Litigation. Except as set forth on Schedule 4.12 hereto, in the Company's Exchange Act Filings or in the Financial Statements, there is no action, suit, proceeding or investigation pending or, to the Company's knowledge, currently threatened against the Company or its Subsidiary that prevents the Company or its Subsidiary from entering into this Agreement or the other Related Agreements, or from consummating the transactions contemplated hereby or thereby, or which has had, or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect or any change in the current equity ownership of the Company or its Subsidiary, nor is the Company aware that there is any basis to assert any of the foregoing. Neither the Company nor its Subsidiary is a party or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality. There is no action, suit, proceeding or investigation by the Company or its Subsidiary currently pending or which the Company or its Subsidiary intends to initiate.

4.13 Tax Returns and Payments. Each of the Company and its Subsidiary has timely filed all tax returns required to be filed by it for the periods up to and including December 31, 2003__. All taxes shown to be due and payable on such returns, any assessments imposed, and all other taxes due and payable by the Company or its Subsidiary on or before the Closing, have been paid or will be paid prior to the time they become delinquent, except as would not have a Material Adverse Effect. Except as set forth on Schedule 4.13, in the Exchange Act Filings or in the Financial Statements, neither the Company nor its Subsidiary has been advised:

(a) that any of its returns have been or are being audited as of the date hereof;

or

(b) of any deficiency in assessment or proposed judgment to of its taxes.

The Company has no knowledge of any liability of any tax to be imposed upon its properties or assets as of the date of this Agreement that is not adequately provided for or which would be reasonably likely to have a Material Adverse Effect.

4.14 Employees. Except as set forth on Schedule 4.14, in the Exchange Act Filings, or in the Financial Statements the Company is in compliance with all applicable material laws respecting employment, collective bargaining and wages and hours and have withheld all amounts required by law or by agreement to be withheld from the wages, salaries and other payments to its employees.

4.15 Registration Rights and Voting Rights. Except as set forth on Schedule 4.15 and except as disclosed in the Exchange Act Filings or in the Financial Statements, neither the Company nor its Subsidiary is presently under any obligation, and neither the Company nor its Subsidiary has granted any rights, to register any of the Company's or its Subsidiary's presently outstanding securities or any of its securities that may hereafter be issued. Except as set forth on Schedule 4.15 and except as disclosed in Exchange Act Filings or in the Financial Statements, to the Company's knowledge, no shareholder of the Company or any of its Subsidiary is party to an existing agreement with respect to the voting of equity securities of the Company or its Subsidiary.

4.16 Compliance with Laws; Permits. Neither the Company nor its Subsidiary is in material violation of any applicable statute, rule, regulation, order or restriction of any domestic Israeli or, to the Company's knowledge, foreign government or any instrumentality or agency thereof in respect of the conduct of its business or the ownership of its properties which has had, or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. Except as set forth herein or on Schedule 4.16, no governmental orders, permissions, consents, approvals or authorizations are required to be obtained and no registrations or declarations are required to be filed in connection with the execution and delivery of this Agreement or any other Related Agreement and the issuance of any of the Securities, except such as has been, or shall be on or before the Closing Date, duly and validly obtained or filed or with respect to any filings that must be made after the Closing, as will be filed in a timely manner. Each of the Company and its Subsidiary has all material franchises, permits, licenses and any similar authority necessary for the conduct of its business as now being conducted by it, the lack of which could, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

4.17 Environmental and Safety Laws. Neither the Company nor its Subsidiary is in material violation of any applicable Israeli statute, law or regulation relating to the environment or occupational health and safety, and to its knowledge, no material expenditures are or will be required in order to comply with any such existing statute, law or regulation. Except as set forth on Schedule 4.17, no Hazardous Materials (as defined below) are used or have been used, stored, or disposed of by the Company or its Subsidiary or, to the Company's knowledge, by any other person or entity on any property owned, leased or used by the Company or its Subsidiary. For the purposes of the preceding sentence, "Hazardous Materials" shall mean:

(a) materials which are listed or otherwise defined as "hazardous" or "toxic" under any applicable Israeli laws and regulations that govern the existence and/or remedy of contamination on property, the protection of the environment from contamination, the control of hazardous wastes, or other activities involving hazardous substances, including building materials; or

(b) any petroleum products or nuclear materials.

4.18 Valid Offering. Assuming the accuracy of the representations and warranties of the Purchaser contained in this Agreement and in any Related Agreement, the offer, sale and issuance of the Securities will be exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), and will have been registered or qualified (or are exempt from registration and qualification) under the registration, permit or qualification requirements of all applicable state securities laws.

4.19 Full Disclosure. There is no material information relating to the Company or its Subsidiary, which the Company and/or its Subsidiary believe is reasonably necessary for the Purchaser to make its investment decision, which was not previously disclosed to Purchaser, or appears in the Schedules hereto, in the Company's Exchange Act Filings or in the Financial Statements. Neither this Agreement, the Related Agreements, the exhibits and schedules hereto and thereto nor any other document delivered by the Company or its Subsidiary to Purchaser or its attorneys or agents in connection herewith or therewith or with the transactions contemplated hereby or thereby, contain any untrue statement of a material fact nor omit to state a material fact necessary in order to make the statements contained herein or therein, in light of the circumstances in which they are made, not misleading.

4.20 Insurance. The Subsidiary has general commercial, product liability, fire and casualty insurance policies with coverages which the Company believes are customary for companies similarly situated to the Subsidiary in the same or similar business.

4.21 SEC Filings. Except as set forth on Schedule 4.21, the Company has filed with the Securities and Exchange Commission (the "SEC") all proxy statements, reports and other documents required to be filed by it under the Exchange Act, as a foreign private issuer (collectively, the "SEC Reports"). Except as set forth on Schedule 4.21, each SEC Report was, at the time of its filing, in substantial compliance with the requirements of its respective form and none of the SEC Reports, nor the financial statements (and the notes thereto) included in the SEC Reports, as of their respective filing dates, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

4.22 Listing. The Company's Ordinary Shares are listed for trading on the NASDAQ National Market ("NASDAQ") and the Tel-Aviv Stock Exchange ("TASE") and satisfy all requirements for the continuation of such listing. Except as disclosed in the Company's Exchange Act Filings or in the Financial Statements, the Company has not received any notice that its Ordinary Shares will be delisted from NASDAQ or that its Ordinary Shares does not meet all requirements for listing.

4.23 No Integrated Offering. Neither the Company, nor its Subsidiary or affiliates, nor any person acting on its or their behalf, has directly or indirectly made any offers or sales of any security or solicited any offers to buy any security under circumstances that would cause the offering of the Securities pursuant to this Agreement or any of the Related Agreements to be integrated with prior offerings by the Company for purposes of the Securities Act such that would subject the offering, issuance and sale of the Securities hereunder to the registration requirements of Section 5 of the Securities Act, or any applicable exchange-related stockholder approval provisions, nor will the Company or any of its affiliates or its Subsidiary take any action or steps that would cause the offering of the Securities to be integrated with other offerings.

4.24 Stop Transfer. The Securities are restricted securities as of the date of this Agreement. Neither the Company nor its Subsidiary will issue any stop transfer order or other order impeding the sale and delivery of any of the Securities at such time as the Securities are registered for public sale or an exemption from registration is available, except as required by state and federal or Israeli securities laws, by NASDAQ or by TASE.

4.25 Dilution. The Company specifically acknowledges that its obligation to issue the Ordinary Shares upon conversion of the Note and exercise of the Warrant is binding upon the Company and enforceable regardless of the dilution such issuance may have on the ownership interests of other shareholders of the Company.

4.26 The Company is entitled to certain tax benefits, based on its status as an Approved Enterprise under the Law for the Encouragement of Capital Investments 5744-1984. The Company has not received any notice that it has not complied, in all material respects, with the terms and provisions of its Approved Enterprise status and applicable laws and regulations in order to retain its status as an Approved Enterprise.

4.27 The Company has received grants in support of its research and development through the Office of the Chief Scientist of the Ministry of Industry and Trade of the State of Israel (the "**OCS**") as listed in Schedule 4.27 hereto, in the Exchange Act Filings or in the Financial Statements (the "**Grants**"). The Company has not received any notice that it is not in compliance, in all material respects, with the terms and conditions of the Grants, or that is has not duly fulfilled, in all material respects, all the undertakings relating thereto. The Company is not aware of any event or other set of circumstances which might lead to the revocation or material modification of any of the Grants.

4.28 Patriot Act. The Company certifies that, to the best of Company's knowledge, neither the Company nor its Subsidiary has been designated, and is not owned or controlled, by a "suspected terrorist" as defined in Executive Order 13224. The Company hereby acknowledges that the Purchaser seeks to comply with all applicable laws concerning money laundering and related activities. In furtherance of those efforts, the Company hereby represents, warrants and agrees that: (i) none of the cash or property that the Company or its Subsidiary will pay or will contribute to the Purchaser has been or shall be derived from, or related to, any activity that is deemed criminal under United States law; and (ii) no contribution or payment by the Company or its Subsidiary to the Purchaser, to the extent that they are within the Company's and/or its Subsidiary's control shall cause the Purchaser to be in violation of the United States Bank Secrecy Act, the United States International Money Laundering Control Act of 1986 or the United States International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001. The Company shall promptly notify the Purchaser if any of these representations ceases to be true and accurate regarding the Company or its Subsidiary. The Company agrees to provide the Purchaser any additional information regarding the Company or its Subsidiary that the Purchaser reasonably deems necessary or convenient to ensure compliance with all applicable laws concerning money laundering and similar activities. The Company understands and agrees that if at any time it is discovered that any of the foregoing representations are incorrect, or if otherwise required by applicable law or regulation related to money laundering similar activities, the Purchaser may undertake appropriate actions to ensure compliance with applicable law or regulation, including but not limited to segregation and/or redemption of the Purchaser's investment in the Company. The Company further understands that the Purchaser, if required by applicable law, may release confidential information about the Company and its Subsidiary and, if applicable, any underlying beneficial owners, to proper authorities if the Purchaser, in its sole discretion, determines that it is in the best interests of the Purchaser in light of relevant rules and regulations under the laws set forth in subsection (ii) above.

5. Representations and Warranties of the Purchaser. The Purchaser hereby represents and warrants to the Company as follows (such representations and warranties do not lessen or obviate the representations and warranties of the Company set forth in this Agreement):

5.1 No Shorting. The Purchaser or any of its affiliates and investment partners has not, will not and will not cause any person or entity, directly or indirectly, to engage in "short sales" of the Company's Ordinary Shares or any other hedging strategies as long as the Note shall be outstanding. This Section 5.1 shall survive the Closing of the transactions contemplated hereby.

5.2 Requisite Power and Authority. The Purchaser is duly organized, validly existing and in good standing under the laws of the country of its formation and has all necessary power and authority under all applicable provisions of law to execute and deliver this Agreement and the Related Agreements and to carry out their provisions. All corporate action on Purchaser's part required for the lawful execution and delivery of this Agreement and the Related Agreements have been or will be effectively taken prior to the Closing. Upon their execution and delivery, this Agreement and the Related Agreements will be valid and binding obligations of Purchaser, enforceable in accordance with their terms, except:

(a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application affecting enforcement of creditors' rights; and

(b) as limited by general principles of equity that restrict the availability of equitable and legal remedies.

5.3 Investment Representations. Purchaser understands that the Securities are being offered and sold pursuant to an exemption or exemptions from registration requirements of Israeli and US Federal and state securities laws and that the Company is relying upon the truth and accuracy of Purchaser's representations contained in the Agreement, including, without limitation, that the Purchaser is an "accredited investor" within the meaning of Regulation D under the Securities Act. The Purchaser confirms that it has received or has had full access to all the information it considers necessary or appropriate to make an informed investment decision with respect to the Note and the Warrant to be purchased by it under this Agreement and the Note Shares and the Warrant Shares acquired by it upon the conversion of the Note and the exercise of the Warrant, respectively. The Purchaser further confirms that it has had an opportunity to ask questions and receive answers from the Company regarding the Company's and its Subsidiary's business, management and financial affairs and the terms and conditions of the Offering, the Note, the Warrant and the Securities and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify any information furnished to the Purchaser or to which the Purchaser had access.

5.4 Purchaser Bears Economic Risk. The Purchaser has substantial experience in evaluating and investing in private placement transactions of securities in companies similar to the Company so that it is capable of evaluating the merits and risks of its investment in the Company and has the capacity to protect its own interests. The Purchaser must bear the economic risk of this investment until the Securities are sold pursuant to: (i) an effective registration statement under the Securities Act; or (ii) an exemption from registration is available with respect to such sale.

5.5 Acquisition for Own Account. The Purchaser is acquiring the Note and Warrant and the Note Shares and the Warrant Shares for the Purchaser's own account for investment only, and not as a nominee or agent and not with a view towards or for resale in connection with their distribution. Purchaser has not offered the Securities for sale by any means of general solicitation or general advertising including, but no limited to, any advertisements, articles, notices or other communications published in any newspaper, magazine, or similar medium or broadcast over television or radio, or any seminar or meeting whose attendees were invited by any general solicitation or general advertising.

5.6 Purchaser Can Protect Its Interest. The Purchaser represents that by reason of its, or of its management's, business and financial experience, the Purchaser has the capacity to evaluate the merits and risks of its investment in the Note, the Warrant and the Securities and to protect its own interests in connection with the transactions contemplated in this Agreement and the other Related Agreements. Further, Purchaser is aware of no publication of any advertisement in connection with the transactions contemplated in the Agreement or the Related Agreements.

5.7 Accredited Investor. Purchaser represents that it is an "accredited investor" within the meaning of Regulation D under the Securities Act.

5.8 Legends.

(a) The Note shall bear substantially the following legend:

"THIS NOTE AND THE ORDINARY SHARES ISSUABLE UPON CONVERSION OF THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE, STATE SECURITIES LAWS. THIS NOTE AND THE ORDINARY SHARES ISSUABLE UPON CONVERSION OF THIS NOTE MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THIS NOTE OR SUCH SHARES UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAWS OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO B.O.S. BETTER ON-LINE SOLUTIONS LTD. THAT SUCH REGISTRATION IS NOT REQUIRED."

(b) The Note Shares and the Warrant Shares, if not issued by DWAC system (as hereinafter defined), shall bear a legend which shall be in substantially the following form until such shares are covered by an effective registration statement filed with the SEC:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS. THESE SHARES HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT WITH RESPECT TO THE SHARES EVIDENCED BY THIS CERTIFICATE, FILED AND MADE EFFECTIVE UNDER THE SECURITIES ACT AND APPLICABLE STATE LAWS OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO B.O.S. BETTER ON-LINE SOLUTIONS LTD. THAT SUCH REGISTRATION IS NOT REQUIRED."

(c) The Warrant shall bear substantially the following legend:

"THIS WARRANT AND THE ORDINARY SHARES ISSUABLE UPON EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS. THIS WARRANT AND THE ORDINARY SHARES ISSUABLE UPON EXERCISE OF THIS WARRANT MAY NOT BE SOLD, TRANSFERRED, ASSIGNED, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THIS WARRANT OR THE UNDERLYING ORDINARY SHARES UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAWS OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO B.O.S. BETTER ON-LINE SOLUTIONS LTD. THAT SUCH REGISTRATION IS NOT REQUIRED."

5.9 Control over the Purchaser. The Purchaser has made available to the Company a complete and detailed list of individuals who have or share voting and/or investment control over the Purchaser. Purchaser acknowledges that such information shall be provided by the Company to the OCS and the Investment Center of the Ministry of Industry, Trade and Labor of the State of Israel (the "Investment Center"), whose approval of the transactions contemplated hereby is a condition to the Company's obligations hereunder. Purchaser shall update such list as reasonably requested by the Company, to comply with any request for such information from any regulatory body, including, without limitation the OCS and the Investment Center. This Section 5.9 shall survive the Closing of the transactions contemplated hereby.

6. Covenants of the Company. Until irrevocable payment in full by the Company (Subject to Section 6.12) of all amounts due to Purchaser under the Note and the Related Agreements, the Company covenants and agrees with the Purchaser as follows:

6.1 Stop-Orders. The Company will advise the Purchaser, promptly after it receives notice of issuance by the SEC, any state securities commission or any other regulatory authority of any stop order or of any order preventing or suspending any offering of any securities of the Company, or of the suspension of the qualification of the Ordinary Shares of the Company for offering or sale in any jurisdiction, or the initiation of any proceeding for any such purpose.

6.2 Listing. The Company shall promptly secure the listing of the Ordinary Shares issuable upon conversion of the Note and upon the exercise of the Warrant on the NASDAQ National Market or on any other market upon which the Company's Ordinary Shares are then listed (the "Principal Market") (subject to official notice of issuance) and shall maintain such listing so long as any other Ordinary Shares shall be so listed. Except with respect to the listing on the Tel-Aviv Stock Exchange, the Company will maintain the listing of its Ordinary Shares on the Principal Market, and will comply in all material respects with the Company's reporting, filing and other obligations under the bylaws or rules of the National Association of Securities Dealers ("NASD") and such exchanges, as applicable.

6.3 Market Regulations. The Company shall notify the SEC, NASD, the Israeli Securities Authority and the Tel-Aviv Stock Exchange and applicable state authorities, in accordance with their requirements, of the transactions contemplated by this Agreement, and shall take all other necessary action and proceedings as may be required and permitted by applicable law, rule and regulation, for the legal and valid issuance of the Securities to the Purchaser.

6.4 Reporting Requirements. The Company will timely file with the SEC all reports required to be filed pursuant to the Exchange Act by foreign private issuers and refrain from terminating its status as an issuer required by the Exchange Act to file reports thereunder even if the Exchange Act or the rules or regulations thereunder would permit such termination.

6.5 Use of Funds. The Company agrees that it will use the proceeds of the sale of the Note and the Warrant for general working capital purposes, and/or mergers and acquisitions only.

6.6 Access to Facilities Each of the Company and its Subsidiary will permit any representatives designated by the Purchaser (or any successor of the Purchaser), upon reasonable notice and during normal business hours, at such person's expense and accompanied by a representative of the Company, to:

(a) visit and inspect any of the properties of the Company or its Subsidiary;

(b) examine the corporate and financial records of the Company or any of its Subsidiary (unless such examination is not permitted by federal, state or local law or by contract) and make copies thereof or extracts therefrom; and

(c) discuss the affairs, finances and accounts of the Company or its Subsidiary with the directors, officers and independent accountants of the Company or its Subsidiary. Notwithstanding the foregoing, neither the Company nor its Subsidiary will provide any material, non-public information to the Purchaser unless the Purchaser signs a confidentiality agreement and otherwise complies with Regulation FD, under the federal securities laws

6.7 Taxes. Each of the Company and its Subsidiary will promptly pay and discharge, or cause to be paid and discharged, when due and payable, all lawful taxes, assessments and governmental charges or levies imposed upon the income, profits, property or business of the Company and its Subsidiary; provided, however, that any such tax, assessment, charge or levy need not be paid if the validity thereof shall currently be contested in good faith by appropriate proceedings and if the Company and/or such Subsidiary shall have set aside on its books adequate reserves with respect thereto, and provided, further, that the Company and its Subsidiary will pay all such taxes, assessments, charges or levies forthwith upon the commencement of proceedings to foreclose any lien which may have attached as security therefor

6.8 Insurance. Each of the Company and its Subsidiary will keep its assets which are of an insurable character insured by financially sound and reputable insurers against loss or damage by fire, explosion and other risks customarily insured against by companies in similar business similarly situated as the Company and its Subsidiary; and the Subsidiary will maintain, with financially sound and reputable insurers, insurance against other hazards and risks and liability to persons and property to the extent and in the manner which the Company reasonably believes is customary for companies in similar business similarly situated as the Company and its Subsidiary and to the extent available on commercially reasonable terms. The Company will bear the full risk of loss from any loss of any nature whatsoever with respect to the assets pledged to the Purchaser as security for its obligations hereunder and under the Related Agreements. At the Company's and its Subsidiary's cost and expense in amounts and with carriers reasonably acceptable to Purchaser, the Company and its Subsidiary shall (i) keep its material properties insured against the hazards of fire, flood and such other hazards that are included in "Extended Fire" insurance, for such properties' full value; (ii) maintain Third Party Liability insurance against claims for personal injury, death or property damage suffered by others with the limit of liability of NIS 5 Million per occurrence and in the aggregate; (iii) maintain Employers' Liability Insurance with the limit of liability of $5 Million per occurrence and in the aggregate; and (iv) furnish Purchaser with (x) a certificate evidencing the maintenance of such insurance coverage at least thirty (30) days before any expiration date, (y) excepting the Employer's Liability Insurance, endorsements to such policies naming Purchaser as "co-insured" or "additional insured" , and (z) evidence that as to Purchaser the insurance coverage shall not be impaired or invalidated by the insurer and the insurer will provide Purchaser with at least thirty (30) days notice prior to cancellation. The Company and the Subsidiary shall instruct the insurance carriers that in the event of any loss thereunder in excess of $50,000 in the aggregate, upon the occurrence and during the continuance of an Event of Default beyond any applicable cure period and until such Event of Default is cured, or waived by the Purchaser in its sole discretion, the carriers shall make payment for such loss to the Company and/or the Subsidiary and Purchaser jointly. In the event that as of the date of receipt of each loss recovery upon any such insurance, the Purchaser has not declared an Event of Default with respect to this Agreement or any of the Related Agreements, then the Company and/or such Subsidiary shall be permitted to direct the application of such loss recovery proceeds toward investment in property, plant and equipment that would comprise "Pledgor Collateral" secured by Purchaser's security interest pursuant to its security agreement, with any surplus funds to be applied toward payment of the obligations of the Company to Purchaser. In the event that Purchaser has properly declared an Event of Default with respect to this Agreement or any of the Related Agreements, then all loss recoveries received by Purchaser upon any such insurance thereafter may be applied to the obligations of the Company hereunder and under the Related Agreements, in such order as the Purchaser may determine. Any surplus (following satisfaction of all Company obligations to Purchaser) shall be paid by Purchaser to the Company or applied as may be otherwise required by law. Any deficiency thereon shall be paid by the Company or the Subsidiary, as applicable, to Purchaser, on demand.

6.9 Intellectual Property. Each of the Company and its Subsidiary shall maintain in full force and effect its existence, rights and franchises and all licenses and other rights to use Intellectual Property owned or possessed by it and reasonably deemed to be necessary to the conduct of its business.

6.10 Properties. Each of the Company and its Subsidiary will keep its material properties in good repair, working order and condition, reasonable wear and tear excepted, and from time to time make all needful and proper repairs, renewals, replacements, additions and improvements thereto, except as would not have a Material Adverse Effect; and each of the Company and its Subsidiary will at all times comply with each provision of all leases to which it is a party or under which it occupies property if the breach of such provision could, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

6.11 Confidentiality The Company agrees that it will not disclose, and will not include in any public announcement, the name of the Purchaser, unless expressly agreed to by the Purchaser or unless and until such disclosure is required by law or applicable regulation, and then only to the extent of such requirement. Notwithstanding the foregoing, the Company may disclose Purchaser's identity and the terms of this Agreement to its current and prospective debt and equity financing sources.

6.12 Required Approvals. For so long as twenty-five percent (25%) of the principal amount of the Note is outstanding, the Company, without the prior written consent of the Purchaser, shall not:

(a) directly or indirectly declare or pay any dividends, other than dividends paid to the Company or any of its wholly-owned subsidiaries;

(b) liquidate, dissolve or effect a material reorganization provided, however, that the Company may merge or effect a material reorganization if the Company is the surviving entity;

(c) become subject to (including, without limitation, by way of amendment to or modification of) any agreement or instrument which by its terms would (under any circumstances) restrict the Company's or its Subsidiary's right to perform the provisions of this Agreement, any other Related Agreement or any of the agreements contemplated hereby or thereby;

(d) (i) create, incur, assume or suffer to exist any indebtedness (exclusive of trade debt and debt incurred to finance the purchase of equipment (not in excess of ten percent (10%) per annum of the fair market value of the Company's assets) whether secured or unsecured other than (x) the Company's indebtedness to the Purchaser, (y) indebtedness set forth on Schedule 6.12(d) attached hereto and made a part hereof and any refinancings or replacements thereof on terms no less favorable to the Company than the indebtedness being refinanced or replaced, and (z) any debt incurred in connection with the purchase of assets, or any refinancings or replacements thereof on terms no less favorable to the Company than the indebtedness being refinanced or replaced; (ii) cancel any debt owing to it in excess of $500,000 in the aggregate during any 12 month period; (iii) assume, guarantee, endorse or otherwise become directly or contingently liable in connection with any obligations of any other person, except the endorsement of negotiable instruments by the Company for deposit or collection or similar transactions in the ordinary course of business or guarantees of indebtedness of the Company's subsidiaries or otherwise permitted to be outstanding pursuant to this clause (d); and

(e) except as set forth in Schedule 6.12(e), create or acquire any subsidiary after the date hereof unless (i) such subsidiary is a wholly-owned subsidiary of the Company or (ii) such Subsidiary becomes party to the Master Security Agreement (either by executing a counterpart thereof or an assumption or joinder agreement in respect thereof) and, to the extent required by the Purchaser, satisfies each condition of this Agreement and the other Related Agreements as if such subsidiary was a subsidiary on the Closing Date.

6.13 Reissuance of Securities. The Company agrees to reissue certificates representing the Securities without the legends set forth in Section 5.8 above at such time as:

(a) the holder thereof is permitted to dispose of such Securities pursuant to Rule 144(k) under the Securities Act; or

(b) upon resale subject to an effective registration statement after such Securities are registered under the Securities Act.

The Company agrees to cooperate with the Purchaser in connection with all resales pursuant to Rule 144(d) and Rule 144(k) and provide legal opinions necessary to allow such resales provided the Company and its counsel receive reasonably requested representations from the selling Purchaser and broker, if any.

6.14 Opinions. On the Closing Date, the Company will deliver to the Purchaser opinions acceptable to the Purchaser substantially in the forms of Exhibits C1 and C2 hereto, from the Company's external legal counsels. The Company will provide, at the Company's expense, such other legal opinions to be issued in connection with sales effected under Rule 144 of the Securities Act, or in connection with a request by or on behalf of the Company's Transfer Agent in the future as are deemed reasonably necessary by the Purchaser (and acceptable to the Purchaser) in connection with the conversion of the Note and exercise of the Warrant.

6.15 On or prior to the Closing Date the Company will execute and deliver to the Purchaser the Related Agreements signed by the Company and its Subsidiary (if required) and any debentures attached thereto.

6.16 On or prior to the Closing Date, the Company will execute and deliver to the Purchaser a confirmation by the board of directors of the Company according to section 282 of the Companies Law – 1999, together with a copy of resolutions by the Company's Board of Directors, authorizing the execution and performance of this Agreement, the Related Agreements and the transactions contemplated hereby and thereby.

6.17 The Company will at all times have authorized and reserved a sufficient number of Ordinary Shares for the full conversion of the Note and exercise of the Warrants.

7. Covenants of the Purchaser. The Purchaser covenants and agrees with the Company as follows:

7.1 Confidentiality. The Purchaser agrees that it will not disclose, and will not include in any public announcement, the name of the Company, unless expressly agreed to by the Company or unless and until such disclosure is required by law or applicable regulation, and then only to the extent of such requirement.

7.2 Non-Public Information. The Purchaser agrees not to effect any sales in the Company's Ordinary Shares while in possession of material, non-public information regarding the Company if such sales would violate applicable securities law.

This Section 7 shall survive the Closing of the transactions contemplated hereby.

8. Covenants of the Company and Purchaser Regarding Indemnification.

8.1 Company Indemnification. The Company agrees to indemnify, hold harmless, reimburse and defend the Purchaser, each of the Purchaser's officers, directors, agents, affiliates, control persons, and principal shareholders, against any claim, cost, expense, liability, obligation, loss or damage (including reasonable legal fees) of any nature, incurred by or imposed upon the Purchaser which results, arises out of or is based upon: (i) any misrepresentation by the Company or its Subsidiary or breach of any warranty by the Company or its Subsidiary in this Agreement, any other Related Agreement or in any exhibits or schedules attached hereto or thereto; or (ii) any breach or default in performance by Company or its Subsidiary of any covenant or undertaking to be performed by Company or its Subsidiary hereunder, under any other Related Agreement or any other agreement entered into by the Company and Purchaser relating hereto or thereto. Nothing herein shall be deemed to expand the Subsidiary's liability hereunder or under any Related Agreement, beyond its liability in connection with the representations and warranties made by the Subsidiary hereunder.

8.2 Purchaser's Indemnification. Purchaser agrees to indemnify, hold harmless, reimburse and defend the Company and each of the Company's officers, directors, agents, affiliates, control persons and principal shareholders, at all times against any claim, cost, expense, liability, obligation, loss or damage (including reasonable legal fees) of any nature, incurred by or imposed upon the Company which results, arises out of or is based upon: (i) any misrepresentation by Purchaser or breach of any warranty by Purchaser in this Agreement or in any exhibits or schedules attached hereto or any Related Agreement; or (ii) any breach or default in performance by Purchaser of any covenant or undertaking to be performed by Purchaser hereunder, or under any other Related Agreement.

9. Conditions of the Company's Obligations at the Closing. The obligations of the Company to issue the Note and the Warrant to the Investors at the Closing is subject to the fulfillment (or waiver by the Company) prior to or on the Closing Date of the conditions set forth below. In the event that any such condition is not met to the satisfaction of the Company, then the Company shall not be obligated to proceed with the transactions contemplated hereunder and in the Related Agreements, and shall not be subject to any liability hereunder or thereunder.

9.1 Representations and Warranties. The representations and warranties of the Purchaser under this Agreement and the related Agreements shall be true in all material respects as of the Closing Date, with the same effect as though made on and as of such date.

9.2 Compliance with Agreements. Purchaser shall have performed and complied in all respects with all agreements or conditions required by this Agreement and the Related Agreements to be performed and complied with by it prior to or as of the Closing Date.

9.3 No Injunction. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction, which prohibits the consummation of any of the transactions contemplated by this Agreement and the Related Agreements.

9.4 Delivery of Purchase Amount. The Purchaser shall have delivered to the Company the Purchase Amount on or before the Closing Date.

9.5 Government Approvals. The Company shall have received all necessary approvals by the OCS and the Investment Center with respect to the transactions contemplated hereby and by the Related Agreements. The Purchaser shall have executed any confirmations required by the OCS and/or the Investment Center for the grant of such approvals.

9.6 Notices to NASDAQ the TASE and the ISA. The Company shall have made all required filings of notices with NASDAQ, the Tel Aviv Stock Exchange and the Israel Securities Authority and has received no notice adversely effecting the performance of the transactions contemplated hereunder and in the Related Agreements. The Company shall use its commercially reasonable efforts to complete such filings.

10. Conversion of Convertible Note.

10.1 Mechanics of Conversion.

(a) Provided the Purchaser has notified the Company of the Purchaser's intention to sell the Note Shares and the Note Shares are included in an effective registration statement or are otherwise exempt from registration when sold: (i) upon the conversion of the Note or part thereof, the Company shall, at its own cost and expense, take all necessary action (including the issuance of an opinion of counsel reasonably acceptable to the Purchaser following a request by the Purchaser) to assure that the Company's transfer agent shall issue the Company's Ordinary Shares in the name of the Purchaser (or its nominee) or such other persons as designated by the Purchaser in accordance with Section 10.1(b) hereof and in such denominations to be specified representing the number of Note Shares issuable upon such conversion; and (ii) the Company warrants that no instructions other than these instructions have been or will be given to the transfer agent of the Company's Ordinary Shares and that after the Effectiveness Date (as defined in the Registration Rights Agreement) the Note Shares issued will be freely transferable subject to the prospectus delivery requirements of the Securities Act and the provisions of this Agreement, and will not contain a legend restricting the resale or transferability of the Note Shares.

(b) Purchaser will give notice of its decision to exercise its right to convert the Note or part thereof by telecopying or otherwise delivering an executed and completed notice including a breakdown in reasonable detail of the Principal Amount and accrued interest being converted (the "Notice of Conversion") all as more fully provided in the Note. The Purchaser will not be required to surrender the Note until the Purchaser receives a credit to the account of the Purchaser's prime broker through the DWAC system (as defined below), representing the Note Shares or until the Note has been fully satisfied. Each date on which a Notice of Conversion is telecopied or delivered to the Company in accordance with the provisions hereof shall be deemed a "Conversion Date." Pursuant to the terms of the Notice of Conversion, the Borrower will issue instructions to the transfer agent accompanied by an opinion of counsel within one (1) business day of the date of the delivery to Borrower of the Notice of Conversion and shall cause the transfer agent to transmit the certificates representing the Conversion Shares to the Holder by crediting the account of the Purchaser's prime broker with the Depository Trust Company ("DTC") through its Deposit Withdrawal Agent Commission ("DWAC") system within three (3) business days after receipt by the Company of the Notice of Conversion (the "Delivery Date")

(c) The Company understands that a delay in the delivery of the Note Shares in the form required pursuant to Section 10 hereof beyond the Delivery Date could result in economic loss to the Purchaser. In the event that the Company fails to direct its transfer agent to deliver the Note Shares to the Purchaser via the DWAC system within the time frame set forth in Section 10.1(b) above and the Note Shares are not delivered to the Purchaser by the Delivery Date, as compensation to the Purchaser for such loss, the Company agrees to pay late payments to the Purchaser for late issuance of the Note Shares in the form required pursuant to Section hereof upon conversion of the Note in the amount equal to the greater of: (i) $500 per business day after the Delivery Date; or (ii) the Purchaser's actual damages from such delayed delivery. Notwithstanding the foregoing, the Company will not owe the Purchaser any late payments if the delay in the delivery of the Note Shares beyond the Delivery Date is solely out of the control of the Company and the Company is actively trying to cure the cause of the delay. The Company shall pay any payments incurred under this Section in immediately available funds upon demand and, in the case of actual damages, accompanied by reasonable documentation of the amount of such damages. Such documentation shall show the number of Ordinary Shares the Purchaser is forced to purchase (in an open market transaction) which the Purchaser anticipated receiving upon such conversion, and shall be calculated as the amount by which (A) the Purchaser's total purchase price (including customary brokerage commissions, if any) for the Ordinary Shares so purchased exceeds (B) the aggregate principal and/or interest amount of the Note, for which such Conversion Notice was not timely honored.

