

BOS BETTER ONLINE SOLUTIONS LTD
Form 6-K
March 29, 2010

FORM 6 - K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer

Pursuant to Rule 13a - 16 or 15d -16
of the Securities Exchange Act of 1934

For the Month of March 2010

B.O.S. Better Online Solutions Ltd.
(Translation of Registrant's Name into English)

20 Freiman Street, Rishon LeZion, 75100, Israel
(Address of Principal Corporate Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F S

Form 40-F F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b) (1): _____

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b) (7): _____

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes F

No S

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

The Financial Statements and the consents attached to this Form 6-K are hereby incorporated by reference into all effective registration statements filed by us under the Securities Act of 1933, to the extent not superseded by documents or reports subsequently filed or furnished.

Attached hereto and incorporated by reference are:

1. The Consolidated Financial Statements of the Registrant as of December 31, 2009.
2. Consent of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global.
3. Consent of Arik Eshel, CPA & ASSOC., PC.

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

B.O.S. Better Online Solutions Ltd.
(Registrant)

Dated: March 29, 2010

By: /s/ Eyal Cohen
Eyal Cohen
CFO

B.O.S. BETTER ONLINE SOLUTIONS LTD.
AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2009
IN U.S. DOLLARS
INDEX

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and 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 its subsidiaries as of December 31, 2009 and 2008, 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, 2009. 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 financial statements of BOS - Supply Chain Solutions (Lynk) Inc., a wholly-owned U.S. subsidiary, which statements reflect total assets constituting 19% and 9% in 2009 and 2008, respectively and total revenues constituting 25% and 33% in 2009 and 2008, respectively of the related consolidated totals. These statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for BOS - Supply Chain Solutions (Lynk) Inc., is based solely on the report of the other auditors.

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 audit 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries at December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

Tel-Aviv, Israel
March 29 2010

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

ARIK ESHEL, CPA & ASSOC., PC
Certified Public Accountants and Consultants

Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of BOS - Supply Chain Solutions (Lynk) Inc.

We have audited the accompanying consolidated balance sheets of BOS - Supply Chain Solutions (Lynk) Inc. ("the Company") and its subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2009. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

As of December 31, 2009 and 2008 and for the two-year period ended December 31, 2009, we conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). As of December 31, 2007 and for the year then ended, we conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BOS - Supply