10.2 Nothing contained herein or in any document referred to herein or delivered in connection herewith shall be deemed to establish or require the payment of a rate of interest or other charges in excess of the maximum permitted by applicable law. In the event that the rate of interest or dividends required to be paid or other charges hereunder exceed the maximum amount permitted by such law, any payments in excess of such maximum shall be credited against amounts owed by the Company to the Purchaser and thus refunded to the Company.

11. Registration Rights, Offering Restrictions.

11.1 Registration Rights Granted. The Company hereby grants registration rights to the Purchaser pursuant to a Registration Rights Agreement dated as of even date herewith between the Company and the Purchaser.

11.2 Offering Restrictions. Except as previously disclosed in the SEC Reports, in the Exchange Act Filings, in the Financial Statements, or stock or stock options granted to employees or directors of the Company (these exceptions hereinafter referred to as the "Excepted Issuances"), neither the Company nor its Subsidiary will issue any securities with a continuously variable/floating conversion feature which are or could be (by conversion or registration) free-trading securities (i.e. Ordinary Shares subject to a registration statement) prior to the full repayment or conversion of the Note (together with all accrued and unpaid interest and fees related thereto) (he "Exclusion Period").

12. Miscellaneous.

12.1 Governing Law. THIS AGREEMENT AND EACH RELATED AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS. ANY ACTION BROUGHT BY EITHER PARTY AGAINST THE OTHER CONCERNING THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT SHALL BE BROUGHT ONLY IN THE STATE COURTS OF NEW YORK OR IN THE FEDERAL COURTS LOCATED IN THE STATE OF NEW YORK. BOTH PARTIES AND THE INDIVIDUALS EXECUTING THIS AGREEMENT AND THE OTHER RELATED AGREEMENTS ON BEHALF OF THE COMPANY AGREE TO SUBMIT TO THE JURISDICTION OF SUCH COURTS AND WAIVE TRIAL BY JURY. IN THE EVENT THAT ANY PROVISION OF THIS AGREEMENT OR ANY OTHER RELATED AGREEMENT DELIVERED IN CONNECTION HEREWITH IS INVALID OR UNENFORCEABLE UNDER ANY APPLICABLE STATUTE OR RULE OF LAW, THEN SUCH PROVISION SHALL BE DEEMED INOPERATIVE TO THE EXTENT THAT IT MAY CONFLICT THEREWITH AND SHALL BE DEEMED MODIFIED TO CONFORM WITH SUCH STATUTE OR RULE OF LAW. ANY SUCH PROVISION WHICH MAY PROVE INVALID OR UNENFORCEABLE UNDER ANY LAW SHALL NOT AFFECT THE VALIDITY OR ENFORCEABILITY OF ANY OTHER PROVISION OF ANY AGREEMENT.

12.2 Survival. The representations, warranties, covenants and agreements made herein shall survive any investigation made by the Purchaser and the closing of the transactions contemplated hereby to the extent provided therein. All statements as to factual matters contained in any certificate or other instrument delivered by or on behalf of either party pursuant hereto in connection with the transactions contemplated hereby shall be deemed to be representations and warranties by such party hereunder solely as of the date of such certificate or instrument.

12.3 Successors. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, heirs, executors and administrators of the parties hereto and shall inure to the benefit of and be enforceable by each person who shall be a holder of the Securities from time to time, other than the holders of Ordinary Shares which have been sold by the Purchaser pursuant to Rule 144 or an effective registration statement. Purchaser may not assign its rights hereunder to a competitor of the Company or its Subsidiary.

12.4 Entire Agreement. This Agreement, the Related Agreements, the exhibits and schedules hereto and thereto and the other documents delivered pursuant hereto constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and no party shall be liable or bound to any other in any manner by any representations, warranties, covenants and agreements except as specifically set forth herein and therein.

12.5 Severability. In case any provision of the Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

12.6 Amendment and Waiver.

(a) This Agreement may be amended or modified only upon the written consent of the Company and the Purchaser or their respective successors.

(b) The obligations of the Company and the rights of the Purchaser under this Agreement may be waived only with the written consent of the Purchaser or its successors.

(c) The obligations of the Purchaser and the rights of the Company under this Agreement may be waived only with the written consent of the Company or its successors.

12.7 Delays or Omissions. It is agreed that no delay or omission to exercise any right, power or remedy accruing to any party, upon any breach, default or noncompliance by another party under this Agreement or the Related Agreements, shall impair any such right, power or remedy, nor shall it be construed to be a waiver of any such breach, default or noncompliance, or any acquiescence therein, or of or in any similar breach, default or noncompliance thereafter occurring. All remedies, either under this Agreement or the Related Agreements, by law or otherwise afforded to any party, shall be cumulative and not alternative.

12.8 Notices. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given:

(a) upon personal delivery to the party to be notified;

(b) when sent by confirmed facsimile if sent during normal business hours of the recipient, if not, then on the next business day;

(c) three (3) business days after having been sent by registered or certified mail, return receipt requested, postage prepaid; or

(d) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt.

All communications shall be sent as follows:

If to the Purchaser, to:

B.O.S. Better On-Line Solutions Ltd.
Beit Rabin, 100 BOS Road, Teradyon Industrial Park,
Misgav 20179, Israel

Attention: Chief Financial Officer
Facsimile: (972) 4 999-0334

with a copy to:

Amit, Pollak, Matalon & Ben-Naftali, Erez & Co.NYP
Tower, 17 Yitzha Sadeh Street, 19th Floor
Tel Aviv 67775
Attention: Shlomo Landress, Esq.

Facsimile: (972) 3 561-3620

If to the Company, to:

Laurus Master Fund, Ltd.
c/o Ironshore Corporate Services ltd.
P.O. Box 1234 G.T.
Queensgate House, South Church Street
Grand Cayman, Cayman Islands
Facsimile: 345-949-9877

with a copy to:

John E. Tucker, Esq.
825 Third Avenue 14th Floor
New York, NY 10022
Facsimile: 212-541-4434

or at such other address as the Company or the Purchaser may designate by written notice to the other parties hereto given in accordance herewith.

12.9 Attorneys' Fees. In the event that any suit or action is instituted to enforce any provision in this Agreement, the prevailing party in such dispute shall be entitled to recover from the losing party all reasonable and actually incurred fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including, without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

12.10 Titles and Subtitles. The titles of the sections and subsections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

12.11 Facsimile Signatures; Counterparts. This Agreement may be executed by facsimile signatures and in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

12.12 Broker's Fees, Stamp Taxes. Except as set forth on Schedule 12.12 hereof, each party hereto represents and warrants that no agent, broker, investment banker, person or firm acting on behalf of or under the authority of such party hereto is or will be entitled to any broker's or finder's fee or any other commission directly or indirectly in connection with the transactions contemplated herein. Each party hereto further agrees to indemnify each other party for any claims, losses or expenses incurred by such other party as a result of the representation in this Section 12.12 being untrue. The Company shall bear all stamp taxes required to be paid in connection with this Agreement, the Note and/or the Warrant.

12.13 Construction. Each party acknowledges that its legal counsel participated in the preparation of this Agreement and the Related Agreements and, therefore, stipulates that the rule of construction that ambiguities are to be resolved against the drafting party shall not be applied in the interpretation of this Agreement to favor any party against the other.

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IN WITNESS WHEREOF, the parties hereto have executed the SECURITIES PURCHASE AGREEMENT as of the date set forth in the first paragraph hereof.

COMPANY:

B.O.S. BETTER ON-LINE SOLUTIONS LTD.

By: _____

Name: Adiv Baruch Nehemia Kaufman

Title: CEO CFO

BOSCOM, LTD.

By: _____

Name: Adiv Baruch

Title: CEO

QUASAR TELECOM (2004) LTD.

By: _____

Name: Nehemia Kaufman

Title: Director

PURCHASER:

LAURUS MASTER FUND, LTD.

By: _____

Name: _____

Title: _____

EXHIBIT A

FORM OF CONVERTIBLE NOTE

[omitted]

EXHIBIT B

FORM OF WARRANT

[omitted]

EXHIBITS C1-C2

OPINIONS

[omitted]

EXHIBIT D

FORM OF ESCROW AGREEMENT

[omitted]

MASTER SECURITY AGREEMENT

THIS MASTER SECURITY AGREEMENT (this "**Security Agreement**") made as of the 29th day of September 2005, by and between B.O.S. Better On-Line Solutions Ltd., a company incorporated under the laws of the State of Israel, company number 52-004256-5 (the "**Pledgor**") and Laurus Master Fund a Cayman Islands company (the "**Purchaser**").

WHEREAS Pledgor and the Purchaser, have entered into a Securities Purchase Agreement dated September 29, 2005 (the "**Purchase Agreement**")

WHEREAS the Pledgor has agreed to enter into this Security Agreement in order to secure the Obligations (as defined below) of the Pledgor to the Purchaser pursuant to the Purchase Agreement, the Note, the Warrant and the Related Agreements.

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

1. The Preamble to this Security Agreement constitutes an integral part thereof. All capitalized terms used herein and not defined herein shall have the meaning assigned to such terms in the Purchase Agreement.

2. To secure the full and punctual payment and performance of all Obligations (as hereafter defined), the Pledgor hereby assigns and grants to the Purchaser the following security interests:

   (a) A first priority floating charge on all assets of the Pledgor, now owned or at any time hereafter acquired by the Pledgor, or in which the Pledgor now has or at any time in the future may acquire any right, title or interest (the "**Pledgor Collateral**"), including without limitation, all accounts, inventory, equipment, goods, promissory notes, contractual rights (subject to any assignment or pledge limitations included therein) chattel paper, investment property (excluding the Pledged Shares (as defined below) and any interests in Surf Communications Solutions Ltd. but including all other equity interests owned by the Pledgor), letter-of-credit rights, intellectual property, trademarks and tradestyles in which the Pledgor now has or hereafter may acquire any right, title or interest, all proceeds and products thereof (including, without limitation, proceeds of insurance) and all additions, accessions and substitutions thereto or therefore. A debenture with respect the said pledge is attached as **Exhibit A** hereto.

   (b) A first priority fixed charge on (i) all of its right, title and interest in all outstanding and issued shares (144,330 Ordinary Shares) of BOScom Ltd. held by the Pledgor and any additional shares of BOScom Ltd. that Pledgor may acquire, receive and/or otherwise be entitled to (the **"BOScom Pledged Shares"**); (ii) all of its right, title and interest in all outstanding and issued shares (1,000 Ordinary Shares) of Quasar Telecom (2004) Ltd. held by the Pledgor and any additional shares of Quasar Telecom (2004) Ltd. that Pledgor may acquire, receive and/or otherwise be entitled to (the **"Quasar Pledged Shares"** and together with the BOScom Pledged Shares, the "**Pledged Shares**").

A debenture with respect the Pledged Shares is attached as **Exhibit B** hereto.

3. Notwithstanding any other provision herein, any security interest granted by the Pledgor hereunder shall be subject to any restriction, if such exist, on the transfer of intellectual property imposed by or pursuant to the regulations and directives of the Ministry of Industry and Trade and the Office of the Chief Scientist applicable to the Company.

4. The term "**Obligations**" as used herein shall mean and include all debts, indebtedness, obligations and liabilities of the Pledgor to the Purchaser whether now existing or hereafter arising, direct or indirect, liquidated or unliquidated, absolute or contingent, due or not due and whether under, pursuant to or evidenced by a note, agreement, guaranty, instrument or otherwise and arising under, out of, or in connection with: (i) the Purchase Agreement, (ii) the Note, (iii) the Warrant, (iv) the Related Agreements (the Purchase Agreement, the Note, the Warrant and the Related Agreements and this Security Agreement, as each may be amended, modified, restated or supplemented from time to time, are collectively referred to as the "**Documents**"), and in connection with any documents, instruments or agreements relating to or executed in connection with the Documents or any documents, instruments or agreements referred to therein, provided however that the realization of any pledge under this Security Agreement shall at all times be limited to the then outstanding amount payable to Purchaser under the Note and to any expenses and costs related to the realization of such pledge.

5. The Pledgor hereby represents, warrants and covenants to the Purchaser that:

(a) it is a corporation validly existing and duly incorporated under the laws of the State of Israel;

(b) its legal name is as set forth in its Certificate of Incorporation as amended through the date hereof and it will provide the Purchaser thirty (30) days' prior written notice of any change in its legal name;

(c) its organizational identification number (if applicable) is as set forth above and it will provide the Purchaser thirty (30) days' prior written notice of any change in its organizational identification number;

(d) it is the lawful owner of the Pledgor Collateral and the Pledged Shares, it has the sole right to grant a security interest therein and will defend such collateral against all claims and demands of all persons and entities;

(e) it will keep the Pledgor Collateral and the Pledged Shares free and clear of all attachments, levies, taxes, liens, security interests and encumbrances of every kind and nature ("**Encumbrances**"), except for such Encumbrances which by their terms are junior to the security interests granted to the Purchaser and were created after receipt of the prior written consent of the Purchaser (which consent shall not be unreasonably withheld) or with respect to the Pledgor Collateral only, are made in the ordinary course of business;

(f) it will not, without the Purchaser' prior written consent, which consent shall not be unreasonably withheld, sell, exchange, lease, pledge or otherwise dispose of or give any other rights in the Pledgor Collateral and the Pledged Shares except, with respect to the Pledgor Collateral only and not including the Pledged Shares, for sales and/or exchanges of tangible assets that are part of the Pledgor Collateral and for leases, pledges on assets imposed in connection with the purchase or lease thereof or other dispositions in the ordinary course of business.

(g) it will insure or cause Pledgor Collateral to be insured in accordance with the provisions of the Purchase Agreement;

(h) it will upon reasonable notice and during normal business hours allow the Purchaser or the Purchaser' representatives free access to and the right of inspection of the tangible Pledgor Collateral;

(i) Pledgor hereby agrees to indemnify and save the Purchaser harmless from all loss, costs, damage, liability and/or expense, including reasonable attorneys' fees, that the Purchaser may sustain or incur to enforce payment, performance or fulfillment of any of the Obligations and/or in the enforcement of this Security Agreement or in the prosecution or defense of any action or proceeding either against the Purchaser or the Pledgor concerning any matter growing out of or in connection with this Security Agreement, and/or any of the Obligations and/or any of the Pledgor Collateral and the Pledged Shares, except to the extent caused by the Purchaser's own gross negligence or willful misconduct (as determined by a court of competent jurisdiction in a final and non-appealable decision). Notwithstanding the above, in no event shall Pledgor's aggregate liability pursuant to all sections of this Security Agreement exceed the then outstanding amount payable to Purchaser under the Note and to any expenses and costs related to the realization of such pledge.

6. The occurrence of any of the following events or conditions shall constitute an "Event of Default":

(a) Breach of any covenant, warranty or representation made or furnished to the Purchaser by the Pledgor in any of the Documents, which, after given prior notice if subject to cure, shall not be cured for a period of thirty (30) business days;

(b) the loss, theft, substantial damage, destruction to or of any material portion of the Pledgor Collateral; the sale or encumbrance of the Pledgor Collateral except as set forth under sections 5(e) or 5(f) above; the sale or encumbrance of the Pledged Shares or the making of any seizure or attachment thereof or thereon except to the extent:

(i) such loss, damage or destruction is covered by insurance proceeds;

(ii) said encumbrance is junior to the security interest provided hereunder and was registered per written prior consent provided by Purchaser, which consent shall not be unreasonably withheld; or

(iii) said seizure or attachment does not secure indebtedness in excess of $50,000 or such seizure or attachment has not been removed or otherwise released within thirty (30) business days of the creation or the assertion thereof;

(c) Pledgor is not able to pay its matured current debts, shall cease operations, dissolve, terminate its business existence, make an assignment for the benefit of creditors, suffer the appointment of a receiver, trustee, liquidator or custodian of all or any material part of the Pledgor's property, which appointment shall not have been revoked within thirty (30) business days;

(d) Pledgor shall become subject to any proceedings under any applicable bankruptcy or insolvency law, which if commenced against the Pledgor, shall not be dismissed within thirty (30) business days;

(e) The Pledgor shall repudiate, purport to revoke or fail to perform any or all of its obligations under the Note (after given no less than 15-days prior notice and after passage of applicable cure period, if any);

(f) an Event of Default shall have occurred under and as defined in the Purchase Agreement or in any Related Agreement (after passage of applicable cure period, if any);

(g) any event which materially adversely affects the value of any of the Pledged Shares and/or the Pledgor Collateral. The Pledgor shall promptly notify the Purchaser in writing of such event.

(h) any event or series of events occur(s), which, in the reasonable opinion of the Purchaser, may have a material adverse effect on the business, condition (financial or otherwise), or results of operations of the Pledgor or on the ability of the Pledgor to comply with any of its material obligations hereunder or under the Purchase Agreement, provided that Purchaser gives the Pledgor a written notice for declaring a Default Event under this subclause (h), and further provided that the Pledgor shall be entitled to provide a written response to the Purchaser within fourteen (14) days, it being agreed however, that nothing herein nor the Pledgor's written response shall limit or delay the Purchaser's right, in its discretion, to declare a Default Event hereunder and exercise the remedies available to the Purchaser hereunder, immediately after Pledgor's written response.

7. Upon the occurrence of any Event of Default and at any time thereafter, the Purchaser may declare all Obligations immediately due and payable and the Purchaser shall have the remedies of a secured party provided in this Agreement and under any applicable law. Any proceeds of any foreclosures on any of the Pledgor Collateral or the Pledged Shares shall be first applied by the Purchaser to the payment of all expenses in connection with the sale of the Pledgor Collateral or the Pledged Shares, including reasonable attorneys' fees and other legal expenses and disbursements and the reasonable expense of retaking, holding, preparing for sale, selling, and the like, and any balance of such proceeds shall be applied by the Purchaser toward the payment of any outstanding Obligations in such order of application as the Purchaser may elect, and the Pledgor shall be liable for any deficiency.

8. If the Pledgor defaults in the performance or fulfillment of any of the terms, conditions, promises, covenants, provisions or warranties to be performed or fulfilled under or pursuant to this Security Agreement, the Purchaser may, at its option without waiving its right to enforce this Security Agreement according to its terms, immediately or at any time thereafter but subject to notice to the Pledgor, perform or fulfill the same or cause the performance or fulfillment of the same for Pledgor's account and at Pledgor's cost and expense, and the cost and expense thereof (including reasonable attorneys' fees) shall be added to the Obligations and shall be payable on demand with interest thereon at the highest rate permitted by law.

9. No delay or failure on the Purchaser's part in exercising any right, privilege or option hereunder shall operate as a waiver of such or of any other right, privilege, remedy or option, and no waiver whatever shall be valid unless in writing, signed by the Purchaser and then only to the extent therein set forth, and no waiver by the Purchaser of any default shall operate as a waiver of any other default or of the same default on a future occasion. The Purchaser's books and records containing entries with respect to the Obligations shall be admissible in evidence in any action or proceeding, and unless Pledgor presents records or other evidence to the contrary, shall be binding upon the Pledgor for the purpose of establishing the items therein set forth and shall constitute prima facie proof thereof. The Purchaser shall have the right to enforce any one or more of the remedies available to the Purchaser, successively, alternately or concurrently.

10. The Pledgor shall cooperate with the Purchaser and execute all documents as may be reasonably necessary to register the Pledged Shares and the Pledgor Collateral with the Israeli Registrar of Companies and/or any other Registrar, including, inter alia, the document(s) in the form annexed hereto as **Exhibit C** hereto, and shall bear all stamp taxes with respect to such registrations. The Pledgor undertakes to register such registrations with the Israeli Registrar of Companies within 3 business days in Israel. The Pledgor shall pay upon demand, all reasonable expenses, including reasonable attorney's fees, of enforcing the Purchaser's rights and remedies hereunder in the event of a breach by the Pledgor as well as with respect to expenses resulting from exercising the pledge of any of the Pledged Shares, and/or the Pledgor Collateral.

11. This Security Agreement shall terminate upon full payment of all the Obligations, including the Note, and the Purchaser undertakes to promptly sign any and all forms required in order to remove any and all security interests granted by Pledgor hereunder.

12. This Security Agreement shall be governed by and construed in accordance with the laws of the State of Israel and cannot be terminated orally. Notwithstanding the above, if legally possible, the Purchaser will be entitled to initiate any legal action according to the terms of this Agreement and elect to realize any or all of the Pledged Shares and/or the Pledgor Collateral, pursuant to the laws of the State of New York. In such event the competent courts of New York will have the exclusive jurisdiction and this Security Agreement shall be governed by and construed with the laws of the State of New York.

13. All of the rights, remedies, options, privileges and elections given to the Purchaser hereunder shall inure to the benefit of the Purchaser's successors and assigns. The term "Purchaser" as herein used shall include the Purchaser's company, any parent of the Purchaser's company, any of the Purchaser's subsidiaries and any co-subsidiaries of The Purchaser' parent, whether now existing or hereafter created or acquired, and all of the terms, conditions, promises, covenants, provisions and warranties of this Security Agreement shall inure to the benefit of and shall bind the representatives, successors and assigns of each of us and them.

14. All notices hereunder shall be sufficiently given if mailed or delivered to the addresses set forth below.

IN WITNESS WHEREOF this Master Security Agreement has been executed by the parties hereto as of the date first above written.

B.O.S. Better On-Line Solutions Ltd.

Beit Rabin, 100 BOS Road, Teradyon
Industrial Park, Misgav 20179, Israel

Attention: Chief Financial Officer
Facsimile: (972) 4 999-0334

By: Adiv Baruch

Title: Chief Executive Officer

Date: September 29, 2005

By: Nehemia Kaufman

Title: Chief Financial Officer

Date: September 29, 2005

Laurus Master Fund Ltd.

By:

Title:

Date: September 29, 2005

Exhibit 4.11

AGREEMENT

This Agreement (the "**Agreement**") is made as of September 29, 2005, by and among the persons and entities whose names and addresses are set out in **Schedule A** hereto (collectively the "**Sellers**") and B.O.S Better Online Solutions Ltd., an Israeli company No. 520042565, having its address at Beit Rabin, Teradyon Industrial Park, Misgav 20179, Israel, or an affiliate thereof (the "**Purchaser**").

W I T N E S S E T H :

WHEREAS, the Sellers, the Purchaser and Odem Electronic Technologies 1992 Ltd. (the **"Company**") entered into a Share Purchase Agreement dated November 2, 2004 (the "**SPA**"), pursuant to which Purchaser had acquired from Sellers 137 ordinary shares of the Company, nominal value NIS 0.1 each (the "**Ordinary Shares**"); and

WHEREAS, pursuant to Section 8 of the SPA, Purchaser has received an option to require the Purchaser to purchase (the "**Put Option**") all of the remaining 64 Ordinary Shares (the "**Option Shares**") held by Sellers; and

WHEREAS, the parties have mutually decided to accelerate the Put Option and to exercise it outside the Option Period (as such term is defined in Section 8.1 of the SPA); and

WHEREAS, the Purchaser wish to acquire the Option Shares from the Sellers, based on a Company Valuation (as defined in Section 8.2(a)(iii) of the SPA) of US$6,000,000, and the Sellers agree to transfer the Option Shares to the Purchaser at such Company Valuation, in accordance with the terms of this Agreement; and

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth herein, the parties hereby agree as follows:

1. Sale and Purchase of Shares.

1.1 General. Each Seller, severally and not jointly, listed in **Schedule A** shall sell, at the Closing, to Purchaser and the Purchaser shall purchase, at the Closing, all rights, title and interest in each Seller's Option Shares set forth opposite such Seller's name in **Schedule A**, on the terms of this Agreement, free from all claims, liens, charges, pledges, security interests, encumbrances and third party rights of any kind other than as currently existing under the current Articles of Association of the Company (the "**Security Interests**"), together with all rights, preferences and privileges attaching to, or conferred by, them.

1.2 The Consideration.

1.2.A On the Closing Date (defined below), the Purchaser shall, in consideration for the purchase from each Seller of the Option Shares: (i) issue to the relevant Seller ordinary shares nominal value NIS 4.00 each, of the Purchaser, as set forth in **Schedule A** (the"**Consideration Shares**"), reflecting a share price of $3.08 per each Consideration Share; and (ii) pay to the relevant Seller cash in the amount set forth in **Schedule A** hereto (the **"Cash Payment**"). The Cash Payment shall be paid to Sellers in two (2) equal installments, each in the amount set forth in **Schedule A** hereto, as follows: (i) the first of which (the "**First Cash Installment**") will be paid at the Closing; and (ii) the second of which (the "**Second Cash installment**") will be paid on, or, at the election of the Purchaser, at any time prior to, January 1, 2006.

1.2.B The Purchaser shall transfer the Cash Payment to the Sellers by wire transfer in immediately available funds to the bank account of the Sellers, which details are listed below. Such payment shall be made in U.S. dollars:

Bank Leumi Ltd.
Tel Aviv Arnia 23 Milenium Building. Branch 686
Account No.: 12958/07
Under the name of Sara and Jacob Neuhof

1.3 It is hereby agreed by the parties that in the event that the Second Cash Installment is not received by Sellers by January 1st, 2006, the Purchaser shall transfer to the Sellers sixteen (16) shares of the Company.

2. The Closing of Share Exchange.

2.1 The Closing. The closing of the sale and purchase of the Option Shares shall take place at a closing (the "**Closing**"), which will be held at the offices of Amit, Pollak, Matalon & Ben-Naftali, Erez & Co., Advocates and Notary, NYP Tower, 19th Floor, 17 Yitzhak Sadeh St., Tel-Aviv 67775 on September 30, 2005 or on such other date, time and place as the Purchaser and the Sellers shall mutually agree (the **"Closing Date**").

2.2 Transactions at Closing. At the Closing, the following transactions shall occur, which transactions shall be deemed to take place simultaneously and no transaction shall be deemed to have been completed or any document delivered until all such transactions have been completed and all required documents delivered:

2.2.1 The Sellers shall deliver, or procure the delivery, to the Purchaser of the following documents:

a. Duly executed share transfer deeds with respect to the transfer of all the Option Shares to the Purchaser;.

b. A validly executed share certificate covering all the Option Shares, issued in the name of the Purchaser;

c. Certificates of each of the Sellers dated as of the Closing Date, confirming that the representations and warranties made in Section 3 and 5 of the SPA with respect to the Sold Shares (as such term is defined in the SPA) are true and correct in all material respects with respect to the Option Shares, on and as of the Closing Date, as though made on and as of the Closing Date.

d. A termination notice signed by Mr. Jacob Neuhof, terminating his employment agreement with the Company, dated July 31, 2000, as amended on November 16, 2004, effective as of the Closing Date, in the form attached hereto as **Exhibit 2.2.1(d)**.

e. A duly executed consulting agreement, in the form attached as **Exhibit 2.2.1(e)** hereto.

f. A waiver executed by Telsys Ltd., waiving any and all rights it may have with respect to the transfer of the Option Shares at the Closing, in the form attached hereto as **Exhibit 2.2.1(f).**

2.2.2 At the Closing, the Purchaser shall deliver to the Sellers (i) validly executed share certificates covering the Consideration Shares, issued in the names of the applicable Sellers; (ii) a duly executed consulting agreement, in the form attached as Exhibit 2.2.1(e) hereto; and (iii) a signed confirmation of the termination notice delivered by Jacob Neuhof specified in Section 2.2.1(d).

2.2.3 In addition, at the Closing, the Purchaser shall provide the Seller with satisfactory evidence of the transfer by Purchaser to the Sellers of the First Cash Installment.

3. Indemnification and Remedies

Sellers'undertaking pursuant to Section 12 of the SPA shall apply, *mutatis mutandis*, with respect to the representation and warranties made in Section 3 and 5 of the SPA as are applicable to theOption Shares..

4. Miscellaneous

4.1 Further Assurances. Each of the parties hereto shall perform such further acts and execute such further documents as may reasonably be necessary to carry out and give full effect to the provisions of this Agreement and the intention of the parties as reflected hereby.

4.2 Governing Law; Jurisdiction. This Agreement shall be governed by and construed according to the laws of the State of Israel, without regard to the conflict of laws provisions thereof. Any dispute arising under or in relation to this Agreement shall be resolved in the competent court of Tel Aviv-Jaffa district only, and each of the parties hereby submits irrevocably to the exclusive jurisdiction of such court.

4.3 Expenses. Each of the parties hereto shall be responsible for its own costs and expenses (including legal fees) in connection with this Agreement and any other documents or actions relating to the transactions contemplated by this Agreement. All stamp duty and filing fees payable in respect of this Agreement or the transfer of shares as contemplated hereby shall be borne equally by the Sellers, on the one hand, and the Purchaser, on the other.

4.4 Successors and Assigns; Assignment. Except as otherwise expressly limited herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors, and administrators of the parties hereto. None of the rights, privileges, or obligations set forth in, arising under, or created by this Agreement may be assigned or transferred without the prior consent in writing of each party to this Agreement.

4.5 Entire Agreement. This Agreement and the Schedules and Exhibits attached hereto constitute the full and entire understanding and agreement between the parties with regard to the subject matters hereof and thereof.

4.6 Notices, etc. All notices and other communications required or permitted hereunder to be given to a party to this Agreement shall be in writing and shall be faxed or mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand or by messenger, addressed to such party's address as set forth below or in **Schedule A**, as the case may be, or at such other address as the party shall have furnished to each other party in writing in accordance with this provision:

if to the Purchaser:

B.O.S. Better On-Line Solutions Ltd.
Beit Rabin, Teradyon Industrial Park,
Misgav 20179, Israel

Attention: Chief Financial Officer
Facsimile: (972) 4 999-0334

with a copy to:

Amit, Pollak, Matalon & Ben-Naftali,
Erez & Co.NYP Tower, 17 Yitzhak
Sadeh Street, 19th Floor
Tel Aviv 67775
Attention: Shlomo Landress, Adv.

Facsimile: (972) 3 561-3620

if to a Seller: to its address, as set forth on **Schedule A**;

Any notice sent in accordance with this Section 4.6 shall be effective (i) if mailed, three (3) business days after mailing, (ii) if sent by messenger, upon delivery, and (iii) if sent via facsimile, upon transmission and electronic confirmation of receipt or (if transmitted and received on a non-business day) on the first business day following transmission and electronic confirmation of receipt (provided, however, that any notice of change of address shall only be valid upon receipt).

4.7 Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to any party upon any breach or default under this Agreement, shall be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement or by law or otherwise afforded to any of the parties, shall be cumulative and not alternative.

4.8 Severability. If any provision of this Agreement is held by a court of competent jurisdiction to be unenforceable under applicable law, then such provision shall be excluded from this Agreement and the remainder of this Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms; provided, however, that in such event this Agreement shall be interpreted so as to give effect, to the greatest extent consistent with and permitted by applicable law, to the meaning and intention of the excluded provision as determined by such court of competent jurisdiction.

4.9 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and enforceable against the parties actually executing such counterpart, and all of which together shall constitute one and the same instrument.

[the remainder of this page is intentionally left blank]

IN WITNESS WHEREOF the parties have signed this Agreement as of the date first hereinabove set forth.

PURCHASER:	SELLERS:
B.O.S. BETTER ONLINE SOLUTIONS LTD.	**JACOB NEUHOF**
By:	
Name: Adiv Baruch Nehemia Kaufman Title: CEO CFO	**SARA NEUHOF**

SCHEDULE A

Name and Address of Seller	No. of Sold Shares	% of Share Capital (fully diluted)	Consideration		
			BOS Shares	Cash	
				1st Installment	2nd Installment
Jacob Neuhof 5 Itzhak Birger St Rishon Lezion 75260	32	11.94%	116,301	$179,104.50	$179,104.50
Sara Neuhof 5 Itzhak Birger St., Rishon Lezion 75260	32	11.94%	116,302	$179,104.50	$179,104.50
Total	64	23.88%	232,603	$716,418.00	

Exhibit 4.13

AGREEMENT

This Agreement (the "**Agreement**") is made as of October 31, 2005, by and among Telsys Ltd., an Israeli Company No. 520038100, having its address at Kiryat Atidim 3, Tel-Aviv (the "**Seller**") and B.O.S Better Online Solutions Ltd., an Israeli company No. 520042565, having its address at Beit Rabin, Teradyon Industrial Park, Misgav 20179, Israel, or an affiliate thereof (the "**Purchaser**").

W I T N E S S E T H:

WHEREAS, the Seller, the Purchaser and Odem Electronic Technologies 1992 Ltd. (the "**Company**") entered into a Share Purchase Agreement dated November 3, 2004 (the "**SPA**"), pursuant to which Purchaser had acquired from Seller 34 ordinary shares of the Company, nominal value NIS 0.1 each (the "**Ordinary Shares**"); and

WHEREAS, pursuant to Section 6 of the SPA, Seller has received an option to require the Purchaser to purchase (the "**Put Option**") all of the remaining 33 Ordinary Shares (the "**Option Shares**") held by Seller, reflecting 12.31%, as of Closing (as defined below), of the issued and outstanding shares in the Company; and

WHEREAS, On September 1, 2005, Seller has served notice to Purchaser regarding its election to exercise the Put Option and sell the Option Shares to Purchaser on November 1, 2005, in accordance with the terms of this Agreement; and

WHEREAS, Purchaser agrees to acquire the Option Shares from the Seller, as set forth below;

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth herein, the parties hereby agree as follows:

1. Sale and Purchase of Shares.

1.1 General. Seller shall sell, at the Closing, to Purchaser and the Purchaser shall purchase, at the Closing, all rights, title and interest in Seller's Option Shares on the terms of this Agreement, free from all claims, liens, charges, pledges, security interests, encumbrances and third party rights of any kind (the "**Security Interests**"), together with all rights, preferences and privileges attaching to, or conferred by, them.

1.2 The Consideration.

1.2.A In consideration for the purchase of the Option Shares, and subject to the provision by Seller of the documents listed on Section 2 below, Purchaser shall pay to Seller, on the Closing Date (as defined below), cash in the amount of Five Hundred Fifty Four Thousand One Hundred and Five US Dollars ($554,105) (the "**Consideration**").

1.2.B The Purchaser shall transfer the Consideration to Seller by wire transfer in immediately available funds to the bank account of the Seller, which details are listed below. Such payment shall be made in U.S. dollars:

Mercantile Discount Bank Ltd.
Ramat-Gan Branch (663)
54 Jabotinski St.
Account No. 10510

2. The Closing of Share Exchange.

2.1 The Closing. The closing of the sale and purchase of the Option Shares shall take place at a closing (the **"Closing**"), which will be held at the offices of Amit, Pollak, Matalon & Ben-Naftali, Erez & Co., Advocates and Notary, NYP Tower, 19th Floor, 17 Yitzhak Sadeh St., Tel-Aviv 67775 on November 1, 2005 or on such other date, time and place as the Purchaser and the Seller shall mutually agree (the "**Closing Date**").

2.2 Transactions at Closing. At the Closing, the Seller shall deliver, or procure the delivery, to the Purchaser of the following documents:

a. Duly executed share transfer deed with respect to the transfer of all the Option Shares to the Purchaser;

b. A true and correct copy of resolutions of the Board of Directors of Seller, approving the transfer of the Option Shares to Purchaser;

c. A certificate of Telsys dated as of the Closing Date, confirming that the representations and warranties made in Section 3 of the SPA with respect to the Sold Shares (as such term is defined in the SPA) are true and correct in all material respects with respect to the Option Shares, on and as of the Closing Date, as though made on and as of the Closing Date;

d. A resignation letter signed by Mr. Yechiel Birnbaum, resigning from the Board of Directors of the Company, effective as of the Closing Date;

3. Indemnification and Remedies

Seller's undertaking pursuant to Section 11 of the SPA shall apply, *mutatis mutandis*, with respect to the representations and warranties made in Section 3 of the SPA as applicable to theOption Shares.

4. Miscellaneous

4.1 Further Assurances. Each of the parties hereto shall perform such further acts and execute such further documents as may reasonably be necessary to carry out and give full effect to the provisions of this Agreement and the intention of the parties as reflected hereby.

4.2 Governing Law; Jurisdiction. This Agreement shall be governed by and construed according to the laws of the State of Israel, without regard to the conflict of laws provisions thereof. Any dispute arising under or in relation to this Agreement shall be resolved in the competent court of Tel Aviv-Jaffa district only, and each of the parties hereby submits irrevocably to the exclusive jurisdiction of such court.

4.3 Expenses. Each of the parties hereto shall be responsible for its own costs and expenses (including legal fees) in connection with this Agreement and any other documents or actions relating to the transactions contemplated by this Agreement. All stamp duty and filing fees payable in respect of this Agreement or the transfer of shares as contemplated hereby shall be borne equally by the Seller, on the one hand, and the Purchaser, on the other.

4.4 Successors and Assigns; Assignment. Except as otherwise expressly limited herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors, and administrators of the parties hereto. None of the rights, privileges, or obligations set forth in, arising under, or created by this Agreement may be assigned or transferred without the prior consent in writing of each party to this Agreement.

4.5 Entire Agreement. This Agreement and the Schedules and Exhibits attached hereto constitute the full and entire understanding and agreement between the parties with regard to the subject matters hereof and thereof.

4.6 Notices, etc. All notices and other communications required or permitted hereunder to be given to a party to this Agreement shall be in writing and shall be faxed or mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand or by messenger, addressed to such party's address as set forth below, or at such other address as the party shall have furnished to each other party in writing in accordance with this provision:

if to the Purchaser:

B.O.S. Better On-Line Solutions Ltd.
Beit Rabin, Teradyon Industrial Park,
Misgav 20179, Israel

Attention: Chief Financial Officer
Facsimile: (972) 4 999-0334

with a copy to:

Amit, Pollak, Matalon & Ben-Naftali,
Erez & Co.NYP Tower, 17 Yitzhak Sadeh Street, 19th Floor
Tel Aviv 67775
Attention: Shlomo Landress, Adv.

Facsimile: (972) 3 561-3620

if to a Seller: Telsys Ltd.

Atidim Industrial Park, Blgd. 3,
Dvora Hanevia St., Neve Sharet,
Tel-Aviv 61431, Israel

Attention: Chief Financial Officer
Facsimile: (972) 3 6497407

Any notice sent in accordance with this Section 4.6 shall be effective (i) if mailed, three (3) business days after mailing, (ii) if sent by messenger, upon delivery, and (iii) if sent via facsimile, upon transmission and electronic confirmation of receipt or (if transmitted and received on a non-business day) on the first business day following transmission and electronic confirmation of receipt (provided, however, that any notice of change of address shall only be valid upon receipt).

4.7 Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to any party upon any breach or default under this Agreement, shall be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement or by law or otherwise afforded to any of the parties, shall be cumulative and not alternative.

4.8 Severability. If any provision of this Agreement is held by a court of competent jurisdiction to be unenforceable under applicable law, then such provision shall be excluded from this Agreement and the remainder of this Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms; provided, however, that in such event this Agreement shall be interpreted so as to give effect, to the greatest extent consistent with and permitted by applicable law, to the meaning and intention of the excluded provision as determined by such court of competent jurisdiction.

4.9 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and enforceable against the parties actually executing such counterpart, and all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF the parties have signed this Agreement as of the date first hereinabove set forth.

PURCHASER:	SELLERS:
B.O.S. BETTER ONLINE SOLUTIONS LTD.	**TELSYS LTD.**
By: _____	Name: _____
Name: Adiv Baruch Nehemia Kaufman Title: CEO CFO	Title: _____

EXHIBIT 4.15

ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement (this "**Agreement**") is entered into and effective on July 18, 2005 (the "**Execution Date**"), by and among **BOSCom Ltd**. from Beit Rabin, Teradyon Industrial Park, Misgav ("**BOSCom**"), **Consist Technologies Ltd.** from 2 Granit St. Petah Tikva ("**Consist Ltd.**") and **Consist International Inc.** from 10 East 53rd St., New York NY 10022 ("**Consist International**"). Consist Ltd. And Consist International shall be referred to, collectively, as **"Consist**".

WHEREAS BOSCom desires to sell to Consist, and Consist desires to purchase from BOSCom, the Purchased Assets (as defined in this Agreement), on the terms and conditions, and for the consideration, set forth herein.

NOW, THEREFORE, in consideration of the foregoing and the mutual representations, warranties, and conditions set forth in this Agreement, Consist and BOSCom hereby agree as follows:

SECTION 1 – DEFINITIONS

The following terms shall have the meaning as detailed below:

1.1. "ACCOUNTS RECEIVABLE" means all accounts receivable of BOSCom relating to the rights of BOSCom to receive payment for Products to be sold or services to be rendered starting from the Cut-Off date, including for the sale, distribution, license, support or maintenance of, or the provision of consulting services (all starting from the Cut-Off Date onwards) with respect to, the Product.

1.2. "ASSETS" means the assets set forth on Schedule 1.2 hereto which include the following: (a) the source code and the object code for any and all existing versions of the Product, whether now in existence or in the development stage, whether recorded on paper, magnetic media or other electronic device; (b) all intellectual property rights in the Product including know-how, technology, the PrintBOS trade mark and copyrights; (c) the Documentation; (d) the Contracts; (e) the Physical Assets including all assignable rights under manufacturers' and vendors' warranties and transferable software licenses; (f) the Proprietary Rights; (g) Users Lists; (h) all goodwill associated with the Product.

1.3. "CONTRACTS" means all Customer Agreements, agency and distribution agreements, supplier agreements, service agreements, independent contractor agreements and other agreements (including all material related documentation) between BOSCom and any third party pertaining to the Product, as listed in Schedule 1.3 hereof.

1.4. "CLOSING" means the closing of the transactions contemplated by this Agreement.

1.5. "CLOSING DATE" is as set in Section 9 hereof.

1.6. "CONFIDENTIAL INFORMATION" has the meaning set forth in Section 7.3.

1.7. "CUSTOMER AGREEMENTS" means any and all licenses, leases, distribution and maintenance agreements whereby BOSCom has authorized any third party to use or distribute the Product as of the Cut-Off Date.

1.8. "CUT-OFF DATE" – means July 31st 2005.

1.9. "DOCUMENTATION" means all documentation in BOSCom's possession, or control pertaining to the Product, including, user documentation for the Product, any marketing materials, the Product-related contents of Web pages, product specifications, flow charts, diagrams, algorithms, other design documentation, training manuals, bug lists, and any source code versions of the same, records of customer service issues, plans for future development of the Product, or other matters related to the use, operation, development of the Product.

1.10. "PHYSICAL ASSETS" means the computer and hardware forming the workstations and the development environment of the Product's developing team in Israel detailed in Schedule 1.2 attached hereto and all related rights, manufacturer or distributor warranties, maintenance and service agreements, and the transferable software licenses.

1.11. PROPRIETARY RIGHTS" means the PrintBOS trademark, the patents (if any), all registered and unregistered copyrights in or to the Product and the Documentation and all applications for registration thereof, and all know-how, trade secrets, business information, and other intellectual and industrial property rights in the Product or the Documentation.

1.12. "PRODUCT" means all computer program(s), data compilation(s) and/or other intellectual property of intangible nature for the "PrintBOS" product and all its components, as more fully described in Schedule 1.12 attached hereto, including all codes relating to it.

1.13. "PURCHASED ASSETS" means the Product and the Assets.

1.14. "USER LISTS" means BOSCom's user lists, customer lists, prospective customers lists, mailing lists, contact lists, and the like relating to the Product in any media.

SECTION 2 – PURCHASE AND SALE

2.1 On the terms and conditions of this Agreement, BOSCom shall sell and Consist shall purchase at the Closing Date, the Purchased Assets, all in good working, free of any charge, lien, attachment or third party rights and claims (except for any liabilities and/or commitments assumed by Consist hereunder).

2.2 If any of the Purchased Assets shall not be assignable, or shall only be assignable with the approval of a third party ("**Third Party Approval**"), BOSCom shall use commercially reasonable efforts, in co-operation with Consist, to secure any Third Party Approval required in connection with the assignment of such Purchased Assets.

2.3 Where any Purchased Asset is not assignable or any Third Party Approval in respect of such Purchased Asset cannot be obtained, then to the extent permissible under the applicable law or contract, BOSCom shall hold all rights or entitlements that BOSCom has in such Purchased Asset in trust for the exclusive benefit of Consist. In such event the parties shall agree on the arrangements for the operation of said assets and the payments between the parties, so as to comply, as closely as possible, with the purpose of this Agreement.

2.4 Subject to the approval of the Office of the Chief Scientist (the "**OCS**"), it is hereby agreed that at the Closing: (i) Consist International shall purchase all the Assets (except for the Physical Assets) and the Proprietary Rights in the Product, and all said Proprietary Rights and full title in the Product and the Assets (except for the Physical Assets) shall be transferred and assigned to Consist International; and (ii) Consist Ltd. shall purchase all the Physical Assets; *provided, however*, that in the event that the OCS approval is not obtained by BOSCom to the sale to Consist International prior to the Closing Date, or that the OCS shall require of Consist undertakings with respect to the Proprietary Rights acquired hereunder or changes in the transaction structure (on Consist's part), then (and only then) Consist shall have the right to change said structure and comply with OCS's conditions or to terminate this Agreement, in accordance with the provisions of Section 10 below. Each party undertakes to promptly pay any payments to the OCS that, pursuant to an arrangement with the OCS in connection herewith, such party agreed to pay. Without limitation to the above, in the event the arrangement with the OCS mandates payments of royalties to the OCS from future revenues after the Cut-Off Date, then Consist shall bear all such royalty payments, except that if such royalties exceed US$30,000, Consist shall have the right to terminate the Agreement in accordance with the provisions of Section 10 below.

SECTION 3 – ASSUMPTION OF LIABILITIES

3.1 As of the Cut- Off Date, Consist shall assume all responsibilities and liabilities relating to the Assets and the Product, towards customers, agents and distributors transferred to Consist. Such liabilities shall include, without limitation, the provision of goods and services, sale, distribution, license, support, maintenance or consulting services with respect to which Consist had assumed the Accounts Receivable.

SECTION 4 – PURCHASE PRICE

4.1 **Purchase Price**

The purchase price payable by Consist to BOSCom for the Purchased Assets will be US$500,000 (the "**Fixed Purchase Price**") and a contingent part of the revenues generated by the Assets as follows and paid by Consist Ltd.:

(1) if the Purchased Assets generate over US$ 1,000,000 in Revenues during the first full twelve calendar months following the Cut-Off Date – 10% of the Revenues exceeding US$ 1,000,000 for said period.

(2) if the Purchased Assets generate over US$ 1,000,000 in Revenues during the second full twelve calendar months following the Cut-Off Date – 8% of the Revenues exceeding US$ 1,000,000 for said period.

(3) if the Purchased Assets generate over US$ 1,000,000 in Revenues during the third full twelve calendar months following the Cut-Off Date – 6% of the Revenues exceeding US$ 1,000,000 for said period.

(the "**Contingent Purchase Price**").

Consist shall provide BOS with un-audited reports every 6 months and annual reports (the "**Reports**"), in each case certified by an independent accountant, with respect to the Revenues (as defined below), to be delivered to BOSCom no later than sixty (60) days after the end of each 6 months period and year.

"**Revenues**"for the purpose of this Agreement shall mean all amounts actually received by Consist and/or its subsidiaries, affiliates or transferees from customers, distributors of any kind, agents and end-users from the sale, license, market and distribution of the Purchased Assets, excluding V.A.T or any similar sales taxes and also excluding any commissions to agents or distributors but including any fees for customization, implementation and provision of services with respect to the Purchased Assets. If any of Consist's subsidiaries or affiliates shall serve as distributors of the Product and related services, the commissions payable to such subsidiary or affiliate (not exceeding 50% of the end-user or customer price), and for the avoidance of doubt, any fees for customization, implementation and provision of services with respect to the Purchased Assets payable to such subsidiary or affiliate are not part of the Revenues.

4.2 **Payment of the Purchase Price**

Within 3 business days from execution of this Agreement, Consist shall pay to an escrow account to be set by Amit, Pollak, Matalon & Ben-Naftali, Erez &Co., as escrow agent, an advance payment on account of the Fixed Purchase Price in the amount of $200,000 (the "**Escrow Amount**"). For this purpose, the parties shall enter into the Escrow Agreement attached as Schedule 4.2 hereto (the "**Escrow Agreement**"). The Escrow Amount shall be transferred to BOSCom by the Escrow Agent on August 31, 2005, unless Consist shall have issued to the Escrow Agent a Return Notice (as defined in the Escrow Agreement) as a result of an OCS Event (as defined below), all in accordance with the provisions of the Escrow Agreement. The remainder of the Fixed Purchase Price ($300,000) shall be paid to BOSCom on the Closing Date. All payments hereunder shall be made in US Dollars by wire transfer to the bank account the details of which shall be provided to Consist prior to Closing. The Contingent Purchase Price, if the terms for its payment, according to section 4.1 above, are satisfied, shall be paid to BOSCom by Consist within ninety (90) days after the end of each relevant 12-months period.

4.3 **Liquidated Damages**

The parties agree that in the event Consist does not provide BOSCom with the Reports in a timely manner or does not pay the applicable Contingent Purchase Price, BOSCom shall be entitled to receive liquidated damages in the amount of $66,000 for said breach relating to the relevant 12-months period. Nothing herein shall be deemed to derogate from BOSCom's right to any other relief or remedy pursuant to this Agreement and applicable law.

4.4 **Allocation of Purchase Price**

The Purchase Price shall be allocated among the Purchased Assets in the manner set out in Schedule 4.4 attached hereto. BOSCom and Consist agree that the values so attributed to the Purchased Assets are the respective fair market values thereof and comply with acceptable accounting rules.

SECTION 5 – EMPLOYEES

(1) BOSCom represents and warrants to Consist that Schedule 5.1 attached hereto states the name of each employee of BOSCom relating to the Assets and the Product and the terms of his or her employment (including commencement date) (the "**Employees**").

(2) Consist shall provide BOSCom, within five (5) days after the execution of this Agreement, with a list specifying the Employees whom it is interested in employing. Of such list, those employees who are interested in transferring to work for Consist are referred to herein as the "**Transferred Employees**". On the Closing Date, (i) BOSCom shall transfer to Consist ownership in the Transferred Employees' benefit plans, and (ii) BOSCom shall pay to Consist the following amounts relating to the Transferred Employees (x) any shortfall in such benefit funds as of the Closing Date; (y) an amount equal to the redemption of unused vacation days accumulated to the benefit of the Transferred Employees (except for Gaby Mizrachi) up to the Closing Date; and (y) commission payments to which the Transferred Employees are entitled as of the Closing Date, all as set forth in Schedule 5.2 hereto. As of the Closing Date, Consist shall assume the employment of the Transferred Employees, to be employed by it substantially on terms no worse than the terms enjoyed by such employees prior to the Closing Date (including with respect to their accumulated tenure, vacation days, social benefits, advance notice payment and entitlement to severance pay – to be deemed as of the date they commenced employment with BOSCom). Without limitation to the above, as of the Closing Date, Consist shall be exclusively responsible for any and all payments to the Transferred Employees and shall fully indemnify and hold BOSCom harmless, upon BOSCom's first demand, from and against any demand or claim brought against BOSCom by a Transferred Employee with respect to its employment following the Closing Date. Subject to the above BOSCom transfers and payments, BOSCom shall be liable and shall pay the Transferred Employees any payments due to them on the Closing Date as continuing employees, with respect to the period prior to the Closing Date (including payment of salary for the month ending on the Closing Date). BOSCom shall fully indemnify and hold Consist harmless, upon Consist's first demand, from and against any demand or claim brought against Consist by a Transferred Employee with respect to its employment by BOSCom prior to the closing Date.

(3) BOSCom shall use reasonable efforts so that the options to purchase ordinary shares of B.O.S. Better Online Solutions Ltd. ("BOS") previously granted to the Transferred Employees listed on Schedule 5.3 hereto pursuant to the BOS' Stock Option Plan, shall continue to be outstanding following closing of the transactions contemplated hereby. Such options shall remain governed, *mutates mutandis*, by the terms and conditions of the BOS' Stock Option Plan and of the Stock Option Agreement applicable to the respective employee, including with respect to vesting schedule and expiration, for which purpose employment with Consist shall be deemed to be employment with BOS. Consist recognizes that the above is at the exclusive discretion of the Board of Directors of BOS. Until the Closing, BOSCom shall notify each of the Transferred Employees of their rights applicable to their options (if any), resulting from their transfer of employment to Consist. Consist shall bear no liability towards BOSCom or the Transferred Employees with regards to said options.

(4) BOSCom shall notify the Transferred Employees of the transfer of the Assets to Consist and encourage them to be employed by Consist.

(5) Consist shall offer Transferred Employees employment, effective as of the Closing Date and conditional on the completion of the transactions contemplated by this Agreement on terms and conditions agreed to between Consist and said Transferred Employees (and in accordance with subsection (2) above).

(6) BOSCom will not take any action that is intended to interfere with Consist's effort to hire any of the Transferred Employees.

(7) It is hereby clarified and agreed that BOSCom shall not be responsible for the actual transfer of such Transferred Employees to Consist or their continued employment with Consist.

(8) Taking into account that the transfer of the Purchased Assets to Consist intended to take place on the Cut-Off Date is contingent upon the OCS approval, the parties shall cooperate in performing the necessary accounting and adjustments required in order to achieve an economic result as close as possible to the result as if the transfer occurs as of the Cut-Off Date. For this purpose, during the period starting from the Cut-Off date and ending on the Closing Date (the "**Transfer Period**"), BOSCom shall outsource to Consist the Transferred Employees. Consist shall reimburse BOSCom, in cash, for the full "Employer's Cost" of the salaries and benefits payable by BOSCom to the Transferred Employees during the Transfer Period as detailed in Schedule 5.7 hereto, no later then the date in which such salaries and benefits are to be paid, plus V.A.T. and against a tax receipt.

(9) BOSCom and Consist shall cooperate with each other in all respects relating to any actions to be taken pursuant to this section 5 and, subject to applicable laws, BOSCom shall provide Consist, at Consist's request, with any information or copies of any personnel records relating to the Transferred Employees.

SECTION 6 – REPRESENTATIONS AND WARRANTIES

6.1 **Representations and Warranties of BOSCom**

BOSCom represents and warrants to Consist as stated below and acknowledges that Consist is relying on the accuracy of each such representation and warranty in entering into this Agreement and completing the transactions contemplated by this Agreement.

(1) ***Authorization of Purchase.***The execution and delivery of this Agreement and the consummation of the transactions set forth in this Agreement have been duly and validly authorized by BOSCom and no other corporate proceedings or approvals on the part of BOSCom are necessary to authorize this Agreement.

(2) ***Enforceability.*** This Agreement has been duly and validly executed and delivered by BOSCom and is a valid and legally binding obligation of BOSCom enforceable against BOSCom in accordance with its terms.

(3) ***Title to Assets.*** BOSCom is the owner of and has good and marketable title to all of the Purchased Assets, free and clear of all encumbrances or rights and claims of any third party (except for the Office of Chief Scientist).

(4) ***Rights in Product.*** The Product was developed by BOS and/or BOSCom and to the best of its knowledge: (i) all intellectual property rights in the Product are fully and legally owned by BOSCom; (ii) no claims were made or threatened in relation to the Product and the Assets; and (iii) the Product does not breach or infringe on any third party's rights.

(5) ***Contractual and Required Approvals.*** To the best of BOSCom's knowledge, BOSCom is under no obligation, contractual or otherwise, to request or obtain the approval of any person by virtue of or in connection with the execution, delivery or performance by BOSCom of this Agreement or the completion of any of the transactions contemplated herein, other than the approval of the OCS and any consents of third parties to the assignment of Contracts.

(6) ***Business Books and Records.*** To the best of BOSCom's knowledge, the business books and records that have been provided to Consist are accurate records of the information purported to be reflected therein.

(7) ***Business Conduct.*** BOSCom has conducted the Assets and the related business in a regular and ordinary course. BOSCom undertakes that until the Cut-Off Date, it will continue to conduct the Assets and related business in a consistent manner without material change of policy or procedure including, without limitation, its practices in connection with the treatment of expenses, Accounts Receivable and liabilities and shall not act in any way that may have substantial adverse effect on the Assets, their value and profitability.

(8) ***Employees.*** The amounts detailed in Schedule 6.1(8) represent the total and complete commitments and obligations towards the Transferred Employees until the Closing Date.

(9) ***Disclosure***. The representations and warranties of BOSCom contained in this Agreement and the schedules hereto are accurate and complete, do not contain any untrue statements of a material fact or omit to state a material fact necessary in order to make the statements and information contained herein or therein not misleading.

(10) ***Disclaimer***. Subject to the provisions of this section, Consist agrees and acknowledges that the Products and/or the Assets are provided "AS IS", without any further representations or warranties of any kind, either expressed or implied including, without limitation, warranties of merchantability or fitness for a particular purpose, etc. In addition, Consist agrees that BOSCom shall not be liable to it in contract, tort or otherwise, whatever the cause thereof, for any loss of profit, business or goodwill or any indirect, special, consequential, incidental or punitive cost, damages or expense of any kind, howsoever arising under or in connection with this Agreement.

6.2 **Representations and Warranties of Consist**

Consist represents and warrants to BOSCom as stated below and acknowledges that BOSCom is relying on the accuracy of each such representation and warranty in entering into this Agreement and completing the transactions contemplated by this Agreement.

(1) ***Authorization of Purchase.*** The execution and delivery of this Agreement and the consummation of the transactions contemplated by this Agreement have been duly and validly authorized by Consist and no other corporate proceedings on the part of Consist are necessary to authorize this Agreement or the Purchase.

(2) ***Enforceability.*** This Agreement has been duly and validly executed and delivered by Consist and is a valid and legally binding obligation of Consist enforceable against Consist in accordance with its terms.

(3) ***Financial Standing.*** It has the resources and financial standing to perform its undertakings under this Agreement and to pay BOSCom the Purchase Price.

(4) ***Due Diligence Review***. Consist has received from BOSCom all legal, financial and technical information Consist requested, relating to the Purchased Assets, has completed its due diligence review of such information to its full satisfaction and has no claims whatsoever against BOSCom in respect to the information received by it.

(5) ***Disclaimer***. BOSCom agrees that Consist shall not be liable to it in contract, tort or otherwise, whatever the cause thereof, for any loss of profit, business or goodwill or any indirect, special, consequential, incidental or punitive cost, damages or expense of any kind, howsoever arising under or in connection with this Agreement.

SECTION 7 – OTHER CONDITIONS

7.1 **Accounts Receivable**

From and after the Cut-Off Date, BOSCom agrees to transfer to and endorse in favour of Consist all payments and cheques actually received by BOSCom in Accounts Receivable with respect to the period starting from the Cut-Off Date. Similarly, Consist shall be entitled to payments for all Contracts with respect to delivery of Products or provision of related services from the Cut-Off Date and onwards. Accordingly, the proportionate part of all payments received by BOSCom in advance for the period following the Cut-Off Date, shall be deducted from the Fixed Purchase Price. The relevant calculation shall be performed by the parties until the Closing Date

7.2 **Non-Competition**

For a period of twelve (12) months following the Closing Date and anywhere worldwide, BOSCom or its affiliates, subsidiary, or any related entity or its shareholders, shall not directly or indirectly compete with Consist, or its affiliates, with respect to the Assets and the Product, and shall not develop, sell, distribute, engage in, represent in any way or be connected with, as a consultant, director, partner, agent or otherwise, any business competing with the Product and the Assets.

7.3 **Confidentiality**

The parties agree not to use Confidential Information (as defined below) for any purpose other than in performing this Agreement and not to publish, disclose or otherwise divulge the Confidential Information to any person or entity.

The term "Confidential Information", as used in this Agreement, shall mean all written, electronic and oral information of confidential nature relating to the parties, the Assets, the Product including financial, technical and commercial information. The term Confidential Information shall not include information that: (a) is or becomes generally available to the public other than as a result of a breach of this Agreement; (b) is approved in writing by the other Party for disclosure; or (c) is required to be disclosed pursuant to a requirement of a governmental agency or law.

SECTION 8 – SURVIVAL AND INDEMNIFICATION

8.1 **Survival**

The representations, warranties and obligations contained in this Agreement or in any document delivered hereunder shall survive the closing of the transaction contemplated by this Agreement.

8.2 **General Indemnity**

Subject to the provisions hereof, BOSCom and Consist agree (the party agreeing to indemnify the other party being referred to in this Section as the "**Indemnifying Party**" and the party so to be indemnified being called the **"Indemnified Party**") to fully indemnify and hold harmless, the Indemnified Party, effective as and from the Cut-Off Date, from and against all claims, losses, liabilities and expenses which may be made or brought against the Indemnified Party or which it may suffer or incur, directly or indirectly as a result of or in connection with: (i) any non-fulfilment of this Agreement on the part of the Indemnifying Party; or (ii) any incorrectness in or breach of any representation or warranty of the Indemnifying Party contained in this Agreement (including its Schedules), and such indemnity shall include reasonable legal fees and expenses in connection with any action or proceeding against the Indemnifying Party.

Notwithstanding the abovementioned, and except for third party claims relating to the Proprietary Rights (for which there will be no limit), in no other event shall BOSCom be required to pay pursuant to this Section any amount exceeding the aggregate consideration actually received by BOSCom with respect to the Purchased Assets hereunder. The foregoing obligation of indemnification in respect of such claims shall be subject to the requirement that the Indemnifying Party shall, in respect of any claim made by any third party, be afforded an opportunity at its sole expense to resist, defend and compromise such claim, and that the Indemnified Party shall promptly notify the Indemnifying Party of any such claim together with all relevant details. It is hereby agreed that the Indemnification obligations under this sub-section 8.2 shall remain in effect for a period of eighteen (18) months following the Closing.

SECTION 9 – CLOSING

The Closing of the transactions contemplated by this Agreement shall take place at the offices of Amit, Pollak, Matalon & Ben – Naftali, Erez & Co., on August 31st 2005 or on such other date agreed to by the Parties (the **"Closing Date**"). At the Closing:

9.1 BOSCom shall assign and transfer to Consist all of its right, title and interest in, to and under the Purchased Assets and deliver all documents and assignments in respect of the Purchased Assets as shall be necessary to effect this Agreement.

9.2 Subject to the provisions of Section 2.3 hereof, BOSCom shall deliver all approvals, consents and authorizations required according to this Agreement, including any available customers' and distributors' approvals of assignment.

9.3 BOSCom shall deliver those settlement and release forms signed by Transferred Employees in the form set forth in Schedule 9.3 hereto, which it received, but at least those of Amir Gil, Gaby Mizrachi and Gonen Harel.

9.4 Consist shall pay the remainder of the Fixed Purchase Price ($300,000) to BOSCom.

9.5 It is expressly agreed that the approval of the Office of Chief Scientist to the transactions contemplated hereby is a condition precedent to Closing .

SECTION 10 – TERMINATION

10.1 Unless otherwise agreed in writing by the Parties, this Agreement may be terminated by either party in writing, without liability to the terminating party or parties on account of such termination (provided the terminating party or parties is not otherwise in default or in breach of this Agreement), if the Closing shall not have consummated until the Closing Date, as a result of the failure to obtain the approval of the OCS. BOSCom shall not be liable to Consist in any way in the event such OCS approval is not obtained or is not available on terms acceptable to BOSCom and Consist (an "OCS Event"). In such OCS Event the parties shall cooperate in taking the necessary actions to reverse those actions already completed towards the Closing of the transaction, including the return to Consist of any payments to BOSCom or deposits in favor of BOSCom made by Consist hereunder. For the avoidance of doubt it is expressly agreed that Consist may issue to the Escrow Agent a Return Notice (as defined in the Escrow Agreement) only upon the occurrence of an OCS Event.

10.2 In the event that this Agreement is terminated and the transactions contemplated hereby are abandoned as described in this Section 10, this Agreement shall become null and void and of no further force and effect, except for the provisions of (i) Section 7.3 regarding confidentiality; (ii) this Section 10; and (iii) any provision herein which, by its nature, survives termination of this Agreement. Nothing in this Section 10 shall be deemed to release any party from any liability for any breach by such party of the terms and provisions of this Agreement.

SECTION 11 – MISCELLANEOUS

11.1 **Further Assurances**

Each of BOSCom and Consist shall from time to time promptly execute and deliver all further documents and take all further action reasonably necessary or appropriate to give effect to the provisions and intent of this Agreement and to complete the transactions contemplated by this Agreement.

11.2 **Notic**e

Unless otherwise specified, each Notice to a party must be given in writing and delivered personally or by courier, sent by registered mail or transmitted by fax to the party as follows:

If to BOSCom:

Name:	BOSCom Ltd.
Address:	Beit Rabin, Teradyon Industrial Park, Misgav
Attention:	Nehemia Kaufman, CFO
Fax No:	04-999-0334

If to Consist:

Name:	CONSIST Technologies Ltd.
Address:	2 Granit St. Petah Tikva
Attention:	Danny Segev, CEO
Fax No:	03-920-4112

or to any other address, fax number or person that the party designates. Any Notice, if delivered personally or by courier, will be deemed to have been given when actually received, if transmitted by fax before 3:00 p.m. on a Business Day, will be deemed to have been given on that Business Day, and if transmitted by fax after 3:00 p.m. on a Business Day, will be deemed to have been given on the Business Day after the date of the transmission.

11.3 **Governing Law**

This Agreement shall be governed by and interpreted in accordance with the internal laws of the State of Israel (without giving effect to provisions of conflict of laws thereof), and the parties agree that the competent courts in Tel-Aviv shall have exclusive jurisdiction over any disputes between the parties relating or arising out of this Agreement.

11.4 **Entire Agreement**

This Agreement and its Schedules constitute the entire agreement between the parties with respect to the subject matter and supersede all prior negotiations and understandings. No provision may be amended or waived except in writing. The parties will cooperate to complete and attach all Schedules until the Closing Date, and once completed, said Schedules shall constitute an integral part of this Agreement.

11.5 **Severability**

Any provision of this Agreement, which is held to be invalid or unenforceable shall not affect any other provision and shall be deemed to be severable.

11.6 **Assignment**

No party may assign this Agreement without the prior written consent of the other parties, which consent may not be unreasonably withheld or delayed.

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IN WITNESS WHEREOF, and intending to be legally bound hereby, the parties hereto have caused this Agreement to be duly executed and delivered as of the date and year first above written.

Consist Technologies Ltd.

By: _____

Name: Danny Segev
Title: CEO

Consist International Inc.

By: _____

Name: Danny Segev
Title: By power of attorney from Mr. Natalio S. Fridman, Chairman of the Board of Directors (attached hereto)

BOSCOM Ltd.

By: _____

Name: Adiv Baruch Nehemia Kaufman
Title: CEO CFO

AMENDMENT NO. 1 TO ASSET PURCHASE AGREEMENT

THIS AMENDMENT NO. 1 (the "**Amendment**") TO THE ASSET PURCHASE AGREEMENT (the "**Agreement**"), dated July 18, 2005, is made as of August 31, 2005, by and among BOSCom Ltd. from Beit Rabin, Teradyon Industrial Park, Misgav ("**BOSCom**"), Consist Technologies Ltd. from 2 Granit St. Petah Tikva ("**Consist Ltd**.") and Consist International Inc. from Walker Rd., Dover, DE 19904 ("**Consist International**"). Consist Ltd. and Consist International shall be referred to, collectively, as "**Consist**".

W I T N E S S E T H :

WHEREAS, the approval of the OCS to the transactions contemplated under the Agreement is a condition precedent to Closing of the Agreement;

WHEREAS, in order to obtain such OCS approval, BOSCom is required to pay the OCS royalty payments expected to be up to a total of US$155,000, of which Consist has agreed to assume the payment of a total of US$30,000;

WHEREAS, the parties wish to set an arrangement for the payment of the remaining royalty payments, up to a total of US$125,000;

WHEREAS, consequently, the parties to the Agreement wish to amend certain provisions of the Agreement and add other provisions, as more fully set forth below.

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth herein, the parties hereto agree as follows:

1. Preamble.

Capitalized terms used herein and not defined shall have the respective meaning ascribed to them in the Agreement.

2. Amendment to Section 2.4 to the Agreement

The sentence "*Without limitation to the above, in the event the arrangement with the OCS mandates payments of royalties to the OCS from future revenues after the Cut-Off Date, then Consist shall bear all such royalty payments, except that if such royalties exceed US$30,000, Consist shall have the right to terminate the Agreement in accordance with the provisions of Section 10 below*" shall be replaced with the following:

"Without limitation to the above, in the event the arrangement with the OCS mandates payments of royalties to the OCS from future revenues after the Cut-Off Date, then Consist shall assume the liability for all such royalty payments, which shall be paid to the OCS in accordance with the provisions of Section 4.2A below."

3. Amendment to Section 4.2 to the Agreement

The sentence "*The Escrow Amount shall be transferred to BOSCom by the Escrow Agent on August 31, 2005, unless Consist shall have issued to the Escrow Agent a Return Notice (as defined in the Escrow Agreement) as a result of an OCS Event (as defined below), all in accordance with the provisions of the Escrow Agreement*" shall be replaced with the following:

"Seventy Five Thousand US Dollars (US$75,000) out of the Escrow Amount shall be transferred to BOSCom by the Escrow Agent on the earlier of September 29th, 2005 or one business day following receipt of OCS Approval. The remainder of the Escrow Amount, in the amount of One Hundred and Twenty Five Thousand US Dollars (US$125,000) shall be transferred to BOSCom by the Escrow Agent in accordance with, and subject to, the provisions of Section 4.2A below and in accordance with the provisions of the Escrow Agreement".

4. A new Section 4.2A shall be inserted after Section 4.2 to the Agreement, as follows:

"4.2A Payment of Royalties to OCS.

(1) To the best of BOSCom's knowledge, on the basis of discussions with the OCS, the only OCS files relating to the Purchased Assets are OCS files No. 24887 and No. 23471 (collectively: the "**OCS Files**").

(2) On the date hereof, Consist shall execute and deliver to BOSCom for filing with the OCS a "Transfer of Rights and Obligations Agreement" with the OCS, in the form attached as Schedule 4.2A(i) hereto, pursuant to which Consist shall fully assume the payment to the OCS of royalties under the OCS Files (collectively: the "**Royalties Payments**"). Schedule 4.2A(ii) hereto sets for the amount of prospective Royalties Payments. In the event that the OCS shall determine that the Royalties Payments exceed US$155,000, such an event shall be deemed an OCS Event (as defined below) and Consist shall have the right, prior to the Closing Date, to terminate the Agreement in accordance with the provisions of Section 10 below. In the event that the OCS shall determine that the Royalties Payments are an amount less than US$155,000 (the "**Reduced Amount**"), then the difference between US$155,000 and the Reduced Amount shall be promptly transferred to BOSCom by the Escrow Agent, out of the Escrow Amount, and Consist undertakes to deliver to the Escrow Agent the necessary instructions for this purpose.

(3) During the full thirty-six calendar months following the Cut-Off Date (the "**3-Year-Payment-Period**"), the Royalties Payments shall be paid to the OCS by Consist. In the event that the Purchased Assets generate Revenues to be payable to BOSCom pursuant to Section 4.1 of the Agreement, then following payment by Consist, pursuant to Section 2.4 hereof, of Royalties Payments amounting, in the aggregate, to US$30,000, Consist shall be entitled, with respect to each year such Revenues are generated, to set-off any Royalties Payments paid to the OCS by Consist against payments of the Contingent Purchase Price, up to an aggregate amount of One Hundred and Twenty Five Thousand US Dollars (US$125,000). An amount equal to each payment set-off by Consist as aforementioned shall be transferred to BOSCom by the Escrow Agent out of the Escrow Amount and Consist undertakes to deliver to the Escrow Agent the necessary instructions for this purpose.

(4) In the event that the Purchased Assets do not generate any Revenues to be payable to BOSCom pursuant to Section 4.1 of the Agreement or in the event the Contingent Purchase Price is not sufficient to satisfy the Royalties Payments, then following payment by Consist, pursuant to Section 2.4 hereof, of Royalties Payments up to an aggregate amount of US$30,000, an amount equal to the Royalties Payments (or any excess thereof over the Contingent Purchase Price) shall be transferred to Consist (for payment to the OCS) by the Escrow Agent, pursuant to instructions to be delivered to the Escrow Agent in accordance with the provisions of the Escrow Agreement.

(5) Following the 3-Year-Payment-Period, if the Royalties Payments were not paid to the OCS in full, then Consist and BOSCom shall instruct the Escrow Agent to transfer to Consist out of the Escrow Amount any amounts required to pay the unpaid balance of the Royalties Payments, as they become due, until all such Royalties Payments are paid in full or the Escrow Amount is fully depleted. Any amount remaining in Escrow upon completion of the Royalties Payments shall be transferred to BOSCom, and Consist shall execute the necessary instructions to the Escrow Agent for this purpose.

(6) Until the royalties payable to the OCS are paid in full, Consist shall provide BOSCom with fourteen (14) days written notice prior to each Royalties Payment it will be making to the OCS, and with written confirmation of the OCS with respect the receipt of such payment, promptly after such payment is made.

(7) Notwithstanding anything else herein, in the event that during the 3-Year-Payment-Period, the Purchased Assets generate over Six Million US Dollars (US$ 6,000,000) in Revenues, the remainder of the Escrow Amount shall be transferred to BOSCom by the Escrow Agent, and, furthermore, Consist shall promptly pay BOSCom, in immediately available funds by wire transfer to BOSCom's bank account, all amounts set-off by Consist against the Contingent Purchase Price and/or reimburse BOSCom for any and all amounts paid out of the Escrow Amount to Consist for the purpose of payment to the OCS hereunder, all up to an aggregate amount of One Hundred and Twenty Five Thousand US Dollars (US$125,000).

(8) In the event Consist elects to discontinue the manufacturing, production, sale and/or the commercialization of the Purchased Assets, Consist shall immediately notify BOSCom in writing to that effect, and the Escrow Amount shall be transferred to BOSCom by the Escrow Agent.

Amendment to Section 9 to the Agreement

The words "August 31st 2005" at the end of the second line shall be replaced with the words "the earlier of September 29th, 2005 or one business day following receipt of OCS Approval".

5. No Other changes.

The remainder of the terms and conditions of the Agreement and the Appendix shall remain in full force and effect.

IN WITNESS WHEREOF the parties have signed this Amendment as of the date first hereinabove set forth.

Consist Technologies Ltd.

By: _____

Name: Danny Segev
Title: CEO

Consist International Inc.

By: _____

Name: Danny Segev
Title: By power of attorney from Mr. Natalio S. Fridman, Chairman of the Board of Directors (attached hereto)

BOSCOM Ltd.

By: _____

Name: Nehemia Kaufman
Title: CEO

AMENDMENT NO. 2 TO ASSET PURCHASE AGREEMENT

THIS AMENDMENT NO. 2 (the "**Second Amendment**") TO THE ASSET PURCHASE AGREEMENT (the "**Agreement**"), dated July 18, 2005, as amended as of August 31, 2005, is made as of September 25, 2005, by and between BOSCom Ltd. from Beit Rabin, Teradyon Industrial Park, Misgav ("**BOSCom**"), Consist Technologies Ltd. from 2 Granit St. Petah Tikva ("**Consist Ltd**.") and Consist International Inc. from Walker Rd., Dover, DE 19904 **("Consist International**"). Consist Ltd. and Consist International shall be referred to, collectively, as **"Consist**".

W I T N E S S E T H :

WHEREAS, embedded in the Product and sold to customers as an essential part thereof is a software component named Virtual Print Engine v3.1 Professional Edition 32-Bit Runtime, that is purchased from IdealSoftware GmbH ("**Idealsoft's Component**") ;

WHEREAS, shortly after executing the Agreement, Consist has learned that Idealsoft and BOSCom have certain disputes;

WHEREAS, said disputes may result in Idealsoft refusing to sell to Consist or not enabling Consist to purchase Idealsoft's Component in the normal market prices;

NOW, THEREFORE, the parties hereto agree as follows:

1. Preamble.

Capitalized terms used herein and not defined shall have the respective meaning ascribed to them in the Agreement.

2. A new Section 3.2 shall be inserted in the Agreement, as follows:

"In the event that Idealsoft refuses the sale of Idealsoft's Component to Consist, then for the period starting on August 16, 2005 and ending on February 16, 2006 the parties agree as follows:

(1) Upon Consist's written request, BOSCom shall sign agreements with customers, shall purchase Idealsoft's Component from Idealsoft and provide the Product including the Idealsoft's Component to the customers.

(2) Invoices shall be sent to the abovementioned customers by BOSCom and any payments from said customers received by BOSCom shall be transferred to Consist immediately following their receipt, after deduction of amounts paid by BOSCom for Idealsoft's Component."

3. No Other changes.

The remainder of the terms and conditions of the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF the parties have signed this Second Amendment as of the date first hereinabove set forth.

Consist Technologies Ltd.

By: _____

Name: Danny Segev
Title: CEO

Consist International Inc.

By: _____

Name: Danny Segev
Title: By power of attorney from Mr. Natalio S. Fridman, Chairman of the Board of Directors (attached hereto)

BOSCOM Ltd.

By: _____

Name: Nehemia Kaufman
Title: CEO

Exhibit 4.16

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT is dated as of 26 day of October, 2005 by and among Qualmax, Inc., an Oregon corporation, having its address at 340 West Fifth Avenue, Eugene, Oregon, 97401 (the "**Buyer**"), BOScom Ltd., an Israeli company, having its address at Beit Rabin, Teradyon Industrial Park, Misgav 20179 ("**BOScom**") and B.O.S. Better Online Solutions Ltd., an Israeli company, having its address at Beit Rabin, Teradyon Industrial Park, Misgav 20179, Israel ("**BOS**"). BOScom and BOS shall be referred to, collectively, as "**Seller**". Following closing of the Bench Transaction Agreement (as defined below), references to the Buyer herein shall be deemed to be to the merged company created by the Bench Transaction Agreement.

WHEREAS, Seller is engaged, among other things in the business of corporate communication solutions (the "**Business**"); and

WHEREAS, the Seller wishes to sell to Buyer and Buyer wishes to purchase from Seller all of Seller's assets and rights, tangible and intangible, relating to, or used in connection with, the Business, all on the terms and conditions, and for the consideration, set forth herein.

NOW, THEREFORE, in consideration of the mutual promises and agreements set forth herein, the Buyer and the Seller agree as follows:

1. PURCHASE AND SALE.

1.1. Acquired Assets. Subject to the terms and conditions set forth in this Agreement, at the Closing referred to in Section 4 hereof, Seller shall sell, assign, transfer and deliver to the Buyer (or, at Buyer's request delivered to Seller in writing no later than 10 business days prior to the Closing, to a wholly owned Israeli subsidiary of Buyer) and the Buyer shall purchase, acquire and take assignment and delivery of, all of the assets and rights of Seller relating to, or used in connection with, the Business (all of which assets and rights are hereinafter referred to collectively as the "**Acquired Assets**"), as set forth in **Exhibit A** attached hereto.

1.2. (a) Seller represents and warrants to Buyer that, upon Buyer's purchase of the Acquired Assets in accordance with this Agreement, Buyer will take the Acquired Assets free and clear of all encumbrances or rights and claims of any third party, except for: (i) the Office of the Chief Scientist of the Israeli Ministry of Trade, Industry and Labor (the "**OCS**"), and (ii) the Investment Center of the Israeli Ministry of Trade, Industry and Labor (the "**Investment Center**"), in each case as set forth on **Schedule 1.2(i)**. The amounts paid to date and the amounts remaining outstanding as royalties by Seller to the OCS are set forth on **Schedule 1.2(i)**.

(b) On the date hereof, Buyer shall execute and deliver to Seller for filing with the OCS (1) a "Transfer of Rights and Obligations Agreement" with the OCS, in the form attached as **Schedule 1.2(ii)** hereto, pursuant to which Buyer shall fully assume the payment to the OCS of royalties under OCS programs related to the Acquired Assets (the "**Transfer of Rights Form**"); and (2) an undertaking towards the OCS in the OCS standard form attached hereto as **Schedule 1.2(iii)**, pursuant to which Buyer undertakes to observe and comply with provisions of Israeli law relating to the transfer of intellectual property (the "**Undertaking Form**"). Buyer acknowledges that execution of the Undertaking Form is a condition to the OCS's consent to the transactions contemplated herein.

1.3. Any responsibility or liability whatsoever for Seller's debts, warranties, guaranties, obligations to third parties, or other liabilities, contingent or otherwise, pertaining to the Acquired Assets, including without limitation, any liabilities related to the Hired Personnel (as defined below), to the extent they relate to the period up to the Closing Date, shall be borne by Seller alone.

1.4. The parties shall conduct an accounting with respect to: (i) any payments due to the Seller and received by Buyer following the Closing Date, or (ii) any payments received by Seller with respect to services or products to be delivered by Buyer following the Closing Date, all as set forth in **Schedule 1.4** hereto. The relevant calculation shall be performed by the parties until the Closing Date.

1.5. Prior to or on the Closing Date, the parties shall enter into a transitional outsourcing agreement, substantially in the form attached as **Exhibit B** hereto (the "**Outsourcing Agreement**"), pursuant to which Seller shall provide Buyer, for a period set forth in the Outsourcing Agreement, with such services required by Buyer for the continuous operation of the Acquired Assets, including, without limitation, accounting and production services that relate to the Acquired Assets. In consideration for any such services after the first three months thereof, Seller shall be entitled to the service fees as set forth in the Outsourcing Agreement.

2. EMPLOYEES

2.1. A list (the "**Employee List**") setting forth the name of each employee of Seller relating to the Acquired Assets and the Business (the "**Employees**") and the terms of his or her employment or engagement, including commencement date, compensation, social benefits, bonus or commission entitlement etc., has been provided to Buyer prior to date hereof. Seller represents and warrants that the Employee List is true and complete in all material respects and covenants to update the Employee List if necessary in order to ensure that it is true and complete in all material respects immediately prior to the Closing.

2.2. Promptly following the signing of this Agreement, Buyer shall provide Seller with a list specifying the Employees whom it is interested in employing or retaining as consultants (at Buyer's sole discretion). Of such list, those employees and consultants who are interested in being retained by Buyer and have accepted its offer for employment or consulting engagement, are referred to herein as the "**Hired Personnel**".

2.3. Seller undertakes to retain all Hired Personnel until the Closing Date, on which date such Hired Personnel shall be terminated by Seller and begin to be employed or retained by Buyer on terms substantially similar to the terms enjoyed by such persons prior to the Closing Date.

2.4. Seller shall be liable for and shall pay to the Hired Personnel, on or before the Closing Date, any and all payments and social benefits due to them with respect to the period up to the Closing Date and their termination of employment or engagement (including, without limitation, payment of salary or consultancy fees, severance pay, any advance notice payment (if applicable under the law) and redemption of unused vacation days). Seller shall fully indemnify and hold Buyer harmless, upon Buyer's first demand, from and against any demand or claim brought against Buyer by any Employee (including the Hired Personnel) with respect to its engagement by Seller prior to the Closing Date.

2.5. As of the Closing Date, Buyer shall be exclusively responsible for any and all payments to the Hired Personnel and shall fully indemnify and hold Seller harmless, upon Seller's first demand, from and against any demand or claim brought against Seller by any member of the Hired Personnel with respect to its employment following the Closing Date.

2.6. Seller shall notify the Hired Personnel of the transfer of the Acquired Assets to the Buyer, and cooperate with Buyer in all respects relating to any actions to be taken pursuant to this Section 2 and in achieving the hiring or engagement of the Hired Personnel by Buyer. Seller will not take any action that is intended to interfere with Buyer's efforts to retain any of the Hired Personnel.

3. CONSIDERATION.

3.1. In consideration for Acquired Assets, Buyer shall pay and Seller agrees to accept the following consideration (collectively, the "**Purchase Price**"), which shall be paid to Seller as follows:

3.1.1. *Share Consideration*. Buyer shall issue Seller 4,000,000 shares of Common Stock, par value $0.001 each, of Bench Group, Inc. post the Bench Transaction Agreement, as defined below (the "**Buyer Stock**"), such payment by way of issuance of shares of Buyer Stock to Seller shall be referred to herein as the "**Share Consideration**".

In this Agreement, the "**Bench Transaction Agreement**" means the Agreement and Plan of Share Exchange between Buyer and Bench Group, Inc., dated June 24, 2005, as amended on July 15, 2005 and which is attached hereto as **Exhibit C**.

3.1.2. *Royalty Fee.* The parties agree that in addition to the Share Consideration, Buyer shall pay Seller a royalty initially equal to four percent (4%) of the gross sales (as defined by US GAAP) received by Buyer on any sales generated by the Royalty Base Business (as defined herein), commencing upon the Closing, up to the total amount of US$800,000 (the "**Royalty Consideration**"). The Royalty Consideration shall be paid to Seller within forty-five (45) days of the end of the fiscal quarter in which earned. Together with each payment of Royalty Consideration, Seller shall deliver to Buyer un-audited details of the sales generated during the past quarter. Within ninety (90) days of the end of any fiscal year, Buyer shall deliver to Seller an annual accounting of sales as reviewed by the Buyer's auditors. Any adjustment to the Royalty Consideration for the past year shall be made in the following quarterly payment. For purposes of this Section 3 ("*Consideration*"), the **"Royalty Base Business**" will refer to the Business sold by Seller to Buyer hereunder (as defined at the preamble to this Agreement) and any other Voice Over Internet Protocol manufacturing business conducted by Buyer at the relevant time, taken together. To the extent Value Added Tax ("**VAT**") is imposed in connection with the Share Consideration and/or the Royalty Consideration payable by Buyer pursuant to this Agreement, such VAT shall be solely born and paid by Buyer.

3.1.3. Adjustment to Royalty Rate. Notwithstanding anything to the contrary in Section 3.1.2, if the aggregate gross sales (defined by US GAAP) received by Buyer on sales generated by the Royalty Base Business for the period ending on the third (3rd) anniversary of the Closing is less than Twenty Million Dollars ($20,000,000), then: (i) the royalty rate for such period shall be retroactively adjusted to equal the Modified Royalty Rate (as defined below); and (ii) Buyer shall, within ninety (90) days of such anniversary, pay to Seller any difference between the amount of Royalty Consideration actually paid to Seller during such period and the amount of Royalty Consideration earned using the Modified Royalty Rate. The "**Modified Royalty Rate**" shall be equal to the quotient of (a) Eight Hundred Thousand Dollars ($800,000) divided by (b) the aggregate gross sales (defined by US GAAP) received by Buyer on sales generated by the Royalty Base Business for the period ending on the third (3^{rd}) anniversary of the Closing.

3.1.4. *Stock In Lieu of Cash*. Buyer may, separately for each quarterly payment of Royalty Consideration, in its sole discretion, offer Seller the option (the "**Share Royalty Option**") to elect that all or part of the Royalty Consideration be paid to Seller in shares of stock of Buyer (the "**Additional Buyer Stock**") to be issued to Seller in lieu of cash royalty payments. If Buyer elects to offer Seller any Share Royalty Option hereunder, it shall give Seller written notice of same ("**Share Royalty Notice**"), which shall also state the per share value of the Additional Buyer Stock determined as provided below, at least twenty (20) days prior to the next scheduled royalty payment according to the provisions of Section 3.1.2 above. Upon receipt of any Share Royalty Notice, Seller may elect to exercise its Share Royalty Option by notifying Buyer of the same at least five (5) days prior to the next scheduled royalty payment according to the provisions of Section 3.1.2 above. For this purpose the value of the Additional Buyer Stock shall be based on the average last sale price of Buyer Stock for the twenty (20) trading days immediately prior to the date of the relevant Share Royalty Notice. In the event that Seller exercises any Share Royalty Option under this Section 3.1.4, Seller shall have such registration rights with respect to the Additional Buyer Stock as described in Section 7 below.

3.2. Holdback Shares

3.2.1. Out of the Share Consideration, 1,000,000 shares of Buyer Stock (the "**Holdback Shares**") shall be delivered to Kramer Levin Naftalis & Frankel LLP (the "**Escrow Agent**") pursuant to the terms and conditions of the Escrow Agreement attached as **Exhibit D** hereto (the "**Escrow Agreement**"). For as long as the Holdback Shares remain in Escrow, the Escrow Agent shall vote, execute written instruments and/or exercise any other rights of holders in connection with the Holdback Shares (other than any rights to sell, transfer or otherwise dispose of any interest therein) pursuant to the written instructions of the Seller, all in accordance with the provisions of the Escrow Agreement.

3.2.2. All dividends, bonus shares, options or other distributions (collectively, "**Distributions**") to shareholders as may be declared by Buyer in respect of the Holdback Shares shall be paid, issued or distributed to the Escrow Agent, who shall hold them until such time that the Holdback Shares are released from Escrow as herein provided (all such Distributions shall be treated hereunder identically to the Holdback Shares to which they are attributable).

3.2.3. In the event that during the full four (4) consecutive quarters following the Closing Date (the "**Escrow Period**") the financial statements of Buyer reflect gross sales, as defined according to US GAAP, related to the Business, as reflected in Buyer's consolidated financial statements and without including revenues from Qualmax's other businesses (the "**Business Revenues**"), equal, in aggregate, to Six Million US Dollars (US$ 6,000,000) or more (a "**Triggering Event**"), then the Holdback Shares (including any Distributions related thereto) shall be transferred by the Escrow Agent to the Seller in accordance with the provisions of the Escrow Agreement. In the event that Business Revenues during the Escrow Period amount to less than US$4,000,000 the Buyer shall be entitled to receive all of the Holdback Shares from the Escrow Agent. For every $100,000 deficit in Business Revenues below $6,000,000, 50,000 Holdback Shares shall be transferred by the Escrow Agent to the Buyer and the remainder of the Holdback Shares shall be transferred by the Escrow Agent to the Seller.

3.2.4. Business Operation. Following the Closing and until the end of the Escrow Period, Buyer shall operate the Business consistent with Seller's past practices and a reasonable business plan, and shall not take any action that would reasonably be expected to cause the non-occurrence of a Triggering Event. Upon any material breach by Buyer of the immediately preceding sentence (a **"Voiding Action**"), Seller shall be entitled to have all of the Holdback Shares released and transferred to Seller by the Escrow Agent in accordance with the provisions of the Escrow Agreement.

3.2.5. Reports. During the Escrow Period, for so long as any royalty payments are due hereunder and for a period of six (6) months thereafter, Buyer shall provide Seller with quarterly reports certified by Buyer's Chief Financial Officer, covering Buyer's (and any Buyer's subsidiary, as applicable) activities with respect to the Business for the respective quarter, including financial statements, new customers, status of all current customers, license fees received and such other information as is reasonably necessary to determine: (a) for so long as any royalty payments are due hereunder, the amount of gross sales (defined by US GAAP) received by Buyer on sales generated by the Royalty Base Business during such quarter; and (b) during the Escrow Period, the amount of Business Revenues generated during such quarter.

3.2.6. Auditing and Inspection Rights. During the Escrow Period and for a period of six (6) months thereafter, Seller shall be entitled to review and audit Buyer's books and records with respect to the Business Revenues, provided that such audit shall be conducted by an independent auditor at Seller's expense; *provided*, *however*, that if such audit reveals that Buyer had understated Business Revenues (without subsequently correcting its calculation thereof) by more than ten percent (10%), then Buyer shall pay for the reasonable expenses of such audit. Seller shall be entitled to exercise its audit rights under this Section 3.2.6 every six (6) months, upon notice of seven (7) business days to Buyer. Any audit pursuant to this Section 3.2.6 shall be conducted during Buyer's normal business hours so as not to unreasonably interfere with Buyer's business activities.

3.3. Legend. The shares to be issued to Seller pursuant to this Section 3 shall bear the following restrictive legend or similar legend affixed thereto:

"THE SECURITUES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES OR "BLUE SKY" LAWS. THE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY NOT BE SOLD OR TRANSFERRED FOR VALUE IN THE ABSENCE OF AN EFFECTIVE REGISTRATION OF THEM UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND ANY APPLICABLE STATE SECURITIES LAWS OR AN OPINION OF COUNSEL THAT AN EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS IS AVAILABLE WITH RESPECT TO SUCH SALE OR TRANSFER."

3.4. No Dilution. Buyer shall neither effect, nor fix any record date with respect to any stock split, stock dividend, reverse stock split, recapitalization or similar change in Buyer Stock between the date of this Agreement and the Closing Date.

4. CLOSING.

4.1. Time and Place. The closing of the transactions contemplated by this Agreement (the "**Closing**") shall occur no later than three (3) business days after each of the closing conditions set forth in Sections 9and 10 hereto have been satisfied or waived in writing (the "**Closing Date**").

4.2. Transactions at Closing. At the Closing, the following actions shall occur, which actions shall be deemed to take place simultaneously and no action shall be deemed to have been completed or any document delivered until all such actions have been completed and all required documents delivered:

(a) The Seller shall duly execute and deliver to the Buyer such certificates of title or other instruments of assignment and transfer with respect to the Acquired Assets as the Buyer may reasonably request and as may be necessary to vest in the Buyer good and marketable title to all of the Acquired Assets;

(b) The Seller shall provide the Buyer with true and correct copies of resolutions of the Seller's Board of Directors, authorizing the transactions contemplated under this Agreement;

(c) Buyer shall provide the Seller with: (i) a validly executed share certificate covering the Share Consideration (other than the Holdback Shares), issued in the name of the Seller;

(d) Buyer shall provide the Escrow Agent with a validly executed share certificate covering the Holdback Shares, issued in the name of the Escrow Agent;

(e) Buyer shall provide the Seller with true and correct copies of resolutions of Buyer's Board of Directors approving the transaction contemplated hereby, the issuance of the Share Consideration (including the Holdback Shares) and the payment of the Royalty Consideration and the potential issuance of Additional Buyer Stock.

(f) Buyer shall provide the Seller with an opinion of Buyer's counsel, addressed to Seller and dated as of the Closing date, substantially in the form attached hereto as **Schedule 10.10**.

5. REPRESENTATIONS AND WARRANTIES OF THE SELLER.

Acknowledging that the Buyer is relying on the representations and warranties set forth in this Section 5, Seller jointly and severally hereby represent and warrant to the Buyer as follows:

5.1. Organization. Each Seller is a company duly incorporated and validly existing under the laws of the State of Israel, and has the corporate power and is duly authorized, qualified, franchised, and licensed under all applicable laws, regulations, ordinances, and orders of public authorities to own all of its properties and assets and to carry on its business in all material respects as it is now being conducted, and there is no jurisdiction in which it is not qualified in which the character and location of the assets owned by it or the nature of the business transacted requires qualification, except where the failure to be so qualified would not reasonably be expected to result in a Seller MAE.

5.2. Authorization. The execution and delivery of this Agreement and the consummation of the transactions contemplated in this Agreement have been duly and validly authorized by each Seller and no other corporate proceedings or approvals on the part of any Seller are necessary to authorize this Agreement or any such transactions, which approvals have not been obtained on or prior to the Closing.

5.3. Enforceability**.** This Agreement has been duly and validly executed and delivered by Seller and is a valid and legally binding obligation of Seller enforceable against Seller in accordance with its terms.

5.4. Acquired Assets. Seller is the owner of and has good and marketable title to all of the Acquired Assets, free and clear of all encumbrances or rights and claims of any third party (except for the OCS, to the extent set forth on **Schedules 1.2(i)** hereto) or restrictions on transfer. To the best of Seller's knowledge: (i) no claims were made or threatened in relation to the Acquired Assets; (ii) the Acquired Assets do not breach or infringe on any third party's rights; and (iii) the Acquired Assets are in operable condition and repair. Except as set forth on **Schedule 5.4**, the Acquired Assets constitute all of the assets that Seller currently uses in, or that are necessary for the conduct of, the Business.

5.5. Non-Contravention. Neither the execution and the delivery of this Agreement, the Escrow Agreement or the Outsourcing Agreement, nor the consummation of the transactions contemplated hereby and thereby, will (i) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court, or any stock exchange or quotation system, to which Seller is subject or any provision of the certificate of incorporation, bylaws or analogous instruments of Seller, (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which Seller is a party or by which it is bound or to which any of its assets is subject, or, (iii) result in the imposition of any lien or other encumbrance upon any of Seller's assets (including, without limitation, the Acquired Assets), except where the violation, conflict, breach, default, acceleration, termination, modification, cancellation, failure to give notice, or encumbrance would not reasonably be expected to have a material adverse effect on the business, operations, properties, prospects, or conditions of Seller, taken as a whole or solely with respect to the Business, or on the ability of the parties to consummate the transactions contemplated by this Agreement (a "**Seller MAE**").

5.6. Governmental Authorization. Seller has all licenses, franchises, permits, and other government authorizations, that are legally required to enable it to conduct its business operations in all material respects as conducted on the date hereof. Except for (a) compliance with federal and state securities or corporation laws, and (b) obtaining the approval of the OCS and the Investment Center, as applicable, as provided in this Agreement, no authorization, approval, consent, or order of, or registration, declaration, or filing with, any court or other governmental body, or any stock exchange or quotation system, is required in connection with the execution and delivery by Seller of this Agreement and the consummation by Seller of the transactions contemplated hereby.

5.7. Compliance With Laws and Regulations. Seller has complied with all applicable statutes and regulations of any federal, state, or other applicable governmental entity or agency thereof, and with all applicable rules of any stock exchange or quotation system, except to the extent that noncompliance would not reasonably be expected to result in a Seller MAE.

5.8. Business Books and Records.The business books and records of Seller that have been provided to Buyer (including with respect to the presentation of the Seller's inventory) are accurate records of the information purported to be reflected therein..

5.9. Financial Statements; Public Filings. Seller's audited balance sheet at December 31, 2004 and the related financial statements for the period then ending (including the notes thereto) included in its Annual Report on Form 20-F filed on June 27, 2005 (the "**Seller Annual Report**") and Seller's un-audited balance sheet at June 30, 2005 and the related un-audited financial statements for the period then ending (including the notes thereto) included in its Form 6-K filed on August 23, 2005 (collectively, the "**Seller Financial Statements**") have been prepared in accordance with United States generally accepted accounting principles consistently applied, present fairly the financial condition of Seller as of such date and the results of operations of Seller for such period, are correct and complete, and are consistent with the books and records of Seller. The Seller Annual Report and all reports Seller has filed with the SEC thereafter, when filed, were free of material errors and omissions, and as of the date hereof and the Closing shall continue to be free of material errors and omissions, except to the extent modified or superceded by disclosures made in this Agreement, including the Schedules hereto.

5.10. Absence of Certain Changes or Events. Except as set forth in **Schedule 5.10**, in the Employee List referenced in Section 2.1 above, and/or in filings made prior to October 9, 2005 under the Securities Exchange Act of 1934, since June 30, 2005:

(a) There has not been any material adverse change, financial or otherwise, in the business, operations, properties, assets, or condition of Seller (whether or not covered by insurance) materially and adversely affecting the business, operations, properties, assets, or condition of Seller;

(b) Seller has not (i) amended its Certificate of Incorporation or bylaws, or analogous instruments; (ii) declared or made, or agreed to declare or make any payment of dividends or distributions of any assets of any kind whatsoever to stockholders or purchased or redeemed, or agreed to purchase or redeem, any of its capital stock; (iii) waived any rights of value which in the aggregate are extraordinary or material with respect to the Business; (iv) made any material change in its method of management, operation, or accounting with respect to the Business; (v) entered into any other material transactions with respect to the Business; (vi) made any accrual or arrangement for or payment of bonuses or special compensation of any kind or any severance or termination pay to any present or former officer or employee who is or was primarily involved in the Business, other than in the ordinary course of business; (vii) increased the rate of compensation payable or to become payable by it to any of its officers or directors or any of its employees primarily involved in the Business, other than in the ordinary course of business; or (viii) made any increase in any profit sharing, bonus, deferred compensation, insurance, pension, retirement, or other employee benefit plan, payment, or arrangement, made to, for, or with its officers, directors, or employees who are or were involved in the Business, other than in the ordinary course of business;

(c) Seller has not (i) borrowed or agreed to borrow any funds or incurred, or become subject to, any material obligation or liability (absolute or contingent) except liabilities incurred in the ordinary course of business or which could not reasonably be expected to have a material adverse effect on the Business; (ii) sold or transferred, or agreed to sell or transfer, any of the Acquired Assets, or canceled, or agreed to cancel, any material debts or claims with respect to the Business; or (iii) made or permitted any amendment or termination of any material contract, agreement, or license related to the Business to which it is a party, other than in the ordinary course of business; and

(d) Seller has not become subject to any law or regulation which could reasonably be expected to have a Seller MAE.

5.11. Material Contracts. Except as set forth on **Schedule 5.11**, there are no material contracts, agreements, franchises, license agreements, or other commitments related to the Business to which Seller is a party or by which it or any of its assets, products, technology, or properties are bound other than the exhibits to the Seller Annual Report.

5.12. Business Conduct. Seller has conducted the Business and the related Acquired Assets in a regular and ordinary course. Seller undertakes that until the Closing Date, it will continue to conduct the Acquired Assets and the Business in a consistent manner without material change of policy or procedure and shall not act in any way that may result in a Seller MAE.

5.13. Employees. The Seller has complied with all of its commitments and obligations towards the Hired Personnel on or prior to the Closing Date.

5.14. Offshore Transaction. Seller is not a "U.S. Person", as such term is defined in Regulation S under the Securities Act of 1933, its principal address is outside the United States and it has no present intention of becoming a resident of (or moving its principal place of business to) the United States. Seller hereby represents and warrants that each of the representations set forth in **Schedule 5.14**, which is incorporated herein by reference, is true with respect to each Seller.

5.15. No Litigation. Seller, with respect to the Acquired Assets, (i) is not subject to any outstanding injunction, judgment, order, decree, ruling, or charge and (ii) is not a party and, to the knowledge of Seller, is not threatened to be made a party to any action, suit, proceeding, hearing, or investigation of, in, or before any court or quasi judicial or administrative agency of any federal, state, local, or foreign jurisdiction or before any arbitrator. Seller has no reason to believe that any such action, suit, proceeding, hearing, or investigation may be brought or threatened against Seller.

5.16. Brokers. Except as set forth on **Schedule 5.16** hereto, Seller has not entered into any contract with any person, firm or other entity that would obligate Seller or Buyer to pay any commission, brokerage or finders' fee in connection with the transactions contemplated herein.

5.17. No Other Representations or Warranties of Buyer. Seller acknowledges that Buyer is making no, and represents that Seller is not relying on any, representations or warranties (either express or implied) other than those expressly made pursuant to this Agreement.

5.18. Information. The information concerning Seller set forth in this Agreement and the Seller's schedulesare and will be accurate in all material respects and does not contain any untrue statement of a material fact or omit to state a material fact required to make the statements made, in light of the circumstances under which they were made, not misleading as of the date hereof and as of the Closing Date.

6. REPRESENTATIONS AND WARRANTIES OF THE BUYER.

Acknowledging that the Seller is relying on the representations and warranties set forth in this Section 6, Buyer hereby represent and warrant to the Seller as follows:

6.1. Organization. Buyer is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware, and has the corporate power and is duly authorized, qualified, franchised, and licensed under all applicable laws, regulations, ordinances, and orders of public authorities to own all of its properties and assets and to carry on its business in all material respects as it is now being conducted, and there is no jurisdiction in which it is not qualified in which the character and location of the assets owned by it or the nature of the business transacted by it requires qualification, except where the failure to be so qualified would not reasonably be expected to have a material adverse effect on Buyer.

6.2. Authorization. The execution and delivery of this Agreement does not, and the consummation of the transactions contemplated hereby will not, violate any provision of Buyer's organizational documents. The execution and delivery of this Agreement and the consummation of the transactions contemplated in this Agreement have been duly and validly authorized by Buyer and no other corporate proceedings or approvals on the part of Buyer are necessary to authorize this Agreement or any such transaction, which approval have not been obtained on or prior to the Closing. Buyer has provided Seller, prior to the Closing, with complete and correct copies of the organizational documents of Buyer in effect as to date of this Agreement.

6.3. Enforceability**.** This Agreement has been duly and validly executed and delivered by Buyer and is a valid and legally binding obligation of Buyer enforceable against Buyer in accordance with its terms.

6.4. Non-Contravention. Neither the execution and the delivery of this Agreement, the Escrow Agreement or the Outsourcing Agreement, nor the consummation of the transactions contemplated hereby and thereby, will (i) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court, or any stock exchange or quotation system, to which Buyer is subject or any provision of the certificate of incorporation, bylaws or analogous instruments of Buyer, (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which Buyer is a party or by which it is bound or to which any of its assets is subject, or, (iii) result in the imposition of any lien or other encumbrance upon any of Buyer's assets, except where the violation, conflict, breach, default, acceleration, termination, modification, cancellation, failure to give notice, or encumbrance would not reasonably be expected to have a material adverse effect on the business, operations, properties, prospects, or conditions of Buyer, taken as a whole or solely with respect to the Business, or on the ability of the parties to consummate the transactions contemplated by this Agreement (a "**Buyer MAE**").

6.5. Capitalization. Immediately prior to the Closing, Buyer's authorized share capital shall consist of: (i) no more than 40,000,000 shares of Buyer Stock, of which no more than 25,000,000 shares will have been issued and outstanding, or will be issuable upon exercise of options and warrants that are issued outstanding, immediately prior to Closing; and (ii) 100 shares of Preferred Stock, of which no shares are issued and outstanding. **Schedule 6.5** hereto constitutes the share capitalization table of Buyer on a fully diluted basis, as of the date hereof. All presently issued and outstanding shares are legally issued, fully paid, and non-assessable and not issued in violation of the pre-emptive or other rights of any person. The Share Consideration (including the Holdback Shares) will be legally issued, fully paid and non-assessable and shall not be issued in violation of the pre-emptive or other rights of any other person.

6.6. Subsidiaries. Buyer owns the following wholly owned subsidiaries: Qualmax, Inc., iNode Corporation, Qualmax Professional Services LLC, Rent IT Telecom LLC, IP Gear, Inc. and, as of the Closing, will own a wholly-owned Israeli subsidiary (the "**Israeli Subsidiary**"). Buyer represents and undertakes that the Israeli Subsidiary shall have been established prior to the Closing to hold the Acquired Assets and to conduct Business, and that it shall be free and clear of any and all liabilities and encumbrances whatsoever. Buyer further undertakes, as soon as practicable following the establishment of the Israeli Subsidiary, to cause same to execute a confirmation to the effect that any and all continuing obligations and undertakings contained in this Agreement and binding the Buyer (including without limitation pursuant to Section 8 hereof), shall be, to the extent applicable, binding on and observed by the Israeli Subsidiary.

6.7. Financial Statements.

(a) On or before the Closing, Buyer shall have delivered to Seller: (i) audited financial statements and notes thereto covering the fiscal year ended December 31, 2004, including income statements, balance sheets and statements of cash flow and stockholders equity and including an audit report issued by Buyer's certified public accountants (the "**Buyer Audited Financial Statements**"); and (ii) un-audited financial statements and notes thereto covering the six (6) months ended June 30, 2005, including reviewed income statements, balance sheets and statements of cash flow and stockholders equity (the "**Buyer Unaudited Financial Statements**"). The Buyer Audited Financial Statements and the Buyer Unaudited Financial Statements are hereinafter collectively referred to as the "Buyer Financial Statements". The Buyer Financial Statements are attached as **Schedule 6.7(a)** hereto.

(b) The Buyer Audited Financial Statements have been prepared in conformity with U.S. generally accepted accounting principles consistently applied and shall be the subject of an opinion of Buyer's certified public accountants. The Buyer Unaudited Financial Statements: (i) have been prepared in conformity with U.S. generally accepted accounting principles consistently applied; and (ii) shall be in approximate Form 10-Q format.

(c) Buyer has no liabilities with respect to the payment of any federal, state, county, local, or other taxes (including any deficiencies, interest, or penalties), except for taxes accrued but not yet due and payable, for which Buyer may be liable in its own right, or as a transferee of the assets of or as a successor to, any other corporation or entity.

(d) Buyer has filed all federal, state and local income tax returns required to be filed by it from inception to the date hereof All such returns are complete and accurate in all material respects.

(e) The books and records, financial and otherwise, of Buyer are in all material respects accurate records of the information purported to be reflected therein and have been maintained in accordance with good business and accounting practices.

(f) No deficiency for any taxes has been proposed, asserted or assessed against Buyer. There has been no tax audit, nor has there been any notice to Buyer by any taxing authority regarding any such tax audit, or, to the knowledge of Buyer, is any such tax audit threatened with regard to any taxes or Buyer tax returns. Buyer does not expect the assessment of any additional taxes of Buyer for any period prior to the date hereof and has no knowledge of any unresolved questions concerning the liability for taxes of Buyer.

(g) Buyer has good and marketable title to its assets and has no material contingent liabilities, direct or indirect, matured or un-matured with respect thereof.

6.8. Information. The information concerning Buyer set forth in this Agreement and the Buyer's schedulesare and will be accurate in all material respects and does not contain any untrue statement of a material fact or omit to state a material fact required to make the statements made, in light of the circumstances under which they were made, not misleading as of the date hereof and as of the Closing Date.

6.9. Options or Warrants. Except as set forth in **Schedule 6.9**, there are no existing options, warrants, calls, or commitments of any character relating to authorized and unissued stock of Buyer.

6.10. Absence of Certain Changes or Events. Except as set forth in **Schedule 6.10**, since the date of the Buyer Financial Statements:

(a) There has not been (i) any material adverse change, financial or otherwise, in the business, operations, properties, assets, or condition of Buyer (whether or not covered by insurance) materially and adversely affecting the business, operations, properties, assets, or condition of Buyer;

(b) Buyer has not (i) amended its Certificate of Incorporation or bylaws; (ii) declared or made, or agreed to declare or make any payment of dividends or distributions of any assets of any kind whatsoever to stockholders or purchased or redeemed, or agreed to purchase or redeem, any of its capital stock; (iii) waived any rights of value which in the aggregate are extraordinary or material considering the business of Buyer; (iv) made any material change in its method of management, operation, or accounting; (v) entered into any other material transactions; (vi) made any accrual or arrangement for or payment of bonuses or special compensation of any kind or any severance or termination pay to any present or former officer or employee; (vii) increased the rate of compensation payable or to become payable by it to any of its officers or directors or any of its employees; or (viii) made any increase in any profit sharing, bonus, deferred compensation, insurance, pension, retirement, or other employee benefit plan, payment, or arrangement, made to, for, or with its officers, directors, or employees;

(c) Buyer has not (i) granted or agreed to grant any options, warrants, or other rights for its stocks, bonds, or other corporate securities calling for the issuance thereof; (ii) borrowed or agreed to borrow any funds or incurred, or become subject to, any material obligation or liability (absolute or contingent) except liabilities incurred in the ordinary course of business; (iii) paid or agreed to pay any material obligation or liability (absolute or contingent) other than current liabilities reflected in or shown on the most recent Buyer consolidated balance sheet and current liabilities incurred since that date in the ordinary course of business; (iv) sold or transferred, or agreed to sell or transfer, any of its assets, property, or rights (except assets, property, or rights not used or useful in its business which, in the aggregate have a value of less than $50,000), or canceled, or agreed to cancel, any debts or claims (except debts or claims which in the aggregate are of a value of less than $50,000); (v) made or permitted any amendment or termination of any contract, agreement, or license to which it is a party, other than in the ordinary course of business, if such amendment or termination is material, considering the business of Buyer; or (vi) issued, delivered, or agreed to issue or deliver any stock, bonds, or other corporate securities including debentures (whether authorized and un-issued or held as treasury stock), except in connection with this Agreement; and

(d) Buyer has not become subject to any law or regulation which could reasonably be expected to have a Buyer MAE.

6.11. Title and Related Matters. Buyer has good and marketable title to all of its properties, interest in properties, and assets, real and personal, which are reflected in the Buyer Financial Statements or acquired after the date of such Buyer Financial Statements (except properties, interest in properties, and assets sold or otherwise disposed of since such date in the ordinary course of business), free and clear of all liens, pledges, charges, or encumbrances except:

(a) statutory liens or claims not yet delinquent;

(b) such imperfections of title and easements as would not reasonably be expected to have a Buyer MAE; and

(c) as described in **Schedule 6.11** attached hereto.

6.12. Litigation and Proceedings. There are no actions, suits, or proceedings pending or, to the knowledge of Buyer, threatened by or against or affecting Buyer, or its properties, at law or in equity, before any court or other governmental agency or instrumentality, domestic or foreign, or before any arbitrator of any kind.

6.13. Contracts. **Schedule 6.13** sets forth a list of all material contracts, agreements, franchises, license agreements, or other commitments to which Buyer is a party or by which it or any of its assets, products, technology, or properties are bound, specifically including any such contracts, agreement or arrangements referred to in Section 6.13 hereof.

6.14. Governmental Authorizations. Buyer has all licenses, franchises, permits, and other government authorizations, that are legally required to enable it to conduct its business operations in all material respects as conducted on the date hereof. Except for compliance with federal and state securities or corporation laws, as hereinafter provided, no authorization, approval, consent, or order of, or registration, declaration, or filing with, any court or other governmental body, or any stock exchange or quotation system, is required in connection with the execution and delivery by Buyer of this Agreement and the consummation by Buyer of the transactions contemplated hereby.

6.15. Compliance With Laws and Regulations. Buyer has complied with all applicable statutes and regulations of any federal, state, or other applicable governmental entity or agency thereof, and with all applicable rules of any stock exchange or quotation system, except to the extent that noncompliance would not reasonably be expected to result in a Buyer MAE.

6.16. Insurance.

(a) **Schedule 6.16** hereto lists all of the insurance policies currently maintained by the Buyer (the "**Insurance Policies**"). All the Insurance Policies are in full force and effect, all premiums due and payable thereunder have been paid, and no notice of cancellation or termination has been received with respect to any such policy. The Insurance Policies are valid, outstanding and enforceable in accordance with their terms and will remain in full force and effect through the Closing.

(b) Buyer believes that the coverage provided by the Insurance Policies is reasonable and appropriate for a company in Buyer's position.

(c) There are currently no claims pending under any Insurance Policies. There is no threatened termination of any such Insurance Policies. The Buyer has not been refused any insurance with respect to its assets or operations, nor has its coverage been limited by any insurance carrier to which it has applied for any such insurance or with which it carried insurance since its incorporation.

6.17. Continuity of Business Enterprises. Buyer has no commitment or present intention to liquidate Buyer or sell or otherwise dispose of a material portion of its business or assets (other than sale of products in the ordinary course of business) following the consummation of the transactions contemplated hereby.

6.18. Brokers. Except as set forth on the **Schedule 6.18** hereto, Buyer has not entered into any contract with any person, firm or other entity that would obligate Seller or Buyer to pay any commission, brokerage or finders' fee in connection with the transactions contemplated herein.

6.19. No Other Representations or Warranties of Seller. Buyer acknowledges that Seller is making no, and represents that Buyer is not relying on any, representations or warranties (either express or implied) other than those expressly made pursuant to this Agreement.

6.20. Buyer shall cause the Buyer's schedules attached hereto and the instruments and data delivered to Seller hereunder to be updated after the date hereof up to and including the Closing Date.

7. REGISTRATION; LOCK-UP.

7.1. As soon as practicable following the Closing, and in no event later than six (6) months following the closing of the Bench Transaction Agreement, Buyer shall file a registration statement with respect to the Buyer Stock on Form 10, Form 10-SB or any successor form with the SEC (the "**Registration Statement**").

7.2. Buyer shall grant to Seller piggy-back registration rights with respect to (a) the Share Consideration, including any Holdback Shares issued and/or transferred to Seller pursuant to this Agreement, and (b) any Additional Buyer Stock actually issued by Buyer to Seller pursuant to this Agreement (collectively, (a) and (b) shall be referred to as the "**Registerable Securities**"), all in accordance with the Registration Rights Agreement to be executed by the parties hereto on or prior to the Closing, such that if Buyer undertakes to register the resale of shares of Buyer Stock held by any affiliates of Buyer, Buyer must allow Seller to have a pro rata amount of Registrable Securities included in such registration statement. Said registration rights shall also apply to any bonus shares and/or rights offerings and/or similar distributions made by Buyer with respect to the Registerable Securities.

8. RESTRICTIVE PROVISIONS.

Until the earlier of (a) such time as all Registerable Securities may be sold by non-affiliates of Seller immediately without registration under the Securities Act and without volume restrictions pursuant to Rule 144(k); and (b) such time as Seller ceases to hold at least thirty percent (30%) of the Buyer Stock issued to Buyer pursuant to this Agreement (adjusted for any stock splits, combinations or the like), Buyer shall not make any payment to, or sell, lease, transfer, license or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any affiliate of Buyer other than its wholly-owned subsidiaries (each of the foregoing, an "**Affiliate Transaction**") without Seller's prior written consent, *unless* (i) such Affiliate Transaction is on terms that are not materially less favorable to Buyer than those that could have been obtained in a comparable transaction by Buyer with an unrelated person or (ii) such Affiliate Transaction has been approved by a majority of the independent members of Buyer's Board of Directors. Notwithstanding anything to the contrary herein, this Section 8 shall not prohibit: (x) any reasonable employment agreement between Buyer and an executive officer of Buyer that is approved (1) by a majority of the Board of Directors or (2) if such executive officer is a director, by a majority of the Board of Directors excluding such executive officer; (y) any reasonable employment agreement or other compensation plan or arrangement paid or made available to officers or employees of Buyer for services actually rendered or to be rendered and entered into by Buyer in the ordinary course of business and consistent with past practice; or (z) any transaction described on **Schedule 8**.

9. CONDITIONS PRECEDENT TO BUYER'S OBLIGATIONS.

The obligation of the Buyer to consummate the Closing shall be subject to the satisfaction at or prior to the Closing of each of the following conditions (to the extent noncompliance is not waived in writing by the Buyer):

9.1. Representations and Warranties True at Closing. The representations and warranties made by Seller in or pursuant to this Agreement shall be true and correct at and as of the Closing Date with the same effect as though such representations and warranties had been made or given at and as of the Closing Date.

9.2. Compliance with Agreement. The Seller shall have performed and complied with all of its obligations and covenants under this Agreement to be performed or complied with by it on or prior to the Closing Date.

9.3. No Material Adverse Change. The Acquired Assets shall remain intact and in the same operating condition and repair as of the date hereof and no material adverse change shall have been incurred, in the reasonable judgment of Buyer, with respect thereof since the date hereof.

9.4. No Injunction. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction, which prohibits the consummation of any of the transactions contemplated by this Agreement.

9.5. Employment Agreements. Each of the Hired Personnel shall have executed and delivered to the Buyer an employment or consultancy agreement in forms acceptable to Buyer.

9.6. Escrow Agreement. Seller and Escrow Agent shall have executed and delivered the Escrow Agreement.

9.7. Consents of Third Parties. The Seller shall have obtained any third party consents, waivers, undertakings and agreements required in connection with the transactions contemplated hereby, as evidenced in documents to the satisfaction of the Buyer and the Buyer's counsel.

9.8. Government Approvals. Buyer shall have received any required governmental approvals with regard to the consummation of the transactions contemplated under this Agreement.

9.9. Due Diligence Review. Buyer's legal, financial and technical due diligence review of the Business and the Acquired Assets shall have been completed, with the results of such review being to the sole and complete satisfaction of Buyer.

9.10. Notices to NASDAQ the TASE and the ISA. The Seller shall have made all required filings of notices with NASDAQ, the Tel Aviv Stock Exchange and the Israel Securities Authority, if any, and has received no notice that could reasonably be expected to have a Seller MAE.

9.11. Bridge Financing. Buyer shall have obtained a bridge financing in an amount of no less than $1,000,000 upon commercially reasonable terms for such an instrument.

10. CONDITIONS PRECEDENT TO SELLER'S OBLIGATIONS.

The obligation of the Seller to consummate the Closing shall be subject to the satisfaction, at or prior to the Closing, of each of the following conditions (to the extent noncompliance is not waived in writing by the Seller):

10.1. Representations and Warranties True at Closing. The representations and warranties made by the Buyer in this Agreement shall be true and correct at and as of the Closing Date with the same effect as though such representations and warranties had been made or given at and as of the Closing Date.

10.2. Compliance with Agreement. The Buyer shall have performed and complied with all of its obligations and covenants under this Agreement that are to be performed or complied with by it at or prior to the Closing.

10.3. No Material Adverse Change. From the date hereof until the Closing, there will have been no material adverse change in the financial or business condition of the Buyer, in the reasonable judgment of the Seller.

10.4. No Injunction. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction, which prohibits the consummation of any of the transactions contemplated by this Agreement.

10.5. Good Standing. Buyer shall have received a certificate of good standing from the Secretary of State of the State of Delaware or other appropriate office, dated as of a date within ten days prior to the Closing Date certifying that Buyer is in good standing as a corporation in the State of Delaware and has filed all tax returns required to have been filed by it to date and has paid all taxes reported as due thereon.

10.6. Stockholders Register. The Buyer shall have delivered to Seller a certified copy of the Buyer's Stockholders Register. Promptly after the Closing, the Buyer shall make all adjustments to its Stockholders Register as may be necessary to reflect the issuance of the Share Consideration (including the Holdback Shares) and shall deliver a certified copy of such Stockholders Register, as so adjusted, to the Seller.

10.7. Closing of the Bench Transaction Agreement. Buyer shall have consummated the closing of the Bench Transaction Agreement in accordance with its terms, and the merged company shall assume in writing all of Buyer's undertakings hereunder. Furthermore, the price per share of Buyer Stock sold in the Offering (as defined in the Bench Transaction Agreement), and the exchange price per share of Buyer Stock in Buyer's proposed transaction pursuant to an Agreement and Plan of Share Exchange to be entered into with World Wide Pin Payment, Inc. (if consummated), shall have been at least $1.50.

10.8. Consents of Third Parties. The Buyer shall have obtained all third party consents, waivers, undertakings and agreements, including without limitation all consents necessary from Buyer's lenders, creditors, vendors and lessors under contracts set forth in **Schedule 6.13** attached hereto, required in connection with the transactions contemplated hereby, as evidenced in documents to the satisfaction of the Seller and the Seller's counsel.

10.9. Government Approvals. Seller shall have received all required governmental approvals with regard to the consummation of the transactions contemplated under this Agreement.

10.10. Opinion of Counsel. Kramer Levin Naftalis & Frankel LLP, counsel to Buyer, shall have delivered to the Seller a written opinion, addressed to the Seller and dated as of the Closing Date, substantially in the form of **Schedule 10.10** attached hereto.

10.11. Employment Agreements. Each of the Hired Personnel shall have executed and delivered to the Seller a release from any rights or demands in connection with their employment with the Seller or the termination thereof, in substantially the form of **Schedule 10.11** attached hereto.

10.12. Registration Rights Agreement. The Buyer shall have delivered to Seller a duly executed Registration Rights Agreement, substantially in the form of **Exhibit D** attached hereto.

10.13. Due Diligence Review. Seller's due diligence review of the Buyer shall have been completed, with the results of such review being to the sole and complete satisfaction of Seller.

10.14. Bridge Financing. Buyer shall have obtained a bridge financing in an amount of no less than $1,000,000 upon commercially reasonable terms for such an instrument.

11. CONFIDENTIALITY.

11.1. Confidential Information. The Parties acknowledge that each Party (in such capacity, the **"Receiving Party**") may have access to or have disclosed to it or to its affiliates and their respective officers, directors, employees, agents and shareholders information relating to the other Party (in such capacity, the "**Disclosing Party**"), its affiliates or its or their business, clients and/or potential clients which is of a confidential nature ("**Confidential Information**"). Confidential Information shall include, but not be limited to, methods, processes, formulae, compositions, systems, techniques, machines, computer programs, electronic data, research projects, story research, potential story topics, business memos, customer and contact lists, pricing data, sources of supply, financial data and marketing, production or merchandising systems or plans. Confidential Information may be designated or marked as proprietary or confidential by the Disclosing Party, but the absence of such designation or marking shall not support a conclusion that the information does not comprise Confidential Information.

11.1.1. The Receiving Party shall at all times keep documents or other materials containing Confidential Information in a secure place, shall not use the Confidential Information for any purpose other than the evaluation of the transactions contemplated by this Agreement, except as otherwise agreed to in a writing signed by the Disclosing Party, and shall not disclose any of the Confidential Information in any manner whatsoever, in whole or in part, to any Person for any reason or purpose whatsoever except (i) if the Receiving Party is required by a court of competent jurisdiction to so disclose after notice has been given to the Disclosing Party and the Disclosing Party has had an opportunity to oppose such disclosure or seek a protective order to the extent practicable, (ii) to employees and representatives of the Receiving Party who need to know such information in connection with Seller's acquisition of Buyer Stock and Buyer's acquisition of the Acquired Assets pursuant to this Agreement and with the other transactions contemplated hereby ("**Necessary Agents**") provided that Receiving Party shall inform each such Necessary Agent of the confidential nature of such information, obtain their agreement (the "**Necessary Agent Confidentiality Agreement**") to hold all Confidential Information in strict confidence and not to use it for any purpose other than as permitted hereunder and ensure the performance by each Necessary Agent of such Necessary Agent Confidentiality Agreement.

11.1.2. Notwithstanding anything in this Agreement to the contrary, the term "**Confidential Information**" does not include information that: (1) is generally known to the public other than as a result of the breach by Receiving Party or its affiliates or any of their respective officers, directors, employees, agents and shareholders of an obligation of confidentiality to Disclosing Party, (2) was known by Receiving Party (as evidenced by written records) prior to its receipt by the Holder from Disclosing Party, (3) was disclosed to Receiving Party by a third party under no obligation of confidence, (4) was developed by Receiving Party independently of any disclosure made by Disclosing Party to Receiving Party, provided, that Receiving Party shall have the burden of showing that such Confidential Information was developed independently of any disclosure by Disclosing Party.

11.2. Publicity.Except as required by law, regulation or stock exchange, or as may be required to enforce its rights under this Agreement, each of the parties shall (a) keep the material terms of this Agreement confidential and (b) obtain the prior written consent of the other Party to any public announcement relating to the transactions contemplated by this Agreement, including the text and the exact timing of any such announcement. Each party acknowledges that the other party may likely be required publicly to describe and to file a copy of this Agreement as an exhibit to its Securities Act filings (including, with respect to the Buyer, the Registration Statement) and to reports it files under the Exchange Act.

12. REPORTS.

The Buyer undertakes to provide Seller with: (i) audited, US dollar-denominated annual financial statements, according to the US GAAP, within ninety (90) days after the end of each fiscal year; (ii) unaudited, US dollar-denominated quarterly financial statements, according to the US GAAP, within forty-five (45) days of the end of each fiscal quarter; and (iii) promptly following Seller's written request, such other information or consents as may be required to allow Seller to comply with any applicable rule or regulation, in the United States and Israel, including without limitation, rules of the SEC, Nasdaq, the Israeli Securities Authority and the Tel-Aviv Stock Exchange.

13. INDEMNIFICATION.

Subject to the provisions hereof, Buyer and Seller each agree (in such capacity, the **"Indemnifying Party**") fully to indemnify and hold harmless, the other Party and its affiliates and their respective shareholders, directors, officers and agents (in such capacities, collectively, the "**Indemnified Party**"), effective as and from the date hereunder, from and against all claims, losses, liabilities and expenses which may be made or brought against the Indemnified Party or which it may suffer or incur, directly or indirectly as a result of or in connection with: (i) any material breach of this Agreement on the part of the Indemnifying Party; or (ii) any material misstatement or omission contained in any representation or warranty of the Indemnifying Party made in this Agreement (including its Schedules), and such indemnity shall include reasonable legal fees and expenses in connection with any action or proceeding against the Indemnifying Party. It is hereby agreed that the indemnification obligations under this Section 13 shall remain in effect for a period of thirty six (36) months following the Closing.

14. TERMINATION.

14.1. The Seller and the Buyer will use their reasonable best efforts to effect the Closing and to cause the conditions to the other Party's obligations to close to be timely satisfied. Unless otherwise agreed in writing by the parties, this Agreement may be terminated at any time prior to the Closing Date by either the Buyer or the Seller in writing, without liability to the terminating party on account of such termination (provided the terminating party is not otherwise in default or in breach of this Agreement) if one or more of the conditions to the terminating party's obligation to effect the Closing hereunder is not fully satisfied within forty-five (45) days from the date hereof. If either Seller or Buyer is in breach of the first sentence of this Section 14.1, then the other may terminate this Agreement no fewer than fifteen (15) days after providing a Termination Notice (as defined below) to the breaching party; provided that the breaching party has not cured such breach and caused all closing conditions identified in the Termination Notice to be satisfied prior to the expiration of such fifteen (15) day period. "**Termination Notice**" shall mean a written notice which specifies: (i) which closing conditions remain unsatisfied that are not waived (the "**Outstanding Conditions**") (it being agreed that any conditions not identified in the Termination Notice shall be deemed waived); (ii) the date (which must be no fewer than fifteen (15) days after the Termination Notice is delivered) as of which this Agreement shall be terminated if the Outstanding Conditions are not satisfied prior thereto.

14.2. In the event that this Agreement is terminated and the transactions contemplated hereby are abandoned as described in Section 14.1, this Agreement shall become null and void and of no further force and effect, except for the provisions of (i) Section 11.1 regarding confidentiality; (ii) Section 11.2 regarding publicity; and (iii) this Section 14. Nothing in this Section 14 shall be deemed to release any party from any liability for any breach by such party of the terms and provisions of this Agreement.

15. GENERAL.

15.1. Survival of Representations and Warranties. The representations and warranties of the parties hereto contained in this Agreement or otherwise made in writing in relation to, or in connection with, the transactions contemplated hereby shall survive the Closing Date and the consummation of the transactions contemplated herein.

15.2. Brokers. Except as set forth in **Schedules 5.16 or 6.18** hereto, Buyer and Seller agree that there were no finders or brokers involved in bringing the parties together or who were instrumental in the negotiation, execution, or consummation of this Agreement. Buyer and Seller each agree to indemnify the other against any claim by any third person for any commission, brokerage, or finders' fee arising from the transactions contemplated hereby based on any alleged agreement or understanding between the indemnifying party and such third person, whether express or implied from the actions of the indemnifying party.

15.3. Expenses and Taxes. Each party shall bear its own legal fees and any other fees incurred by it in connection with the transaction hereunder, including in connection with the negotiations, due diligence and preparation of this Agreement. Buyer and Seller shall bear all of their respective taxes in connection with this Agreement and the transactions contemplated hereunder.

15.4. Notices. All notices, demands and other communications hereunder shall be in writing or by written telecommunication, and shall be deemed to have been duly given if delivered personally or if mailed by certified or registered mail, return receipt requested, postage prepaid, or if sent by overnight courier, or sent by written telecommunication with confirmation of receipt, as follows:

If to the Seller, to:

B.O.S. Better Online Solutions Ltd.
Beit Rabin, Teradyon Industrial Park, Misgav
Facsimile: 972-4-999-0334
Attn: Adiv Baruch, CEO and Nehemia Kaufman, CFO

with a copy sent contemporaneously to:

Amit, Pollak, Matalon, & Ben-Naftali, Erez &Co.
NYP Tower – 19th Floor
17 Yitzhak Sadeh Street
Tel Aviv, 67775, Israel
Facsimile: 972-3-5613620
Attn: Shlomo Landress, Adv.

If to the Buyer, to:

Qualmax, Inc.
340 West Fifth Avenue
Eugene, Oregon 97401
Facsimile: (541) 683-4009
Attn: Mr. M. David Kamrat

with a copy sent contemporaneously to:

Kramer Levin Naftalis & Frankel LLP
1177 Avenue of the Americas
New York, New York 10036
Facsimile: (212) 715-8000
Attn: Scott S. Rosenblum, Esq.

Any such notice shall be effective (a) if delivered personally, when received, (b) if sent by reputable courier, the date of delivery by such courier, and (c) if sent by facsimile, when transmitted with written confirmation of transmission having been received, and if delivery or transmission is not made on a business day, on the immediately following business day.

15.5. Entire Agreement. This Agreement (including the Exhibits and Schedules hereof), together with the Escrow Agreement and the Outsourcing Agreement, contain the entire understanding of the parties, supersede all prior agreements and understandings relating to the subject matter hereof and shall not be amended except by a written instrument hereafter signed by both of the parties hereto.

15.6. Governing Law; Venue. This Agreement shall be deemed to have been executed and delivered in the State of New York, and the validity, enforcement and construction hereof shall be governed in all respects by the internal laws (without regard to principles of conflicts of law) of the State of New York. Any legal action or proceeding arising under or in relation to this Agreement shall be brought exclusively in a federal or state court of competent jurisdiction within the State and County of New York. In addition, each of the undersigned parties consents and agrees that any court in which such legal action or proceeding is commenced may exercise jurisdiction over his, her or its person for purposes of enforcing the terms of this Agreement and agrees not to assert that venue in New York is inappropriate or inconvenient.

15.7. Sections and Section Headings. The headings of sections and subsections are for reference only and shall not limit or control the meaning thereof.

15.8. Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, successors and permitted assigns. Neither this Agreement nor the obligations of any party hereunder shall be assignable or transferable by such party without the prior written consent of the other party hereto.

15.9. Severability. In the event that any covenant, condition, or other provision herein contained is held to be invalid, void, or illegal by any court of competent jurisdiction, the same shall be deemed to be severable from the remainder of this Agreement and shall in no way affect, impair, or invalidate any other covenant, condition, or other provision contained herein.

15.10. Further Assurances. The parties agree, without any additional consideration, to take such reasonable steps and execute such other and further documents as may be necessary or appropriate to cause the terms and conditions contained herein to be carried into effect.

15.11. NEITHER PARTY OR ITS AFFILIATES SHALL BE LIABLE TO THE OTHER PARTY OR ITS AFFILIATES UNDER THIS AGREEMENT FOR OR IN RESPECT OF ANY PUNITIVE, SPECIAL, INDIRECT, EXEMPLARY INCIDENTAL OR CONSEQUENTIAL LOSS OR DAMAGES (INCLUDING BUT NOT LIMITED TO LOST PROFITS) OF ANY KIND WHATSOEVER, WHETHER BASED UPON THEORIES OF CONTRACT, NEGLIGENCE, TORT OR OTHERWISE, AND EVEN IF SUCH PARTY KNEW OF THE POSSIBILITY OR LIKELIHOOD OF THE POTENTIAL FOR SUCH DAMAGES.

15.12. Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

(remainder of the page is left intentionally blank)

IN WITNESS WHEREOF, and intending to be legally bound hereby, the parties hereto have caused this Agreement to be duly executed and delivered as of the date and year first above written.

QUALMAX, INC.

By: _____

Name: _____
Title: _____

B.O.S. BETTER ONLINE SOLUTIONS LTD.

By: _____

Name: Adiv Baruch Nehemia Kaufman
Title: CEO CFO

List of Exhibits and Schedules

[omitted]

Exhibit / Schedule	**Title**
Exhibit A	Acquired Assets
Exhibit B	Form of Outsourcing Agreement
Exhibit C	The Bench Transaction Agreement
Exhibit D	Form of Escrow Agreement
Schedule 1.2(i)	Encumbrances on Acquired Assets
Schedule 1.2(ii)	OCS Transfer of Rights Form
Schedule 1.2(iii)	OCS Undertaking Form
Schedule 1.4	Schedule of Payments - Qualmax & BOS
Schedule 5.4	Non-Acquired Assets used in the Business
Schedule 5.10	Absence of Changes - BOS
Schedule 5.11	BOS Material Contracts Related to the Business
Schedule 5.14	Supplemental Regulation S Representations and Warranties
Schedule 5.16	BOS Brokers
Schedule 6.5	Buyer Capitalization Table
Schedule 6.7(a)	Qualmax Financial Statements
Schedule 6.9	Qualmax Options and Warrants
Schedule 6.10	Absence of Changes - Qualmax
Schedule 6.11	Encumbrances on Assets - Qualmax
Schedule 6.13	Qualmax Material Contracts
Schedule 6.16	Qualmax Insurance Policies
Schedule 6.18	Qualmax Brokers
Schedule 8	Permitted Affiliate Transactions
Schedule 10.10	Opinion of Counsel to Qualmax
Schedule 10.11	Employee Release

AMENDMENT NO. 1 TO ASSET PURCHASE AGREEMENT

AMENDMENT NO. 1 TO ASSET PURCHASE AGREEMENT (this "**Amendment**"), dated as of November 2, 2005 by and among Qualmax, Inc., an Oregon corporation ("**Buyer**"), BOScom Ltd., an Israeli company having its address at Beit Rabin, Teradyon Industrial Park, Misgav 20179 ("**BOScom**") and B.O.S. Better Online Solutions Ltd., an Israeli company having its address at Beit Rabin, Teradyon Industrial Park, Misgav 20179 ("**BOS**" and, together with BOScom, "**Seller**"). Capitalized terms used but not defined herein have the respective meanings ascribed to them in the Asset Purchase Agreement, dated as of October 26, 2005, by and among Buyer, BOScom and BOS (the "**Agreement**").

WHEREAS, Buyer has entered into a letter agreement with Bench providing, *inter allia*, that, in connection with the Share Exchange, Bench would issue between 500,000 and 1,000,000 additional shares of Buyer Stock (the "**Delay Shares**") to Buyer's former shareholders;

WHEREAS, Buyer has caused Bench Group, Inc. to circulate a Supplement to Confidential Private Placement Memorandum, dated November 2, 2005 (the "PPM Supplement"); and

WHEREAS, the parties desire to revise the terms of the Agreement in accordance with this Amendment in order to revise and clarify certain matters relating thereto.

NOW THEREFORE, in consideration of the premises and the mutual agreements contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending legally to be bound, the parties hereto hereby agree as follows:

1. Section 3.1.1 of the Agreement is hereby amended in its entirety to read as follows:

   3.1.1. *Share Consideration*. At the Closing, Buyer shall issue Seller 4,131,579 shares of Common Stock, par value $0.001 each (the "**Buyer Stock**"), of Bench Group, Inc. post the closing of the Bench Transaction Agreement (as defined below), and, as soon as practicable following the termination of the Offering (as defined in the Bench Transaction Agreement), Buyer shall issue Seller an additional number of shares of Buyer Stock equal to 4,000,000 multiplied by a fraction, the numerator of which is the difference of (x) the sum of 15,200,000 and the number of Delay Shares issued minus (y) 15,700,000, and the denominator of which is 15,200,000. Such payments by way of issuance of shares of Buyer Stock to Seller shall be referred to herein as the "**Share Consideration.**"

   In this Agreement, the "**Bench Transaction Agreement**" means the Agreement and Plan of Share Exchange between Buyer and Bench Group, Inc., dated June 24, 2005, as amended on July 15, 2005 and which is attached hereto as **Exhibit C**, and as further amended by the letter agreement between Buyer and Bench Group, Inc., dated as of October 28, 2005, a copy of which is attached hereto as **Exhibit E**.

2. The Agreement is hereby amended by adding **Exhibit E** to this Amendment as Exhibit E thereto.

3. The first sentence of Section 3.2.1 of the Agreement is hereby amended in its entirety to read as follows:

3.2.1. One quarter of the shares of Buyer Stock constituting Share Consideration (the **"Holdback Shares**") shall be delivered to Kramer Levin Naftalis & Frankel LLP (the **"Escrow Agent**") pursuant to the terms and conditions of the Escrow Agreement attached as **Exhibit D** hereto (the "**Escrow Agreement**").

4. Section 3.2.3 of the Agreement is hereby amended in its entirety to read as follows:

3.2.3 In the event that during the full four (4) consecutive quarters following the Closing Date (the "**Escrow Period**") the financial statements of Buyer reflect gross sales, as defined according to US GAAP, related to the Business, as reflected in Buyer's consolidated financial statements and without including revenues from Qualmax's other businesses (the "**Business Revenues**"), equal, in aggregate, to Six Million US Dollars (US$ 6,000,000) or more (a "**Triggering Event**"), then the Holdback Shares (including any Distributions related thereto) shall be transferred by the Escrow Agent to the Seller in accordance with the provisions of the Escrow Agreement. In the event that Business Revenues during the Escrow Period amount to less than US$4,000,000 the Buyer shall be entitled to receive all of the Holdback Shares from the Escrow Agent. For every $100,000 deficit in Business Revenues below $6,000,000, five percent (5%) of the Holdback Shares shall be transferred by the Escrow Agent to the Buyer and the remainder of the Holdback Shares shall be transferred by the Escrow Agent to the Seller.

5. Section 6.5 of the Agreement is hereby amended to delete "25,000,000 shares" and to replace it with "26,500,000 shares." Schedules 6.5 and 6.9 to the Agreement are hereby amended in their entirety to read as set forth in **Schedules 6.5 and 6.9** attached to this Amendment.

6. Section 10.7 of the Agreement is hereby amended to delete "$1.50" at the end thereof and to replace it with the following:

$1.4522253, if only 500,000 Delay Shares are issued, and such minimum per share price shall be reduced, on a pro rata basis, to a minimum of $1.4074074, if and to the extent that any additional Delay Shares (up to 500,000 additional Delay Shares) are issued.

7. Except as amended hereby, the Agreement shall continue in full force and effect, and each party hereto hereby confirms its agreement to the Agreement as amended by this Amendment.

8. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall together constitute one and the same instrument.

[Signature page follows immediately]

IN WITNESS WHEREOF, the parties hereto have executed, or have caused this Amendment to be executed by their respective duly authorized officers, as of the date first above-written.

QUALMAX, INC.

By: _____

Name: _____
Title: _____

BOSCOM LTD.

By: _____

Name: _____
Title: _____

B.O.S. BETTER ONLINE SOLUTIONS LTD.

By: _____

Name: Adiv Baruch Nehemia Kaufman
Title: CEO CFO

[Exhibits and schedules omitted]

AMENDMENT NO. 2 TO ASSET PURCHASE AGREEMENT

AMENDMENT NO. 2 TO ASSET PURCHASE AGREEMENT (this "**Amendment**"), dated as of December 31, 2005 by and among Qualmax, Inc., a Delaware corporation f/k/a Bench Group, Inc. and the successor by merger to Qualmax, Inc., an Oregon corporation ("**Qualmax**"), Qualmax Ltd., an Israeli company and a wholly owned subsidiary of Qualmax ("**Qualmax Sub**" and, together with Qualmax, "**Buyer**"), BOScom Ltd., an Israeli company having its address at Beit Rabin, Teradyon Industrial Park, Misgav 20179 ("**BOScom**"), B.O.S. Better Online Solutions Ltd., an Israeli company having its address at Beit Rabin, Teradyon Industrial Park, Misgav 20179 ("**BOS**") and Quasar Telecom (2004) Ltd., an Israeli company and a wholly owned subsidiary of BOS ("**Quasar**" and, together with BOScom and BOS, "**Seller**"). Capitalized terms used but not defined herein have the respective meanings ascribed to them in the Asset Purchase Agreement, dated as of October 26, 2005, by and among Qualmax, BOScom and BOS, as amended by Amendment No. 1 thereto, dated as of November 2, 2005 (collectively, the "**Agreement**").

WHEREAS, the parties, in the interest of reaching a Closing, desire to amend the Agreement in accordance with this Amendment.

NOW THEREFORE, in consideration of the premises and the mutual agreements contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending legally to be bound, the parties hereto hereby agree as follows:

1. Each of Qualmax Sub and Quasar is hereby joined as a party to the Agreement. Qualmax Sub hereby agrees to be bound by the Agreement in its capacity as Buyer thereunder. Quasar hereby agrees to be bound by the Agreement in its capacity as Seller thereunder.

2. Section 1.1 of the Agreement is hereby amended in its entirety to read as follows:

1.1 Acquired Assets. Subject to the terms and conditions set forth in this Agreement, at the Closing referred to in Section 4 hereof, Seller shall sell, assign, transfer and deliver to Qualmax Sub, and Qualmax Sub shall purchase, acquire and take assignment and delivery of, all of the assets and rights of Seller relating to, or used in connection with, the Business, including without limitation, the Business IP (as defined below), except for those expressly set forth on **Schedule 5.4** (all of which assets and rights are hereinafter referred to collectively as the "**Acquired Assets**"). The Acquired Assets shall include, without limitation, those assets set forth on **Exhibit A** attached hereto.

3. Section 1.2(a) of the Agreement is hereby amended in its entirety to read as follows:

1.2. (a) Seller represents and warrants to Buyer that, upon Buyer's purchase of the Acquired Assets in accordance with this Agreement, Buyer will take the Acquired Assets free and clear of all encumbrances or rights and claims of any third party, except for the obligation to pay royalties to the Office of the Chief Scientist of the Israeli Ministry of Trade, Industry and Labor (the "**OCS**"). The amounts paid to date and the amounts remaining outstanding as royalties by Seller to the OCS and, subject to Section 8A.6 hereof, to which Buyer will become obligated pursuant to this Agreement as of the Closing, are set forth on **Schedule 1.2(i)**.

4. Section 2.2 of the Agreement is hereby amended in its entirety to read as follows:

2.2 A list specifying the Employees whom Buyer is interested in employing or retaining as consultants (at Buyer's sole discretion) following the Closing, and who, based on Seller's representation to the Buyer, are interested in being retained by Buyer and have informally accepted its offer for employment or consulting engagement is attached hereto as **Schedule 2.2**, and such persons listed are referred to herein as the "**Hired Personnel**".

5. Section 2.3 of the Agreement is hereby amended in its entirety to read as follows:

2.3 Seller undertakes to retain all Hired Personnel until thirty (30) days following the Closing Date (the "**Hirng Date**"), on which date such Hired Personnel shall begin to be employed or retained by Buyer on terms substantially similar to the terms enjoyed by such persons prior to the Closing Date. During the period between the Closing Date and the Hiring Date, the Hired Personnel shall provide services to Buyer, and Buyer shall compensate Seller for the use of such employee's services, all as set forth more fully in the Outsourcing Agreement.

6. Sections 2.4 and 2.5 of the Agreement are hereby amended by deleting all references to "Closing Date" contained therein and replacing such references with "Hiring Date."

7. The first paragraph of Section 3.1.1 of the Agreement is hereby amended to read as follows:

3.1.1. *Share Consideration*. At the Closing, Buyer shall issue to BOS 3,195,725 shares of Common Stock, par value $0.001 each (the "**Buyer Stock**"), of Qualmax. Such payment by way of issuance of shares of Buyer Stock to BOS, together with any Earn-Out Shares (as defined below) issued to BOS pursuant to Section 3.2 hereof, shall be referred to herein as the "**Share Consideration.**"

8. The agreement is hereby amended by deleting the ultimate sentence of Section 3.1.2 and replacing it with the following new sentences:

Notwithstanding anything to the contrary in the Agreement, to the extent that any Value Added Tax ("**VAT**") is imposed upon Buyer with respect to the transactions contemplated by the Agreement, then, at least five (5) business days prior to the date on which such VAT payment is due, Seller shall advance (each, a "**BOS VAT Advance**") the amount of such VAT liability to Buyer. Buyer hereby (i) assigns to Seller any of Buyer's right to a refund of any VAT for which, and to the extent that, Seller has made a BOS VAT Advance with respect thereto, or (ii) undertakes to transfer to Seller, immediately upon receipt, any and all sums it receives as a refund from the VAT authorities hereunder. The parties expressly agree, that the value of the Share Consideration is $4,569,887, being the product of 3,195,725 shares multiplied by $1.43, which is the value of each share.

9. Section 3.2 of the Agreement is hereby amended in its entirety to read as follows:

3.2 Earn-Out Shares.

3.2.1 In the event that during the full four (4) consecutive quarters following the Closing Date (the "**Earn-Out Period**"), the financial statements of Buyer reflect gross sales, as defined according to US GAAP, related to sales generated solely by the sales force of the Business as existing on the Closing Date (the "**Business Revenues**"), equal, in aggregate, to Six Million US Dollars (US$ 6,000,000) or more (a "**Triggering Event**"), then Qualmax shall issue to BOS 1,065,242 shares of Buyer Stock. If Business Revenues during such full four (4) quarters equal less than US$6,000,000 but greater than US$4,000,000, then for every $100,000 or portion thereof that Business Revenues exceed $4,000,000, Qualmax shall issue 53,262 shares of Buyer Stock to BOS. Shares of Buyer Stock issued pursuant to this Section 3.2.1 shall be referred to herein as "**Earn-Out Shares**."

3.2.2 Business Operation. Following the Closing and until the end of the Earn-Out Period, Buyer shall operate the Business consistent with Seller's past practices and a reasonable business plan, and shall not take any action that would reasonably be expected to cause the non-occurrence of a Triggering Event. Upon any material breach by Buyer of the immediately preceding sentence (a "**Voiding Action**"), Seller shall be entitled to have all of the Earn-Out Shares issued to BOS.

3.2.3 Reports. During the Earn-Out Period, for so long as any royalty payments are due hereunder and for a period of six (6) months thereafter, Buyer shall provide Seller with quarterly reports certified by Buyer's Chief Financial Officer, covering Qualmax Sub's activities with respect to the Business for the respective quarter, including financial statements, new customers, status of all current customers, license fees received and such other information as is reasonably necessary to determine: (a) for so long as any royalty payments are due hereunder, the amount of gross sales (defined by US GAAP) received by Buyer on sales generated by the Royalty Base Business during such quarter; and (b) during the Earn-Out Period, the amount of Business Revenues generated during such quarter.

3.2.4. Auditing and Inspection Rights. During the Earn-Out Period and for a period of six (6) months thereafter, Seller shall be entitled to review and audit Buyer's books and records with respect to the Business Revenues, provided that such audit shall be conducted by an independent auditor at Seller's expense; provided, however, that if such audit reveals that Buyer had understated Business Revenues (without subsequently correcting its calculation thereof) by more than ten percent (10%), then Buyer shall pay for the reasonable expenses of such audit. Seller shall be entitled to exercise its audit rights under this Section 3.2.4 every six (6) months, upon notice of seven (7) business days to Buyer. Any audit pursuant to this Section 3.2.4 shall be conducted during Buyer's normal business hours so as not to unreasonably interfere with Buyer's business activities.

10. Subsection 4.2(c) of the Agreement is hereby amended in its entirety to read as follows:

(c) Buyer shall provide the Seller with a validly executed share certificate covering the Share Consideration (other than any Earn-Out Shares), issued in the name of the Seller;

11. Subsection 4.2(d) of the Agreement is hereby amended in its entirety to read as follows:

(d) [Reserved]

12. Subsection 4.2(e) of the Agreement is hereby amended in its entirety to read as follows:

(e) Buyer shall provide the Seller with true and correct copies of resolutions of Buyer's Board of Directors approving the transaction contemplated hereby, the issuance of the Share Consideration (including the Earn-Out Shares) and the payment of the Royalty Consideration and the potential issuance of Additional Buyer Stock.

13. Subsection 4.2(f) is hereby amended in its entirety to read as follows:

(f) [Reserved]

14. Section 5.4 of the Agreement is hereby amended in its entirety to read as follows:

5.4 Acquired Assets. Seller is the owner of and has good and marketable title to all of the Acquired Assets, free and clear of all encumbrances or rights and claims of any third party (except for the OCS, to the extent set forth on **Schedule 1.2(i)**hereto) or restrictions on transfer. To the best of Seller's knowledge: (i) no claims were made or threatened in relation to the Acquired Assets; (ii) the Acquired Assets do not breach or infringe on any third party's rights; and (iii) the Acquired Assets are in operable condition and repair. Except as set forth on **Schedule 5.4**, the Acquired Assets constitute all of the assets that Seller currently uses in, or that are necessary for the conduct of, the Business.

15. Section 5.6 of the Agreement is hereby amended in its entirety to read as follows:

5.6 Except as would not have a material adverse effect, Seller has all licenses (including, without limitation, encryption licenses), franchises, permits, and other government authorizations that are legally required to enable it to conduct the Business and related operations in all material respects as such Business and operations are conducted as of the Closing date, and to use, occupy and own all of the Acquired Assets in all material respects as such Acquired Assets are currently used, occupied and owned as of the Closing date. Copies of all such licenses, franchises, permits and other governmental authorizations have been delivered to Buyer and its counsel. Except for (a) compliance with federal and state securities or corporation laws, and (b) obtaining the approval of the OCS and as provided for in this Agreement, no authorization, approval, consent, or order of, or registration, declaration, or filing with, any court or other governmental body, or any stock exchange or quotation system, is required in connection with the execution and delivery by Seller of this Agreement and the consummation by Seller of the transactions contemplated hereby.

16. Section 5.9 of the Agreement is hereby amended by replacing the last sentence thereof with the following new sentence:

The Seller Annual Report and all reports Seller has filed with the SEC thereafter, when filed, were free of material errors and omissions, except to the extent modified or superceded by subsequent filings and/or by disclosures made in this Agreement, including the Schedules hereto.

17. The following is hereby added at the end of Section 5.11 of the Agreement:

Each material contract listed in said **Schedule 5.11**, is in full force and effect. Neither Seller nor, to Seller's knowledge, any other party to such material contract, is in breach of any such material contract.

18. Section 5.15 of the Agreement is hereby amended in its entirety to read as follows:

5.15 No Litigation. Except for a lawsuit instigated by BOSaNova Eurl against BOS, Qualmax, and Media Partners International before the Trade Tribunal at Nanterre (France) (the "**Bosanova Litigation**"), a copy of which has been provided to Buyer and its counsel, Seller, with respect to the Acquired Assets, (i) is not subject to any outstanding injunction, judgment, order, decree, ruling, or charge and (ii) is not a party and, to the knowledge of Seller, is not threatened to be made a party to any action, suit, proceeding, hearing, or investigation of, in, or before any court or quasi judicial or administrative agency of any federal, state, local, or foreign jurisdiction or before any arbitrator. Seller has no reason to believe that any such action; suit, proceeding, hearing, or investigation may be brought or threatened against Seller.

19. The Agreement is hereby amended to add the following Section 5.19 to Section 5 thereof:

5.19 Grants and Incentives. **Schedule 5.19** sets forth a complete list of all grants and incentive programs ("**Grants**") from any Israeli governmental entity to Seller with respect to the Business or the Acquired Assets or by which any of the Acquired Assets is bound, including but not limited to: (a) Grants under Certificates of Approval of the OCS ("**Approved Plans**"), and (b) Grants from the Israeli Fund for the Promotion of Marketing. True and correct copies of all letters of approval, and supplements thereto, granted to Seller with respect to any Grants and all undertakings made by Seller with respect to such Grants have previously been delivered to Buyer and its counsel. Seller is in material compliance with the terms and conditions of the Grants and has fulfilled in all material respects all the undertakings and obligations relating thereto. To the best knowledge of Seller, there are no events which may lead to the annulment or limitation of any of the Grants.

20. The Agreement is hereby amended to add the following Section 5.20 to Section 5 thereof:

5.20 Intellectual Property. Seller owns or is licensed or otherwise has, and, shall transfer to Buyer at Closing, the right to use all trademarks, service marks, trade names, copyrights, trade secrets, licenses, franchises and other rights, products, processes and methods, computer software, computer programs and similar intangible assets which are necessary for the operation of the Business as presently conducted by Seller or that have been developed by Seller for current or future use in connection with the Business or the Acquired Assets (collectively the "**Business IP**"). Seller is not aware of any violation or infringement by a third party of any of the Business IP owned by Seller. To Seller's knowledge, no party other than Seller has any rights to or in, or any claims against, any of the Business IP owned by Seller. Neither the execution nor delivery of this Agreement or the agreements contemplated by this Agreement, nor the consummation of the transactions contemplated thereby, will, to Seller's knowledge, conflict with or result in a breach of any license or material contract listed in **Schedule 5.11** herein, nor infringe upon any intellectual property rights of any person or entity.

21. Section 6.1 of the Agreement is hereby amended in its entirety to read as follows:

6.1 Organization. Qualmax is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware. Qualmax Sub is a company duly incorporated and validly existing under the laws of the State of Israel. Buyer has the corporate power to own all of its properties and assets and to carry on its business in all material respects as it is now being conducted, and there is no jurisdiction in which it is not qualified in which the character and location of the assets owned by it or the nature of the business transacted by it requires qualification, except where the failure to be so qualified would not reasonably be expected to have a material adverse effect on Buyer.

22. Section 6.4 of the Agreement is hereby amended to remove reference to the "Escrow Agreement" in the first sentence thereof.

23. Section 6.5 of the Agreement is hereby amended by replacing the sentence beginning with the words *"Schedule 6.5 hereto"* and ending with the words "*as of the date hereof*" with the following new sentence:

Schedule 6.5 hereto constitutes the share capitalization table of Qualmax on a fully diluted basis, as of the Closing date.

24. Section 6.6 of the Agreement is hereby amended in its entirety to read as follows:

6.6 Subsidiaries. Buyer owns the following wholly owned subsidiaries: IP Gear, Inc., a corporation duly incorporated in the United States, and Qualmax Sub, a company incorporated in Israel. Qualmax Sub is wholly owned by Qualmax. Buyer represents and undertakes that Qualmax Sub has been established for the initial purpose of holding the Acquired Assets and to conduct the Business, and that is free and clear of any and all liabilities and encumbrances whatsoever.

25. Section 6.12 of the Agreement is hereby amended in its entirety to read as follows:

6.12 Litigation and Proceedings. Except for the Bosanova Litigation, there are no actions, suits, or proceedings pending or, to the knowledge of Buyer, threatened by or against or affecting Qualmax and/or Qualmax Sub, or their respective properties, at law or in equity, before any court or other governmental agency or instrumentality, domestic or foreign, or before any arbitrator of any kind, which would reasonably be expected to have a Buyer MAE.

26. Section 7.2 of the Agreement is hereby amended in its entirety to read as follows:

7.2 Buyer shall grant to Seller piggy-back registration rights with respect to (a) the Share Consideration, including any Earn-Out Shares, issued and/or transferred to Seller pursuant to this Agreement, (b) any Additional Buyer Stock actually issued by Buyer to Seller pursuant to this Agreement, and (c) any Outsourcing Shares, as such terms are defined in the Registration Rights Agreement attached hereto as **Schedule 7.2** (collectively, (a), (b) and (c) shall be referred to as the "**Registrable Securities**"), all in accordance with the aforesaid Registration Rights Agreement to be executed by the parties hereto at the Closing, such that if Buyer undertakes to register the resale of shares of Buyer Stock held by any affiliates of Buyer, Buyer must allow Seller to have a pro rata amount of Registrable Securities included in such registration statement. Said registration rights shall also apply to any bonus shares and/or rights offerings and/or similar distributions made by Buyer with respect to the Registrable Securities.

27. Section 8 of the Agreement is hereby amended as follows:

(a) Sub-section (ii) therein is hereby amended in its entirety to read as follows:

(ii) such Affiliate Transaction, whether of Qualmax and/or Qualmax Sub, has been approved by a majority of the independent members of the Board of Directors of Qualmax, and if the Affiliate Transaction is that of Qualmax Sub, then by the Board of Directors of Qualmax Sub as well.

(b) The last sentence of Section 8 is hereby amended in its entirety as follows:

Notwithstanding anything to the contrary herein, this Section 8 shall not prohibit: (x) any reasonable employment agreement between Buyer and an executive officer of Buyer that is approved (1) by a majority of the Board of Directors of Qualmax, or (2) if such executive officer is a director, by a majority of the Board of Directors of Qualmax, excluding such executive officer, for such agreements of both Qualmax and Qualmax Sub; (y) any reasonable employment agreement or other compensation plan or arrangement paid or made available to officers or employees of Buyer for services actually rendered or to be rendered and entered into by Buyer in the ordinary course of business and consistent with past practice; or (z) any transaction described on **Schedule 8**.

28. A new Section 8A is hereby added after Section 8 to read as follows:

8A. SELLER AND BUYER COVENANTS

8A.1 Seller Source Code. Within thirty (30) days following the Closing, Seller shall have provided Buyer with all source codes for all software constituting Acquired Assets, including current developments, in writing and/or burned onto CDs, as the case may be, as well as any literature regarding such software (including without limitation, manuals and white papers).

8A.2 Assignment of Contracts. Seller hereby undertakes to, immediately following the Closing, use its best efforts to obtain any third party consent necessary for the assignment or transfer of each material contract included in the Acquired Assets. If a required consent is not obtained, or if an attempted assignment or transfer of a material contract would be ineffective or would adversely affect the rights of Buyer thereunder so that Buyer would not in fact receive all of the rights and benefits thereunder, Seller shall use its commercially reasonable efforts jointly with Buyer to secure to Buyer the same economic rights and benefits thereunder through a mutually agreeable alternate arrangement (including subcontracting, sublicensing or subleasing to Buyer, or an arrangement under which Seller would enforce for the benefit of Buyer, with Buyer assuming Seller's obligations, any and all rights of Seller against a third party thereto). Seller will promptly pay to Buyer when received all monies received by Seller under any such contract or any claim or right or any benefit arising thereunder not transferred pursuant to this Section 8A.2.

8A.3 Encryption License. Seller hereby undertakes to use its best efforts to assist Buyer to obtain or arrange for the assignment of the encryption license Seller has from the Ministry of Defense of the State of Israel (the "**MoD**"). Attached hereto as **Schedule 8A.3** is an email from the MoD stating that until Qualmax Sub obtains an encryption license directly from the MoD, Qualmax Sub is permitted to continue the development, production, integration, export, sale and distribution of the Bosanova Claro product.

8A.4 Non-Solicitation. Commencing upon the Closing and during the five (5) year period immediately thereafter (the "**Restriction Period**"), no Seller nor any of its respective subsidiaries shall, directly or indirectly, solicit the employment of, assist in the soliciting of the employment of, or otherwise solicit the association in business with, any Hired Personnel, or induce any Hired Personnel to terminate such relationship, or to join with Seller or any of their affiliates or any other person or entity for the purpose of leaving the employ or such other relationship with Buyer.

8A.5 Non-Competition. During the Restriction Period, neither BOScom nor Quasar nor any of its respective subsidiaries shall, directly or indirectly, own, manage or control, or participate in the ownership, management or control of, or be engaged by or otherwise affiliated or associated as a consultant, independent contractor or otherwise with, any business or entity that is engaged in activities that are competitive with the Business (any "**Competitor**"). For purposes of clarity, any business or entity engaged exclusively in the Connectivity business shall not be considered a Competitor. Notwithstanding this Section 8A.5 or any other provision of this Agreement, BOScom and Quasar are permitted to collectively own up to one percent (1%) of the outstanding capital stock or other equity interests of any publicly-traded entity that is a Competitor.

8A.6 OCS Royalties. Seller hereby agrees to pay to the OCS, and to prepare any required reports related to, any royalty payments or other amounts, if any, owing to the OCS which were due, accrued or relate to the period prior to the Closing Date.

8A.7 Issuance of Stock. Qualmax hereby covenants to BOS that Qualmax shall issue any shares of Buyer Stock that are required to be issued pursuant to the terms of the Outsourcing Agreement.

29. Section 9.6 of the Agreement is hereby amended in its entirety to read as follows:

9.6 [Reserved]

30. Section 9.7 of the Agreement is hereby amended in its entirety to read as follows:

9.7 [Reserved]

31. [Reserved]

32. Section 10.6 of the Agreement is hereby amended such that the words “Holdback Shares” are hereby replaced with the words “Earn-Out Shares”.

33. Section 10.10 of the Agreement is hereby amended in its entirety to read as follows:

10.10 [Reserved]

34. Section 10.11 of the Agreement is hereby amended in its entirety to read as follows:

10.11 [Reserved]

35. Section 10.12 of the Agreement is hereby amended such that reference to Exhibit D is hereby replaced with reference to Schedule 7.2.

36. The following is hereby added to the end of Section 13 of the Agreement:

In addition to, and not in limitation of, the foregoing, Seller hereby agrees fully to indemnify and hold harmless Buyer and its affiliates and their respective shareholders, directors, officers and agents (in such capacities, collectively, the **“Buyer Indemnified Parties”**) from and against all claims, losses, liabilities and expenses which may be made or brought against the Buyer Indemnified Parties or which they may suffer or incur, directly or indirectly, as a result of or in connection with the Bosanova Litigation, provided however that, such indemnity shall only include (i) any amounts ordered against the Buyer Indemnified Parties in any settlement approved in writing by Seller or in any final judgment and (ii) reasonable legal fees and expenses incurred by the Buyer Indemnified Parties in connection with such litigation.

Such indemnification by Seller shall be subject to the following procedure:

(a) The Buyer Indemnified Parties shall deliver to Seller without delay all documents they receive or possess in connection with the Bosanova Litigation.

(b) Seller shall be entitled to undertake the conduct of the defense of the Buyer Indemnified Parties in respect of the Bosanova Litigation. At the request of Seller, the Buyer Indemnified Parties shall cooperate with Seller and execute all documents reasonably required to enable Seller to conduct the defense in the name of the Buyer Indemnified Parties.

(c) Seller will have no liability or obligation under this indemnification obligation for any amount expended by the Buyer Indemnified Parties pursuant to any compromise or settlement agreement reached in Bosanova Litigation without Seller's prior written consent to such compromise or settlement.

For avoidance of doubt, the provisions of Section 15.11 herein shall apply to Seller's obligation to indemnify the Buyer Indemnified Parties under this Section 13 in connection with the Bosanova Litigation.

37. Section 15.10 of the Agreement is hereby amended in its entirety to read as follows:

Further Assurances. The parties agree, without any additional consideration, to take all necessary measures and execute such other and further documents as may be necessary or appropriate to give full force and effect to the transaction contemplated herein. Without derogating from the generality of the foregoing or from any of the provision set forth hereunder, the parties agree that the aforesaid commitment shall continue to apply after the Closing and the Seller undertakes to perform any additional post-Closing action, to effectuate the Buyer's title and interest in the Acquired Assets, to retain the Hired Personnel and to deliver and comply with any post-Closing deliverable hereunder.

38. The list of Exhibits and Schedules at the end of the Agreement is hereby deleted in its entirety.

39. Except as amended hereby, the Agreement shall continue in full force and effect, and each party hereto hereby confirms its agreement to the Agreement as amended by this Amendment.

40. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall together constitute one and the same instrument.

[Signature page follows immediately]

IN WITNESS WHEREOF, the parties hereto have executed, or have caused this Amendment to be executed by their respective duly authorized officers, as of the date first above-written.

QUALMAX, INC.

By: _____

Name: _____
Title: _____

QUALMAX LTD.

By: _____

Name: _____
Title: _____

BOSCOM LTD.

By: _____

Name: _____
Title: _____

B.O.S. BETTER ONLINE SOLUTIONS LTD.

By: _____

Name: Adiv Baruch Nehemia Kaufman
Title: CEO CFO

QUASAR TELECOM (2004) LTD.

By: _____

Name: _____
Title: _____

LOAN AGREEMENT

THIS LOAN AGREEMENT (the "**Agreement**") is made as of the 31st day of December, 2005 (the "**Effective Date"**), by and among B.O.S. Better Online Solutions Ltd. (the "**Lender**"), a company organized under the laws of the State of Israel, with its principal offices located at Beit Rabin, Teradyon, Misgav 20179, Israel, and Qualmax Ltd. (the "**Borrower"**), an Israeli Company, with its registered offices located at c/o Shibolet, Yisraeli, Roberts, Zisman and Co., Adv., 46 Montifiore St., Tel-Aviv 65201, Israel.

W I T N E S S E T H:

WHEREAS, Borrower and Lender have entered into an Asset Purchase Agreement dated October 26, 2005, as amended from time to time pursuant to which Borrower is acquiring from Lender the communications solutions business of Lender (the "**APA**");

WHEREAS, as a condition to the closing of the APA, Borrower must receive a bridge financing in the amount of at least US$1,000,000;

WHEREAS, in order to facilitate the closing of the APA, Lender has agreed to extend to Borrower a loan in the amount of US$1,000,000 on the terms and conditions set forth herein; and

WHEREAS, Borrower desires to receive such loan from Lender on the terms and conditions set forth herein;

NOW THEREFORE, the parties hereto hereby agree as follows:

1. **Loan; Interest**.

1.1 Lender shall lend to Borrower an aggregate amount of US$1,000,000 (the "**Loan Amount**"). The Loan Amount shall bear and accrue interest at a rate per annum (the "**Interest Rate**") equal to the "prime rate" published on The Wall Street Journal from time to time, plus two and a half percent (2.5%), but no more than twelve percent (12%). The Interest Rate shall be increased or decreased, as the case may, be for each increase or decrease in the prime rate in an amount equal to such increase or decrease in the prime rate; each change to be effective as of the day of the change in such rate. Interest on the Loan Amount shall be calculated on the basis of a 360-day year. The amount accrued as interest on the Loan Amount at the Interest Rate is referred to herein as the "**Interest**". Interest shall accrue from the date of Closing of this Agreement and until the full repayment of the Loan Amount by Borrower in accordance with the terms of this Agreement. Collectively, the Loan Amount and the Interest shall be referred to in this Agreement as the "**Loan**".

1.2 At the Closing Lender shall transfer the Loan Amount to a bank account in the name of Qualmax Ltd. (or on its behalf and for its benefit) in Israel, according to the details to be provided in a written notice by Borrower prior to the Closing.

1.3 Borrower shall use the Loan Amount exclusively for the financing and operation of the "Business", as defined in the APA. For the avoidance of doubt, no part of the Loan Amount shall be used to pay management fees to Qualmax Inc. **("Qualmax**") nor shall it be transferred to any of Qualmax's affiliates.

2. Payments.

2.1 Interest Payments.

Interest shall be payable monthly, in arrears, commencing on January 1, 2006 and on the first Business Day (as defined below) of each consecutive calendar month thereafter until the Final Repayment Date (and on the Final Repayment Date), whether by acceleration or otherwise (each, a "**Repayment Date**").

The date, on which the last payment under this Agreement is due and payable by Borrower, shall be referred to as the "**Final Repayment Date**".

2.2 Monthly Principal Payments. Amortizing payments of the aggregate outstanding Loan Amount at any time (the **"Principal Amount**") shall begin on July 1, 2007 and shall recur on the first Business Day (as defined below) of each succeeding month thereafter until the Final Repayment Date, all as set forth in the table below:

Date	Principal Amount	Date	Principal Amount
1-Jul-07	$ 55,556	1-Apr-08	$ 55,555
1-Aug-07	$ 55,556	1-May-08	$ 55,555
1-Sep-07	$ 55,556	1-Jun-08	$ 55,555
1-Oct-07	$ 55,556	1-Jul-08	$ 55,555
1-Nov-07	$ 55,556	1-Aug-08	$ 55,555
1-Dec-07	$ 55,556	1-Sep-08	$ 55,555
1-Jan-08	$ 55,556	1-Oct-08	$ 55,555
1-Feb-08	$ 55,556	1-Nov-08	$ 55,555
1-Mar-08	$ 55,556	1-Dec-08	$ 55,556

All payments by Borrower to Lender made under this Agreement shall be subject to withholding tax as prescribed under Israeli law, unless Lender shall provide Borrower, prior to any payment hereunder, with the authorization of the Israeli income tax commission to act otherwise. In the event that any payment on account of the Loan is subject to Israeli VAT, such VAT shall be paid by the Borrower against receipt of a valid VAT invoice.

All payments by Borrower to Lender made under this Agreement shall be made on a Business Day (as defined herein) in accordance with the provision of this Section 2. For purposes of this Agreement, the term "**Business Day**" means any day on which banks in Israel are open and execute foreign exchange transactions.

All payments to Lender by Borrower, to be made under this Agreement shall be made to Lender's bank account as follows:

United Mizrahi Bank Ltd. (Bank# 20)
Haifa Business Center, City Wind Brosh Building
2 Palyam St. Haifa, Israel (Branch# 444)
Swift Code: MIZBILIT
Account#: 20-44-125542 Attn. Alice B.
Phone: 972-4-658207 Fax: 972-4-8622012

or to such other bank account details to be provided by Lender to Borrower in writing.

2.3 Repayment in Borrower Stock. Notwithstanding the foregoing obligations of repayment of Borrower as set forth in this Section 2, if in the first fiscal quarter of 2006, the Royalty Base Business (as defined in Section 3.1.2 of the APA) operated in accordance with the budget agreed to between the Lender and the Borrower, generates losses which exceed US$250,000, then Borrower shall be entitled to make any payments due hereunder to the extent of the amount of losses over said US$250,000 (the "**Excess Losses**") in shares of Common Stock of Qualmax (the "**Borrower Stock**") in lieu of cash. For purposes of this Section 2.3, each share of Borrower Stock shall be valued at US $1.43 (subject to appropriate adjustment in the event of any stock dividend, stock split, subdivision, combination, recapitalization, reorganization, reclassification, consolidation or like occurrence or event, the "**Borrower Stock Price**"). It is expressly agreed that as a condition precedent to any determination regarding Excess Losses hereunder, the Excess Losses must be reviewed and certified by an independent accounting firm reasonably acceptable to the Lender.

2.4 Default Interest on Late Payments. Without derogating from any rights or remedies afforded by law, any delay of more than fifteen (15) days in the payment of any amount due to Lender from Borrower on account of the Loan or otherwise due pursuant to the provisions of this Agreement shall subject such amounts to additional interest which shall accrue thereon at an annual rate of five and one-half percent (5.5%) from the date on which such payment has become due and until actual payment thereof. Such default interest shall be compounded daily.

2.5 Prepayment. Notwithstanding the provisions of this Agreement, Borrower may, without penalty, prepay any and all amounts due to Lender on account of the Loan, at any time prior to the Final Repayment Date, provided that, Borrower delivers to Lender written notice, at least 30 days prior to the scheduled repayment date, and provided, further, that the prepayment is in an amount of all outstanding amounts then due and payable to Lender pursuant to this Agreement including accrued interest fees and default payments, if any.

2.6 Mandatory Repayment. Notwithstanding anything to the contrary in this Agreement, Borrower shall repay to Lender the Loan, immediately following an event of Qualifying Financing. "**Qualifying Financing**" shall be deemed to have occurred as soon as the Borrower has raised, by way of equity financing (or a series of equity financings) an aggregate amount equal to at least US$4,500,000. Borrower shall notify Lender, in writing, promptly upon the occurrence of a Qualifying Financing.

2.7 Issuance of Borrower Stock Certificates. Any Borrower Stock to be issued pursuant to this Agreement shall be issued by Qualmax, and any certificates evidencing such Borrower Stock shall be issued no later than fifteen (15) business days following the time such Borrower Stock is required to be issued in accordance with the provisions of this Agreement and/or the Warrant.

2.8 Registration Rights. Any and all Borrower Stock issued by Qualmax pursuant to this Agreement and the Warrant shall be restricted stock and subject to incidental registration rights, as more fully provided in the Registration Rights Agreement of even date hereof, entered into between the Lender and Qualmax.

3. **Closing**.

3.1 The closing of the transaction hereunder shall take place on the date of Closing of the APA at such time and place as shall be agreed between the parties (the "**Closing**").

3.2 At the Closing, and as a condition to Lender's obligation to provide the Loan Amount, Borrower shall provide the Lender with:

(a) a copy of the resolutions of the directors of Borrower duly authorizing the execution and performance by Borrower of this Agreement, and the Pledge Agreement (as defined in Section 9 below);

(b) a copy of the resolutions of the directors of Qualmax duly authorizing the execution of this Agreement, the provision of the Guarantee (as defined below) and the issuance of the Warrant referred to in Section 8 below;

(c) to the extent necessary and applicable, all consents, approvals and waivers which may be required from any third party;

(d) confirmation of Borrower's officer that no other action, consent or approval is required to sign, deliver and perform this Agreement, the Pledge Agreement and all transactions contemplated hereunder;

(e) an originally-executed, validly issued Warrant certificate in accordance with Section 8 below;

(f) a copy, or copies, of the duly-executed Pledge Agreement and corresponding pledge notice to the Israeli Registrar of Companies, as more fully described in the Pledge Agreement, which materials shall be ready for immediate filing therewith (the "**Pledge**").

3.3 The obligations of Lender at the Closing and thereafter are subject to the fulfillment at or before Closing of the following conditions precedent: (i) the representations and warranties made by Borrower herein shall be true and correct as of the Closing; (ii) all covenants to be performed by Borrower prior to or at the Closing shall have been performed or complied with prior to or at the Closing; and (iii) Borrower shall have secured all permits, consents and authorizations necessary or required lawfully for the execution and consummation of this Agreement, the Warrant referenced herein and the Pledge Agreement. It is hereby agreed that the Lender may, at its discretion, waive the requirement of any of the abovementioned items.

4. **Events of Acceleration**.

4.1 If any of the events specified in this Section 4 shall occur (each, an "**Event of Acceleration**"), the entire Loan Amount, together with any Interest then due thereon, shall be immediately due and payable:

(a) *Failure to Pay Principal, Interest or other Fees*. The Borrower (i) fails to pay when due any installment of principal, interest or other fees hereon in accordance herewith, or (ii) the Borrower fails to pay when due any amount exceeding $100,000 due under any other promissory note issued by Borrower (unless the Borrower shall in good faith contest the validity of such amounts), and in any such case, such failure shall continue for a period of thirty (30) days following the date upon which any such payment was due.

(b) *Breach of Covenant*. The Borrower breaches any covenant or any other term or condition of this Agreement or the Borrower and/or Qualmax breaches the provisions of Section 3.1.2 of the APA regarding the Royalty Consideration (as defined in the APA) in any material respect, or the Borrower breaches any covenant or any other term or condition of any Related Agreement (as defined herein) in any material respect and, in any such case, such breach, if subject to cure, continues for a period of thirty (30) days after the occurrence thereof. "**Related Agreement**" shall mean any of the Warrant and the Pledge Agreement entered into by and between the Borrower and the Lender.

(c) *Breach of Representations and Warranties*. Any representation or warranty made by the Borrower in this Agreement, or any Related Agreement, shall, in any such case, be false or misleading in any material respect on the date that such representation or warranty was made or deemed made, provided that if such breach is subject to cure, it shall not have been cured for a period of thirty (30) days of written notice.

(d) *Receiver or Trustee*. The Borrower shall make an assignment for the benefit of creditors, or apply for or consent to the appointment of a receiver or trustee for it or for a substantial part of its property or business; or such a receiver or trustee shall otherwise be appointed, provided such proceeding is not revoked within forty-five (45) days.

(e) *Judgments*. Any money judgment, writ or similar final process shall be entered or filed against the Borrower or any of its subsidiaries or any of their respective property or other assets for more than $100,000, and shall remain unvacated, unbonded or unstayed for a period of ninety (90) days.

(f) *Bankruptcy*. Bankruptcy, insolvency, reorganization or liquidation proceedings or other proceedings or relief under any bankruptcy law or any law for the relief of debtors shall be instituted by or against the Borrower or any of its subsidiaries and such proceedings, shall continue undismissed or unstayed for ninety (90) business days. It is hereby clarified that any cure periods in this Section 4.1 shall not be cumulative to the aforementioned ninety (90) business days.

(g) *Failure to Deliver Shares of Common Stock*. The Borrower shall fail to timely deliver shares of Borrower Stock pursuant to and in the form required by this Agreement or the Warrant, if such failure shall not be cured within fifteen (15) Business Days.

(h) Default Under Related Agreements or Other Agreements. The occurrence and continuance of any material event of default (or similar term) by Borrower under any other material indebtedness of the Borrower in excess of $200,000, which default is not cured during the applicable cure period provided therein. Lender shall give Borrower fifteen (15) business days advance notice prior to calling for the repayment of the entire Loan Amount hereunder.

4.2 Without limitation to the provisions of Section 4.1 above, upon the occurrence of an Event of Acceleration described in Section 4.1(a) – (h) above, the Lender may, at its sole discretion, elect to receive, in full satisfaction of the "Default Amount" (as defined below), and in lieu of calling in the Loan for immediate repayment in accordance with the provisions of Section 4.1 above, Borrower Stock in such number equal to the quotient obtained by dividing (a) the amount of repayment of Loan defaulted (the "**Default Amount**") plus fifty percent (50%) of such Default Amount, by (b) the Borrower Stock Price.

5. **Required Approvals**. For so long as twenty-five percent (25%) of the principal amount of the Loan is outstanding, the Borrower, without the prior written consent of the Lender, shall not:

(a) directly or indirectly declare or pay any dividends;

(b) liquidate, dissolve or effect a material reorganization provided, however, that the Borrower may merge or effect a material reorganization if the Borrower is the surviving entity;

(c) become subject to (including, without limitation, by way of amendment to or modification of) any agreement or instrument which by its terms would (under any circumstances) restrict the Borrower's right to perform the provisions of this Agreement, any Related Agreement or any of the agreements contemplated hereby or thereby; or

(d) cancel any debt owing to it in excess of $500,000 in the aggregate during any 12 month period.

6. **Representations and Warranties of Borrower**. The Borrower hereby represents and warrants to the Lender as of immediately prior to the Closing, as follows:

6.1. Borrower is a company duly organized and validly existing under the laws of the State of Israel, and has the power to own and lease its properties and to carry on its business as now being conducted.

6.2. Borrower has full power and authority to consummate the transactions contemplated hereunder and under the Pledge Agreement. Except as set forth on ***Schedule 6.2*** hereof or as shall be obtained prior to the Closing, no consents, authorizations or approvals of any kind of any governmental authority, shareholder, holder of any other interest in the Borrower or other third party are required in connection with the execution or performance of this Agreement and/or the Pledge Agreement by the Borrower. The consummation of the transactions contemplated hereunder, and the performance of this Agreement and the Pledge Agreement by the Borrower, do not violate the provisions of any applicable law, and will not result in any material breach of, or constitute a material default under, any material agreement or material instrument to which it is a party or under which it is bound, except as would not result in a Borrower MAE (as defined below). The execution and performance of this Agreement and the Pledge Agreement by the Borrower have been duly authorized by all necessary action, and this Agreement and, as of the Closing, has been (or, by the Closing, will have been) duly executed and delivered by the Borrower. This Agreement and the Pledge Agreement are legal, valid, and binding obligations of the Borrower and they are enforceable as to the Borrower in accordance with their respective terms except as the enforceability hereof and thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally, by general equitable principles (whether enforcement is sought by proceedings in equity or at law) and an implied covenant of good faith and fair dealing.

6.3 There are no outstanding legal proceedings (including arbitration and mediation proceedings) against or initiated by the Borrower or a subsidiary thereof that would be reasonably likely to have a material adverse effect on the business, operations, properties, prospects or conditions of Borrower, taken as a whole (a "**Borrower MAE**"), and the Borrower is not aware of any legal proceedings that any third parties intend or threaten to initiate against the Borrower and/or a subsidiary thereof that would be reasonably likely to result in a Borrower MAE.

6.4 Neither the Borrower nor any subsidiary thereof has any material contingent liabilities, except current liabilities incurred in the ordinary course of business and liabilities disclosed in the Schedules to the APA that would be reasonably likely to result in a Borrower MAE.

6.5 Except as set forth on the Schedules to the APA there are no agreements, understandings, instruments, contracts, judgments, orders, writs or decrees to which the Borrower is a party or by which it is bound which may involve: (i) obligations (contingent or otherwise) of the Borrower in excess of $500,000 (other than obligations arising from purchase or sale agreements entered into in the ordinary course of business); or (ii) provisions restricting the development, manufacture or distribution of the Borrower's products or services.

6.6 Except as set forth on the Schedules to the APA, the Borrower has good and marketable title to its material properties and assets, and good title to its material leasehold estates, in each case subject to no mortgage, pledge, lien, lease, encumbrance or charge, other than:

(a) those resulting from taxes which have not yet become delinquent;

(b) minor liens and encumbrances which do not materially detract from the value of the property subject thereto or materially impair the operations of the Borrower; and

(c) those that have otherwise arisen in the ordinary course of business.

6.7 Neither the execution and the delivery of this Agreement nor the consummation of the transactions contemplated hereby, will (i) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court, or any stock exchange or quotation system, to which Borrower is subject or any provision of the certificate of incorporation, bylaws or analogous instruments of Borrower, or (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which Borrower is a party or by which it is bound or to which any of its assets is subject, except where the violation, conflict, breach, default, acceleration, termination, modification, cancellation, failure to give notice, or encumbrance would not reasonably be expected to result in a Borrower MAE; or (iii) result in the imposition of any lien or other encumbrance upon any of Borrower's assets, other than the Pledge and except for any lien or encumbrance that would not reasonably be expected to result in a Borrower MAE.

6.8 Borrower has no liabilities with respect to the payment of any taxes (including any deficiencies, interest, or penalties), except for taxes accrued but not yet due and payable, for which Borrower may be liable in its own right, or as a transferee of the assets of or as a successor to, any other corporation or entity. Borrower has filed all income tax returns required to be filed by it from inception to the date hereof. All such returns are complete and accurate in all material respects.

6.9 Borrower has all licenses, franchises, permits, and other government authorizations, that are legally required to enable it to conduct its business operations in all material respects as conducted on the date hereof, except to the extent that failure to obtain same would not reasonably be expected to result in a Borrower MAE. Except for compliance with federal and state securities or corporation laws, as hereinafter provided, no authorization, approval, consent, or order of, or registration, declaration, or filing with, any court or other governmental body, or any stock exchange or quotation system, is required in connection with the execution and delivery by Borrower of this Agreement and the consummation by Borrower of the transactions contemplated hereby. Borrower has complied with all applicable statutes and regulations of any federal, state, Israeli or other applicable governmental entity or agency thereof, and with all applicable rules of any stock exchange or quotation system, except to the extent that noncompliance would not reasonably be expected to result in a Borrower MAE.

7. **Representations and Warranties of Lender**. The Lender hereby represents and warrants to the Borrower as follows:

7.1. Lender is a corporation duly incorporated and validly existing under the laws of the State of Israel, and has the power to own and lease its properties and to carry on its business as now being conducted.

7.2. Lender has full power and authority to consummate the transactions contemplated hereunder. Except as set forth on ***Schedule 7.2*** hereof or as shall be obtained prior to Closing, no consents, authorizations or approvals of any kind of any governmental authority, shareholder, holder of any other interest in the Lender or other third party are required in connection with the execution or performance of this Agreement by the Lender. The consummation of the transactions contemplated hereunder, and the performance of this Agreement by the Lender, do not violate the provisions of any applicable law, and will not result in any material breach of, or constitute a material default under, any material agreement or material instrument to which it is a party or under which it is bound, except as would not have a material adverse effect on the business, operations, properties, prospects or conditions of the Lender and its subsidiaries, taken as a whole. The execution and performance of this Agreement by the Lender have been duly authorized by all necessary action, and this Agreement and, as of the Closing, has been (or, by the Closing, will have been) duly executed and delivered by the Lender. This Agreement is the legal, valid, and binding obligation of the Lender and it is enforceable as to the Lender in accordance with its respective terms except as the enforceability hereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally, by general equitable principles (whether enforcement is sought by proceedings in equity or at law) and an implied covenant of good faith and fair dealing.

8. **Warrant**. In further consideration for advancing the Loan Amount, the Lender shall be granted, at the Closing, a warrant to purchase 107,143 shares of Borrower Stock (the "Warrant") pursuant to the terms of a warrant in the form attached hereto as ***Schedule 7***. The Warrant to be issued to the Lender at the Closing pursuant to this Section 8 shall remain in effect in accordance with its terms, notwithstanding any conversion, acceleration, or the repayment of the Loan.

9. **Pledge**.

9.1 In order to secure the fulfillment of all of Borrower's obligations hereunder, the Borrower shall, at the Closing, pledge in favor of Lender, by way of first-priority floating charge all of its properties, assets and rights, including the Acquired Assets (as defined in the APA). The pledge shall be governed by a floating charge and debenture agreement in the form attached hereto as ***Schedule 9*** (the "**Pledge Agreement**"), which shall be executed by Borrower, on or prior to the Closing. The Pledge shall be registered with the Israeli Registrar of Companies, by filing the necessary forms therewith, promptly following the Closing. The Borrower shall fully cooperate with the Lender and execute all documents as may be necessary to effect the Pledge, and the Borrower and Lender shall equally bear any applicable stamp taxes and/or registration fees.

9.2 Lender agrees that the Pledge shall rank junior and be subordinated to a charge or any other security interest in favor of Bank of America, N.A. ("BoA"), if and to the extent such charge or any other security interest (the "Charge") is mandated pursuant to the Business Loan Agreement dated April 20, 2005, as amended between Qualmax and BoA, and provided that the Charge is recorded with the Israeli Registrar of Companies. Lender shall cooperate with Borrower for the purpose of facilitating the registration of the Charge under the circumstances provided above. The provisions of this Section 9.2 shall serve as Lender's consent to the registration of the Charge. Nothing herein shall be deemed to otherwise derogate from the Lender's rights pursuant hereunder and under the Pledge.

10. **Miscellaneous.**

10.1 Furtherance of Cooperation. Each of the parties hereto shall perform such further acts and execute such further documents as may reasonably be necessary to carry out and give full effect to the provisions of this Agreement and the intentions of the parties as reflected thereby.

10.2 Reports. Borrower undertakes to provide Lender with: (i) audited, US dollar-denominated annual financial statements, according to the US or Israeli GAAP, within ninety (90) days after the end of each fiscal year; (ii) unaudited, US dollar-denominated quarterly financial statements, according to the US or Israeli GAAP, within sixty (60) days of the end of each fiscal quarter. Borrower and Qualmax shall promptly following Lender's written request, and subject to any applicable rule and regulation, provide the Lender with a detailed cap table reflecting Borrower's and/or Qualmax's share capital and such other information as may be required to allow Lender to comply with any applicable rule or regulation, in the United States and Israel, including without limitation, rules of the SEC, Nasdaq, the Israeli Securities Authority and the Tel-Aviv Stock Exchange. Qualmax shall provide the Lender with its annual and quarterly financial statements promptly after filing of these documents with the SEC.

10.3 Governing Law. This Agreement shall be deemed to have been executed and delivered in the State of New York, and the validity, enforcement and construction hereof shall be governed in all respects by the internal laws (without regard to principles of conflicts of law) of the State of New York. Any legal action or proceeding arising under or in relation to this Agreement shall be brought exclusively in a federal or state court of competent jurisdiction within the State and County of New York. In addition, each of the undersigned parties consents and agrees that any court in which such legal action or proceeding is commenced may exercise jurisdiction over his, her or its person for purposes of enforcing the terms of this Agreement and agrees not to assert that venue in New York is inappropriate or inconvenient. Notwithstanding the above, any action related to the realization of the Pledge, including, without limitation, a motion for related interim and/or temporary orders, may be adjudicated under Israeli law (without regard to principles of conflicts of law) in the competent courts of Tel Aviv- Jaffa, Israel.

10.4 Assigns and Successors. Except as otherwise expressly limited herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors, and administrators of the parties hereto. None of the rights, privileges, or obligations set forth in, arising under, or created by this Agreement may be assigned or transferred by either party without the prior consent in writing of the other party, provided, however, that the Borrower's consent shall not be required with respect to any assignment, delegation or transfer of the rights and obligations of this Agreement by the Lender. The transfer of rights and obligations by Lender shall be contingent upon the transferee thereof undertaking in writing to assume all obligations of the Lender (in its capacity as a Lender) under this Agreement.

10.5 Entire Agreement. This Agreement, together with the Schedules and Exhibits hereto constitute the full and entire understanding and agreement among the parties with regard to the Loan to Borrower hereunder and supersede all prior agreements among the parties hereof with regard to such subject matters.

10.6 Amendment. This Agreement may not be amended, supplemented, discharged, terminated or altered except by a writing signed by the Borrower and Lender.

10.7 Preamble. The preamble hereto constitutes an integral part hereof.

10.8 Notices. All notices, demands and other communications hereunder shall be in writing or by written telecommunication, and shall be deemed to have been duly given if delivered personally or if mailed by certified or registered mail, return receipt requested, postage prepaid, or if sent by overnight courier, all to the following addresses:

If to the Lender, to:

B.O.S. Better Online Solutions Ltd.
Beit Rabin, Teradyon, Misgav
Attn: Adiv Baruch, CEO and Nehemia Kaufman, CFO

with a copy sent contemporaneously to:

Amit, Pollak, Matalon & Co.
NYP Tower - 19th Floor
17 Yitzhak Sadeh Street
Tel Aviv, 67775, Israel
Attn: Shlomo Landress, Adv.

If to the Borrower, to:

Qualmax, Ltd.
C/O Shibolet, Yisraeli, Roberts, Zisman and Co., Adv
44 Montifiore St., Tel-Aviv 65201, Israel
Attn: Ofer Manor, Adv.

with copies sent contemporaneously to:

1. Qualmax, Inc.
340 West Fifth Avenue,
Eugene, Oregon 97401, USA
Attn: Mr. M. David Kamrat; and

2. Kramer Levin Naftalis & Frankel LLP
1177 Avenue of the Americas
New York, New York 10036
Attn: Scott S. Rosenblum, Esq.

Any such notice shall be effective (a) if delivered personally, when received, and (b) if sent by reputable courier, on the date of delivery by such courier, and if delivery or transmission is not made on a business day, on the immediately following business day.

10.9 Waiver. No delay or omission to exercise any right, power, or remedy accruing to any party upon any breach or default under this Agreement, shall be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement or by law or otherwise afforded to any of the parties, shall be cumulative and not alternative.

10.10 Severability. If any provision of this Agreement is held by a court of competent jurisdiction to be unenforceable under applicable law, then such provision shall be excluded from this Agreement and the remainder of this Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms; provided, however, that in such event this Agreement shall be interpreted so as to give effect, to the greatest extent consistent with and permitted by applicable law, to the meaning and intention of the excluded provision as determined by such court of competent jurisdiction.

10.11 Damages. NEITHER PARTY OR ITS AFFILIATES SHALL BE LIABLE TO THE OTHER PARTY OR ITS AFFILIATES UNDER THIS AGREEMENT FOR OR IN RESPECT OF ANY PUNITIVE, SPECIAL, INDIRECT, EXEMPLARY INCIDENTAL OR CONSEQUENTIAL LOSS OR DAMAGES (INCLUDING BUT NOT LIMITED TO LOST PROFITS) OF ANY KIND WHATSOEVER, WHETHER BASED UPON THEORIES OF CONTRACT, NEGLIGENCE, TORT OR OTHERWISE, AND EVEN IF SUCH PARTY KNEW OF THE POSSIBILITY OR LIKELIHOOD OF THE POTENTIAL FOR SUCH DAMAGES.

10.12 Taxes. Borrower shall bear, pay and discharge all stamp, documentary, registration or other like duties or taxes, including any penalties, additions, fines, surcharges or interest relating to those duties and taxes, which are imposed or chargeable on or in connection with this Agreement and the Pledge Agreement and any document in connection therewith, provided however that Israeli stamp duty, to the extent applicable, shall be equally borne and paid by both parties.

10.13 Survival. Without derogating from the above, all covenants made in this Agreement shall continue to remain in full force and effect for so long as this Agreement remains in effect pursuant to its terms.

10.14 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[Signatures Page Immediately Follows]

IN WITNESS WHEREOF, the parties have signed this Agreement in one or more counterparts as of the date first appearing above.

B.O.S BETTER ONLINE SOLUTIONS LTD.

_____
Name: _____
Title: _____

QUALMAX LTD.

_____
Name: _____
Title: _____

The undersigned, Qualmax, having full power and authority to do so, hereby:

1. agrees, to the extent applicable, to deliver to Seller the Borrower Stock pursuant to Sections 2.3 and 4.2 of the Agreement; and

2. irrevocably and unconditionally guarantees the payment by the Borrower of the Loan and Interest hereunder (the "Guarantee"). This Guarantee is in addition to any other security granted to Lender, and shall remain in effect until the Borrower's indebtedness is discharged in full. Qualmax expressly agrees that Lender shall not be required to exhaust its remedies against the Borrower prior to demanding performance by Qualmax hereunder.

Qualmax represents that section 6.7 above applies to Qualmax, mutatis mutandis, with respect to the provision of the Guarantee.

QUALMAX, INC.

_____
Name: _____
Title: _____

[Schedules omitted]

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "**Agreement**") is made and entered into as of December 31, 2005, by and between Qualmax, Inc, a Delaware corporation (the "**Company**") and B.O.S. Better Online Solutions Ltd., an Israeli corporation ("**BOS**").

This Agreement is made pursuant to the Asset Purchase Agreement, dated as of October 26, 2005, by and between BOS and the Company, as amended from time to time (the "**Asset Purchase Agreement**") and pursuant to the Loan Agreement and the Outsourcing Agreement (each, as defined below).

The Company and BOS hereby agree as follows:

1. Definitions. Capitalized terms used and not otherwise defined herein that are defined in the Asset Purchase Agreement shall have the meanings given to such terms in the Asset Purchase Agreement. As used in this Agreement, the following terms shall have the following meanings:

"*Commission*" means the Securities and Exchange Commission.

"*Common Stock*" means the Company's shares of Common Stock, US$0.001 par value per share.

"*Company Affiliate*" means any person, directly or indirectly, controlling or controlled by or under common control with the Company, including without limitation any shareholder of the Company holding at the date hereof 10% or more of the Company's issued and outstanding share capital. For the purpose of this definition "control" as used with respect to any person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such person, whether through the ownership of voting securities or by agreement or otherwise.

"*Discontinuation Event*" shall mean (i) when the Commission notifies the Company that there will be a "review" of such registration statement and whenever the Commission comments in writing on such registration statement (the Company shall provide true and complete copies thereof and all written responses thereto to the Holder); (ii) any request by the Commission or any other Federal or state governmental authority for amendments or supplements to such registration statement or prospectus or for additional information; (ii) the issuance by the Commission of any stop order suspending the effectiveness of any registration statement covering any or all of the Registrable Securities or the initiation of any Proceedings for that purpose; (iv) the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any Proceeding for such purpose; or (v) the occurrence of any event or passage of time that makes the financial statements included in such registration statement ineligible for inclusion therein or any statement made in such registration statement or prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires any revisions to such registration statement, prospectus or other documents so that, in the case of such registration statement or prospectus, as the case may be, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

"*Exchange Act*" means the Securities Exchange Act of 1934, as amended, and any successor statute.

"*Holder*"or "*Holders*" means BOS or any of its successors to the extent any of them holds Registrable Securities.

"*Indemnified Party*" shall have the meaning set forth in Section 6(c).

"*Indemnifying Party*" shall have the meaning set forth in Section 6(c).

"*Loan Agreement*" shall mean that Loan Agreement dated December 31, 2005, entered into between Qualmax Ltd., and BOS.

"*Offering Registration Statement*" means any registration statement under the Securities Act that registers the resale of any Registrable Securities.

"*Outsourcing Agreement*" shall mean that Outsourcing Agreement dated December 31, 2005, entered into between Qualmax Ltd., the Company's wholly owned subsidiary, and BOS.

"*Proceeding*" means an action, claim, suit, investigation or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition), whether commenced or threatened.

"*Prospectus*" means the prospectus included in the Offering Registration Statement (including, without limitation, a prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated under the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by the Offering Registration Statement, and all other amendments and supplements to the Prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such Prospectus.

"*Registrable Securities*" means (a) the Share Consideration, including any Earn-Out Shares issued and/or transferred to BOS pursuant to the Asset Purchase Agreement, (b) any Additional Buyer Stock actually issued to BOS by the Company pursuant to the Asset Purchase Agreement; (c) the shares of Common Stock underlying the Class A Warrants issued by the Company to BOS in connection with the Loan Agreement (the "**Warrant Shares**"); (d) any shares of Common Stock issued to BOS pursuant to Section 2.3 of the Loan Agreement (the "**Loss Shares**"); (e) any shares of Common Stock issued to BOS pursuant to Section 4.2 of the Loan Agreement ("**Default Shares**") (f) any shares of Commons Stock issued to BOS pursuant to Section 3 of the Outsourcing Agreement (the "**Outsourcing Shares**"); and (g) any shares of Common Stock issued in a stock split or as a dividend or other distribution made by Buyer with respect to the aforementioned securities. Notwithstanding the foregoing, securities shall cease to be Registrable Securities once they are eligible to be sold or distributed pursuant to Rule 144 within any consecutive three month period (including, without limitation, Rule 144(k)) without volume limitations.

"*Rule 144*" means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"*Securities Act*" means the Securities Act of 1933, as amended, and any successor statute.

2. All references in this Agreement to amendments or supplements to the Offering Registration Statement, any preliminary Prospectus or Prospectus shall be deemed to mean and include the filing of any document under the Exchange Act, after the date of such Offering Registration Statement, preliminary Prospectus or Prospectus, as the case may be, which is incorporated by reference therein.

3. Registration.

3.1 If the Company at any time shall determine to prepare and file with the Commission a registration statement registering an offering of its equity securities, for the account of any Company Affiliate(s), each such time it will give written notice to the Holder of its intention so to do. The Company shall, upon the written request of the Holder, received by the Company within 20 days after the giving of any such notice by the Company, to register any of its Registrable Securities, use its best efforts to cause the Registrable Securities as to which registration shall have been so requested to be included in the securities to be covered by the registration statement proposed to be filed by the Company, all to the extent requisite to permit the sale or other disposition by the holders of such Registrable Securities.

3.2 Registration of Warrants Shares, Loss Shares, Outsourcing Shares and Default Shares. Without limitation to the provisions of Section 3.1 above, if the Company at any time shall determine to prepare and file with the Commission a registration statement registering an offering of its equity securities, for its own account or for the account of others (other than a Registration Statement on Form S-8, S-4 or any successor forms), the Company shall cause the Warrant Shares, the Loss Shares, Outsourcing Shares and Default Shares (if any) to be included in the securities to be covered by the registration statement proposed to be filed by the Company, all to the extent requisite to permit the sale or other disposition by the holders of such Warrant Shares and Loss Shares. The Company expressly undertakes that in any event, unless previously registered, the Company shall file an Offering Registration Statement covering all of the Warrant Shares, and any outstanding Loss Shares, Outsourcing Shares and/or Default Shares within Eighteen (18) months from the date hereof.

3.3 (a) In the event that any registration pursuant to Section 3.1 shall be, in whole or in part, an underwritten public offering, and the managing underwriter advises the Company that the inclusion of all Registrable Securities proposed to be included in such registration would interfere with the successful marketing (including pricing) of the offering, then the size of the offering shall be reduced accordingly and include the shares of Common Stock proposed to be registered for the account of the Company Affiliate(s) and the Registrable Securities proposed to be registered for the account of the Holder, pro-rata.

(b) In the event that any registration pursuant to Section 3.2 shall be, in whole or in part, an underwritten public offering, and the managing underwriter advises the Company that the inclusion of all securities proposed to be included in such registration would interfere with the successful marketing (including pricing) of the offering, then the size of the offering shall be reduced accordingly and include the shares of Common Stock proposed to be registered for the account of the Company, the shares of Common Stock proposed to be registered for the account of others, and the Warrant Shares and Loss Shares proposed to be registered for the account of the Holder, pro-rata.

4. Registration Procedures. If and whenever the Company is required by the provisions hereof to effect the registration of any Registrable Securities under the Securities Act, the Company will, as expeditiously as practicable:

(a) use its best efforts to cause an Offering Registration Statement that registers such Registrable Securities to become and remain effective until the earliest of: (i) 2 years from the date of effectiveness; (ii) such time as all of such Registrable Securities have been disposed of; and (iii) such time as such Registrable Securities cease to be Registrable Securities (such period, the "Registration Period"); it being understood that such Offering Registration Statement may, in the Company's discretion, be on any form that the Company is eligible to use to register the resale of the Registrable Securities; it being further understood that before or following the effectiveness of an Offering Registration Statement, the Company may change to another form of registration statement for which the Company is then eligible to register its securities, provided that at least one Offering Registration Statement covering the Registrable Securities not yet sold remains effective during such Registration Period.

(b) prepare and file with the Commission such amendments and supplements to such Offering Registration Statement and the Prospectus used in connection therewith as may be necessary to keep such Offering Registration Statement (or, in the Company's discretion, a registration statement on another form that the Company is eligible to use to register its securities) effective for a period of 2 years or until all of such Registrable Securities have been disposed of (if earlier) and to comply with the provisions of the Securities Act with respect to the sale or other disposition of such Registrable Securities.

(c) use its best efforts to register or qualify such Registrable Securities under such other securities or blue sky laws of such jurisdictions as the Holder reasonably request and do any and all other acts and things that may be reasonably necessary or advisable to enable the Holder to consummate the disposition in such jurisdictions of the Registrable Securities owned by the Holder; provided, however, that the Company will not be required to qualify generally to do business, subject itself to general taxation or consent to general service of process in any jurisdiction where it would not otherwise be required to do so but for this paragraph (c) or to provide any material undertaking or make any changes in its By-laws or Certificate of Incorporation which the Board of Directors determines to be contrary to the best interests of the Company or to modify any of its contractual relationships then existing;

(d) furnish to the Holder and each duly authorized underwriter such number of copies of a summary Prospectus, if any, or other Prospectus, including a preliminary Prospectus, in conformity with the requirements of the Securities Act, and such other documents as the Holder may reasonably request in order to facilitate the public sale or other disposition of such Registrable Securities;

(e) without limiting subsection (c) above, use its best efforts to cause such Registrable Securities to be registered with or approved by such other governmental agencies or authorities as may be necessary by virtue of the business and operations of the Company to enable the Holder to consummate the disposition of such Registrable Securities;

(f) immediately notify the Holder, at any time when a Prospectus relating to such Registrable Securities is required to be delivered under the Securities Act within the appropriate period mentioned in subparagraph (a) of this Section 4, of the happening of any event as a result of which the Prospectus included in such Offering Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing and, at the request of the Holder, prepare and furnish to the Holder a reasonable number of copies of a supplement to, or an amendment of, such Prospectus as may be necessary so that, as thereafter delivered to the offerees of such shares, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing;

(g) provide a transfer agent and registrar for all Registrable Securities registered pursuant to this Agreement and a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such Offering Registration Statement;

(h) furnish, at the request of the Holder, on the date such Registrable Securities are delivered to the underwriters for sale in connection with a registration pursuant to this Agreement, if such securities are being sold through underwriters, or, if such securities are not being sold through underwriters, on the date that the Offering Registration Statement with respect to such securities becomes effective (1) an opinion, dated such date, of counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters, if any, and to such the Holder, and (2) a letter dated such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering addressed to the underwriters, if any, and to the Holder;

(i) immediately notify the Holder of a Discontinuation Event and provide the Holder true and complete copies of any documentation related to such Discontinuation Event;

(j) list any Registrable Securities that are eligible for such listing on the NASD OTC Bulletin Board, Nasdaq Small Cap Market and/or on any other trading market or markets on which the Common Stock is then listed;

(k) subject to all the other provisions of this Agreement, use its best efforts to take all other steps necessary to effect the registration of the Registrable Securities that are required to be registered hereby.

5. Registration Expenses. All expenses relating to the Company's compliance with Sections 3 and 4 hereof, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel and independent public accountants for the Company, fees and expenses (including reasonable counsel fees) incurred in connection with complying with state securities or "blue sky" laws, fees of the NASD, transfer taxes, fees of transfer agents and registrars, reasonable fees of, and disbursements incurred by, one counsel for the Holder (to the extent such counsel is required due to Company's failure to meet any of its obligations hereunder), are called "Registration Expenses." All selling commissions applicable to the sale of Registrable Securities, including any fees and disbursements of any special counsel to the Holder beyond those included in Registration Expenses, are called "Selling Expenses." The Company shall only be responsible for all Registration Expenses and not for any Selling Expenses.

6. Indemnification.

(a) In the event of a registration of any Registrable Securities under the Securities Act pursuant to this Agreement, the Company will indemnify and hold harmless the Holder, and its officers, directors and each other person, if any, who controls the Holder within the meaning of the Securities Act (collectively, the "Holder Indemnified Parties"), against any losses, claims, damages or liabilities, joint or several, to which the Holder, or such persons may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any Offering Registration Statement under which such Registrable Securities were registered under the Securities Act pursuant to this Agreement, any preliminary Prospectus or final Prospectus contained therein, or any amendment or supplement thereof, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Holder, and each such person for any reasonable legal or other expenses incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company will not be liable in any such case if and to the extent that any such loss, claim, damage or liability arises out of or is based upon (A) any untrue statement or alleged untrue statement or omission or alleged omission so made in conformity with information furnished by or on behalf of the Holder or any such person in writing specifically for use in any such document; (B) use of the registration statement or the related prospectus following a Discontinuation Event, provided Holder received prior notice of such Discontinuation Event; or (C) if the Holder fails to deliver a Prospectus, as then amended or supplemented, provided that the Company shall have delivered to the Holder such Prospectus.

(b) In the event of a registration of the Registrable Securities under the Securities Act pursuant to this Agreement, the Holder will indemnify and hold harmless the Company, and its officers, directors and each other person, if any, who controls the Company within the meaning of the Securities Act, against all losses, claims, damages or liabilities, joint or several, to which the Company or such persons may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact which was furnished in writing by the Holder to the Company expressly for use in (and such information is contained in) an Offering Registration Statement under which Registrable Securities were registered under the Securities Act pursuant to this Agreement, any preliminary Prospectus or final Prospectus contained therein, or any amendment or supplement thereof, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Company and each such person for any reasonable legal or other expenses incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Holder will be liable in any such case if and only to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission so made in conformity with information furnished in writing to the Company by or on behalf of the Holder specifically for use in any such document.

(c) Promptly after receipt by a party entitled to claim indemnification hereunder (an "Indemnified Party") of notice of the commencement of any action, such Indemnified Party shall, if a claim for indemnification in respect thereof is to be made against a party hereto obligated to indemnify such Indemnified Party (an "Indemnifying Party"), notify the Indemnifying Party in writing thereof, but the omission or delay so to notify the Indemnifying Party shall not relieve it from any liability which it may have to such Indemnified Party unless and to the extent the Indemnifying Party is actually prejudiced by such omission or delay. In case any such action shall be brought against any Indemnified Party and it shall notify the Indemnifying Party of the commencement thereof, the Indemnifying Party shall be entitled to participate in and, to the extent it shall wish, to assume and undertake the defense thereof with counsel reasonably satisfactory to such Indemnified Party, provided however, that if the defendants in any action include both the Indemnified and Indemnifiable Party and if in the reasonable judgment of the Indemnified Party there is a conflict of interest that would prevent counsel for the Indemnifying Party from also representing the Indemnified Party, the Indemnified Party shall have the right to select, at the expense of the Indemnifying Party, separate counsel to participate in the defense of such action; provided, further, however, that if any of the Holder Indemnified Parties is an Indemnified Party, then the Holder Indemnified Parties shall, in the aggregate, be entitled to one (1) separate counsel at the expense of the Indemnifying Party. After notice from the Indemnifying Party to such Indemnified Party of its election so to assume and undertake the defense thereof, the Indemnifying Party shall not be liable to such Indemnified Party under this Section 6(c) for any legal expenses subsequently incurred by such Indemnified Party in connection with the defense thereof, unless (i) the Indemnified Party shall have employed counsel in accordance with the provision of the preceding sentence, (ii) the Indemnifying Party shall not have employed counsel satisfactory to the Indemnified Party to represent the same within a reasonable time after the notice of commencement of the action and within fifteen (15) days after written notice of the Indemnified Party's intention to employ separate counsel pursuant to the provisions of the previous sentence, (iii) the Indemnifying Party has authorized the employment of counsel for the Indemnified Party at the expense of the Indemnifying Party, or (iv) the Indemnifying Party has authorized the employment of counsel but such party or counsel fails to vigorously defend the action. No Indemnifying Party will consent to entry of any judgment or shall enter into any settlement with respect to any claim for which indemnification is sought hereunder, which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation. No Indemnified Party shall consent to entry of any judgment or shall enter into any settlement with respect to any claim for which indemnification is sought hereunder, without the prior written consent of the Indemnifying Party, which consent shall not be unreasonably withheld or conditioned.

(d) In order to provide for just and equitable contribution in the event of joint liability under the Securities Act in any case in which an Indemnified Party or any officer, director or controlling person thereof, makes a claim for indemnification pursuant to this Section 6 but it is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced, notwithstanding the fact that this Section 6 provides for indemnification in such case, then the Indemnifying Party will contribute to the aggregate losses, claims, damages or liabilities to which it may be subject (after contribution from others) in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party and the relative fault of the Indemnified Party as well as any other relevant equitable considerations. Relative fault shall be determined by reference to, among other things, whether any untrue statement or omission or alleged untrue statement of a material fact or the omission to state a material fact relates to information provided by the Indemnifying Party or the Indemnified Party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. Notwithstanding the foregoing, no person or entity guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) will be entitled to contribution from any person or entity that was not guilty of such fraudulent misrepresentation.

(e) The provisions of this Section 6 will remain in full force and effect and survive the sale by the Holder of the Registrable Securities covered by an Offering Registration Statement pursuant to which such Registrable Securities shall have been sold under this Agreement.

7. Public Information.

The Company shall undertake to make publicly available and available to the Holder adequate current public information within the meaning of, and as required pursuant to, Rule 144(c).

8. Changes in Registrable Securities.

If there are any changes in the Registrable Securities by way of stock split, stock dividend , combination or reclassification, or through merger, consolidation, reorganization or recapitalization, or by any other means, appropriate adjustment shall be made in the provisions of this Agreement, as may be required, so that the rights and privileges granted hereby shall continue with respect to the Registrable Securities as so changed.

9. Miscellaneous.

(a) Remedies. In the event of a breach by the Company or by the Holder, of any of their respective obligations under this Agreement, the Holder or the Company, as the case may be, in addition to being entitled to exercise all rights granted by law and under this Agreement, including recovery of damages, will be entitled to specific performance of its rights under this Agreement.

(b) Other Registrations Rights. Except as and to the extent specified in Schedule 9(b) hereto, the Company has not previously entered into any agreement granting any registration rights with respect to any of its securities to any person that have not been fully satisfied.

(c) Compliance. The Holder covenants and agrees that it will comply with the prospectus delivery requirements of the Securities Act as applicable to it in connection with sales of Registrable Securities pursuant to any Offering Registration Statement to be filed in accordance with the provisions of this Agreement.

(d) Amendments and Waivers. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, unless the same shall be in writing and signed by the Company and the Holder.

(e) Notices. Any notice or request hereunder may be given to the Company or the Holder at the respective addresses set forth below or as may hereafter be specified in a notice designated as a change of address under this Section 9(e). Any notice or request hereunder shall be given by registered or certified mail, return receipt requested, hand delivery, overnight mail or Federal Express or other national overnight next day carrier (collectively, “Courier”). Notices and requests shall be, in the case of those by hand delivery, deemed to have been given when delivered to any party to whom it is addressed, in the case of those by mail or overnight mail, deemed to have been given seven (7) business days after the date when deposited in the mail or three (3) business days after the date when deposited with the overnight mail carrier and, in the case of a Courier, then upon delivery of the package by the Courier. The address for such notices and communications shall be as follows:

If to th Holder:	B.O.S. Better Online Solutions Ltd. To the address set forth under the Holder's name on the signature page hereto. *with a copy to:* Amit, Pollak, Matalon & Co. NYP Tower, 17 Yitzhak Sadeh Street, 19th Floor Tel Aviv, 67775, Israel Attention: Shlomo Landress, Adv.
If to the Company:	To the address set forth under the Company's name on the signature page hereto. *with a copy to:* Kramer Levin Naftalis & Frankel LLP 1177 Avenue of The Americas New York, New York 10036 Attention: Scott S. Rosenblum, Esq.

or such other address as may be designated in writing hereafter in accordance with this Section 9(e) by such person.

(f) Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of each of the parties and shall inure to the benefit of the Holder. The Company may not assign its rights or obligations hereunder without the prior written consent of the Holder. The Holder may assign its rights hereunder to any purchaser or transferee of Registrable Securities that agrees in writing to be bound hereby.

(g) Execution and Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and, all of which taken together shall constitute one and the same Agreement. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile signature were the original thereof.

(h) Governing Law; Venue. This Agreement shall be deemed to have been executed and delivered in the State of New York, and the validity, enforcement and construction hereof shall be governed in all respects by the internal laws (without regard to principles of conflicts of law) of the State of New York. Any legal action or proceeding arising under or in relation to this Agreement shall be brought exclusively in a federal or state court of competent jurisdiction within the State and County of New York. In addition, each of the undersigned parties consents and agrees that any court in which such legal action or proceeding is commenced may exercise jurisdiction over his, her or its person for purposes of enforcing the terms of this Agreement and agrees not to assert that venue in New York is inappropriate or inconvenient.

(i) Cumulative Remedies. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

(j) Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

(k) Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

[Balance Of Page Intentionally Left Blank;
Signature Page Follows]

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

B.O.S. BETTER ONLINE SOLUTIONS LTD.

By: _____

Name: Adiv Baruch Nehemia Kaufman
Title: CEO CFO

Address for Notices:
Beit Rabin, Teradyon

Misgav, 20179, Israel
Attention: Nehemia Kaufman, CFO

QUALMAX, INC.

By: _____

Name: _____
Title: _____

Address for Notices:
340 West Fifth Avenue
Eugene, Oregon, 97401
U.S.A.
Attention:

NEITHER THIS WARRANT NOR THE SECURITUES ISSUABLE UPON EXERCISE HEREOF HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES OR "BLUE SKY" LAWS. SUCH SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY NOT BE SOLD OR TRANSFERRED FOR VALUE IN THE ABSENCE OF AN EFFECTIVE REGISTRATION OF THEM UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND ANY APPLICABLE STATE SECURITIES LAWS OR AN OPINION OF COUNSEL THAT AN EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS IS AVAILABLE WITH RESPECT TO SUCH SALE OR TRANSFER.

Class A Warrant to Purchase Shares of Common Stock of

Qualmax Inc.

No. A-__ Issue Date: December 31, 2005

QUALMAX, INC., a corporation incorporated under the laws of the State of Delaware (the "**Company**") hereby certifies that, for value received, B.O.S. BETTER ONLINE SOLUTIONS LTD., and/or its assigns (the "**Holder**"), is entitled, subject to the terms set forth below, to purchase from the Company from and after the Issue Date of this Warrant and at any time or from time to time before 5:00 p.m., New York time on December31, 2010 (the "**Expiration Date**"), up to 107,143 fully paid and nonassessable shares of common stock, par value $0.001 per share, of the Company ("**Common Stock**"), at an exercise price of $2.80 per share of Common Stock, for an aggregate exercise price of three hundred thousand dollars and forty cents ($300,000.40) (the aggregate purchase price payable for the Warrant Shares (as defined below) hereunder is hereinafter sometimes referred to as the "**Aggregate Exercise Price**"). The number of shares of Common Stock purchasable by Holder and to be received thereby upon exercise of this Warrant and the price to be paid for each share of Common Stock are subject to possible adjustment from time to time as hereinafter set forth. The shares of Common Stock or other securities or property deliverable upon such exercise as adjusted from time to time is hereinafter sometimes referred to as the "**Warrant Shares**." The exercise price of per share of Common Stock in effect at any time and as adjusted from time to time is hereinafter sometimes referred to as the "**Per Share Exercise Price**." The Per Share Exercise Price is subject to adjustment as hereinafter provided; in the event of any such adjustment, the number of Warrant Shares shall also be adjusted, by dividing the Aggregate Exercise Price by the Per Share Exercise Price in effect immediately after such adjustment. The Aggregate Exercise Price is not subject to adjustment except to the extent of any partial exercise of this Warrant. This Warrant may constitute one in a series of warrants (the "**Class A Warrants**"), which includes this Warrant and any other Class A Warrant for the Purchase of Shares of Common Stock of the Company, of like tenor hereto.

1. Exercise of Warrant.

1.1 This Warrant may be exercised in whole or in part at any time by its holder from the date hereof until the Expiration Date, by presentation and surrender of this Warrant, together with the duly executed subscription form attached hereto as ***Exhibit A*** (the "**Exercise Notice**"), at the address set forth in Subsection 12.1 hereof, together with payment, by certified or official bank check or wire transfer payable to the order of the Company, of the Aggregate Exercise Price or the proportionate part thereof if exercised in part.

1.2 If this Warrant is exercised in part only, the Company shall, upon presentation of this Warrant upon such exercise, execute and deliver (along with the certificate to be delivered pursuant to Section 2 hereof for the Warrant Shares purchased) a new Warrant evidencing the rights of the Holder hereof to purchase the balance of the Warrant Shares purchasable hereunder upon the same terms and conditions as herein set forth.

1.3 The certificates representing the Warrant Shares shall bear the following legend:

THE SECURITUES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES OR "BLUE SKY" LAWS. SUCH SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY NOT BE SOLD OR TRANSFERRED FOR VALUE IN THE ABSENCE OF AN EFFECTIVE REGISTRATION OF THEM UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND ANY APPLICABLE STATE SECURITIES LAWS OR AN OPINION OF COUNSEL THAT AN EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS IS AVAILABLE WITH RESPECT TO SUCH SALE OR TRANSFER.

2. Delivery of Warrant Shares, Share Certificates, Etc., on Exercise. The Company agrees that the Warrant Shares purchased upon exercise of this Warrant shall be deemed to be issued to the Holder as the record owner of such shares as of the close of business on the date on which this Warrant shall have been surrendered and payment made for such shares in accordance herewith. As soon as practicable after the exercise of this Warrant in full or in part, and in any event within three (3) business days thereafter, the Company at its expense will cause to be issued in the name of and delivered to the Holder, a certificate or certificates for the number of Warrant Shares to which the Holder shall be entitled on such exercise pursuant to Section 1 or otherwise. The Warrant Shares when issued and delivered to the Holder, shall be duly and validly issued, fully paid and non-assessable shares of the Company.

3. Effect of Reorganization, Etc.; Adjustment of Exercise Price.

3.1 In the event of any capital reorganization or reclassification not otherwise covered in Section 4, or any consolidation or merger to which the Company is a party other than a merger or consolidation in which the Company is the surviving corporation, or in case of any sale or conveyance to another entity of the property of the Company as an entirety or substantially as an entirety, or in the case of any statutory exchange of securities with another corporation (including any exchange effected in connection with a merger of a third corporation into the Company), the Holder of this Warrant shall have the right thereafter to receive on the exercise of this Warrant the kind and amount of securities, cash or other property which the Holder would have owned or have been entitled to receive immediately after such reorganization, reclassification, consolidation, merger, statutory exchange, sale or conveyance had this Warrant been exercised immediately prior to the effective date of such reorganization, reclassification, consolidation, merger, statutory exchange, sale or conveyance and in any such case, if necessary, appropriate adjustment shall be made in the application of the provisions set forth in Section 4 with respect to the rights and interests thereafter of the Holder of this Warrant to the end that the provisions set forth in Section 4 shall thereafter correspondingly be made applicable, as nearly as may reasonably be, in relation to any shares of stock or other securities or property thereafter deliverable on the exercise of this Warrant. The above provisions of this Section 3 shall similarly apply to successive reorganizations, reclassifications, consolidations, mergers, statutory exchanges, sales or conveyances.

3.2 If, as a result of an adjustment made pursuant to this Section 3, the Holder shall become entitled to receive, upon exercise of the Warrant, shares of two or more classes of capital stock or shares of Common Stock and other capital stock of the Company, the Board of Directors of the Company (whose determination shall be conclusive) shall determine the allocation of the adjusted Per Share Exercise Price between or among shares or such classes of capital stock or shares of Common Stock and other capital stock.

4. Extraordinary Events Regarding Common Stock.

4.1 In case the Company shall hereafter (i) pay a dividend or make a distribution on its capital stock in shares of Common Stock, (ii) subdivide its outstanding shares of Common Stock into a greater number of shares, (iii) combine its outstanding shares of Common Stock into a smaller number of shares or (iv) issue by reclassification of its Common Stock any shares of capital stock of the Company (each of (i) through (iv) an "**Action**"), the Per Share Exercise Price shall be adjusted to be equal to a fraction, the numerator of which shall be the Aggregate Exercise Price and the denominator of which shall be the number of shares of Common Stock or other capital stock of the Company that the Holder would have held (solely as a result of the exercise of this Warrant and the operation of such Action) immediately following such Action if this Warrant had been exercised immediately prior to such Action. An adjustment made pursuant to this Section 4 shall become effective immediately after the record date in the case of a dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or reclassification.

4.2 Whenever the Per Share Exercise Price payable upon exercise of this Warrant is adjusted pursuant to this Section 4, the number of shares of Common Stock underlying this Warrant shall simultaneously be adjusted to equal the number obtained by dividing the Aggregate Exercise Price (as the same shall be reduced to the extent of any partial exercise of this Warrant) by the adjusted Per Share Exercise Price.

5. Certificate as to Adjustments. In each case of any adjustment or readjustment in the Warrant Shares issuable on the exercise of the Warrant or the Per Share Exercise Price thereof, the Company at its expense will promptly cause its Chief Financial Officer or other appropriate designee to compute such adjustment or readjustment in accordance with the terms of the Warrant and prepare a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based, including a statement of the Exercise Price and the number and type of Warrant Shares to be received upon exercise of this Warrant, in effect immediately prior to such adjustment or readjustment and as adjusted or readjusted as provided in this Warrant. The Company will forthwith deliver a copy of each such certificate to the Holder of the Warrant.

6. Reservation of Shares, Etc., Issuable on Exercise of Warrant. The Company will at all times reserve and keep available, solely for issuance and delivery on the exercise of the Warrant, such number of Warrant Shares as are from time to time issuable on the exercise of the Warrant.

7. Representations and Warranties by the Holder. The Holder, by its acceptance of its Warrant, represents and warrants to the Company as follows:

7.1 Holder understands that this Warrant and any securities obtainable upon exercise of this Warrant have not been registered for sale under Federal or state securities laws and are being offered and sold to the Holder pursuant to one or more exemptions from the registration requirements of such securities laws. The Holder is an "accredited investor" within the meaning of Regulation D under the Securities Act of 1933, as amended (the "**Act**"). In the absence of an effective registration of such securities or an exemption therefrom, any certificates for such securities shall bear the legend set forth on the first page hereof. The Holder understands that it must bear the economic risk of its investment in this Warrant and any securities obtainable upon exercise of this Warrant for an indefinite period of time, as this Warrant and such securities have not been registered under Federal or state securities laws and therefore cannot be sold unless subsequently registered under such laws, unless as exemption from such registration is available.

7.2 Holder is acquiring this Warrant and will acquire any securities obtainable upon exercise of this Warrant for its own account for investment and not with a view to, or for sale in connection with, any distribution thereof in violation of the Act. The Holder agrees that this Warrant and any such securities will not be sold or otherwise transferred unless (i) a registration statement with respect to such transfer is effective under the Act and any applicable state securities laws or (ii) such sale or transfer is made pursuant to one or more exemptions from the Act.

8. Assignment; Exchange of Warrant. Subject to compliance with applicable securities laws, this Warrant, and the rights evidenced hereby, may be transferred by any registered Holder hereof (a "**Transferor**") in whole or in part. On the surrender for exchange of this Warrant, with the Transferor's endorsement in the form of ***Exhibit B*** attached hereto (the "Transferor Endorsement Form") and together with evidence reasonably satisfactory to the Company demonstrating compliance with applicable securities laws, the Company at its expense (but with payment by the Transferor of any applicable transfer taxes) will issue and deliver to or on the order of the Transferor thereof a new Class A Warrant, in the name of the Transferor and/or the transferee(s) specified in such Transferor Endorsement Form (each a "Transferee"), calling in the aggregate on the face or faces thereof for the number of shares of Common Stock called for on the face or faces of the Warrant so surrendered by the Transferor.

9. Replacement of Warrant. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and (i) in the case of any such loss, theft or destruction of this Warrant, subject to delivery of a reasonable indemnity of the Company by the Holder in connection therewith or (ii) in the case of any such mutilation, on surrender and cancellation of this Warrant, the Company at its expense will execute and deliver, in lieu thereof, a new Class A Warrant of like date, tenor and denomination.

10. Registration Rights. The Holder of this Warrant has been granted certain registration rights by the Company. These registration rights are set forth in a Registration Rights Agreement entered into by the Company and the Holder dated as of even date of this Warrant.

11. Rights of Shareholders. No Holder shall be entitled, as a Warrant holder, to vote or receive dividends or be deemed the holder of the shares of Common Stock or any other securities of the Company, which may at any time be issuable upon the exercise of this Warrant for any purpose, nor shall anything contained herein be construed to confer upon the Holder, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action (whether upon any recapitalization, issuance of shares, reclassification of shares, change of nominal value, consolidation, merger, conveyance, or otherwise) or to receive notice of meetings, or to receive dividends or subscription rights or otherwise until the Warrant shall have been exercised and the Warrant Shares issuable upon the exercise hereof shall have become deliverable, as provided herein.

12. Notices, Etc. No notice or other communication under this Warrant shall be effective unless, but any notice or other communication shall be effective and shall be deemed to have been given if, the same is in writing and is mailed by first-class mail, postage prepaid, addressed to:

12.1 the Company at 340 West Fifth Avenue, Eugene Oregon, 97401, Attention: Chief Executive Officer, or such other address as the Company has designated by notice to the Holder; or

12.2 the Holder at Beit Rabin, Teradyon, Misgav 20179, Israel, Attention: Chief Executive Officer , or such other address as the Holder has designated by notice to the Company.

13. Voluntary Adjustment by the Company. The Company may at any time during the term of this Warrant reduce the then current Per Share Exercise Price to any amount and for any period of time deemed appropriate by the Board of Directors of the Company.

14. Miscellaneous. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the Company and the registered holders of a majority of the then outstanding Class A Warrants. Absent the Holder's prior written consent, the Company undertakes not to issue any additional Class A Warrants, except pursuant to the provisions of this Warrant. This Warrant shall be governed by and construed in accordance with the laws of State of New York without regard to principles of conflicts of laws. Any action brought concerning the transactions contemplated by this Warrant shall be brought only in the state courts of New York or in the federal courts located in the state of New York. The Company and the Holder hereby agree to submit to the jurisdiction of such courts and waive trial by jury. The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Warrant is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision, which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of this Warrant. The headings in this Warrant are for purposes of reference only, and shall not limit or otherwise affect any of the terms hereof. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision. Each of the Company and the Holder acknowledges that its legal counsel participated in the preparation of this Warrant and, therefore, stipulates that the rule of construction that ambiguities are to be resolved against the drafting party shall not be applied in the interpretation of this Warrant to favor any party against the other party.

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SIGNATURE PAGE FOLLOWS.]

IN WITNESS WHEREOF, the Company has executed this Warrant as of the date first written above.

QUALMAX INC.

_____

By:
Name:
Title:

EXHIBIT A

FORM OF SUBSCRIPTION
(To Be Signed Only On Exercise Of Warrant)

[omitted]

EXHIBIT B

FORM OF TRANSFEROR ENDORSEMENT
(To Be Signed Only On Transfer Of Warrant)

[omitted]

Exhibit 10.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the previously filed Registration Statements on Form F-3 (No 333-130048) and Form S-8 (No 333-110696, 333-100971 and 333-11650) of B.O.S. Better Online Solutions Ltd. ("BOS") of our report dated March 27, 2006, with respect to the amended consolidated financial statements of B.O.S. Better Online Solutions Ltd. included in this Annual Report on Form 20-F for the year ended December 31, 2005.

/S/ Kost Forer Gabbay & Kasierer

Tel Aviv, Israel
June 27, 2006

Kost Forer Gabbay & Kasierer
A Member of Ernst & Young Global

Exhibit 10.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the previously filed Registration Statements on Form F-3 (No 333-130048) and Form S-8 (No 333-110696, 333-100971 and 333-11650) of B.O.S. Better Online Solutions Ltd. of our report dated March 25, 2005, with respect to the financial statements of Odem Electronic Technologies 1992 Ltd. included in this Annual Report on Form 20-F for the year ended December 31, 2005.

/S/ Kesselman & Kesselman

Jerusalem, Israel
June 27, 2006

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

Exhibit 12.1

Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.

I, Adiv Baruch, certify that:

1. I have reviewed this annual report on Form 20-F of B.O.S. Better Online Solutions Ltd. (the "registrant");

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

(c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 28, 2006

/s/ Adiv Baruch

Adiv Baruch, President and Chief Executive Officer

Exhibit 12.2

Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.

I, Nehemia Kaufman, certify that:

1. I have reviewed this annual report on Form 20-F of B.O.S. Better Online Solutions Ltd. (the "registrant");

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

(c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 28, 2006

/s/ Nehemia Kaufman

Nehemia Kaufman, Chief Financial Officer

Exhibit 13.1

Certification Pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934.

In connection with the Annual Report on Form 20-F of B.O.S. Better Online Solutions Ltd., a company organized under the laws of the State of Israel (the "**Company**"), for the period ending December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the **"Report**"), each of the undersigned officers of the Company certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to such officer's knowledge, that:

1. the Report fully complies, in all material respects, with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Report.

By: /s/ Adiv Baruch
Adiv Baruch
President and Chief Executive Officer

By: /s/ Nehemia Kaufman
Nehemia Kaufman
Chief Financial Officer

Date: June 28, 2006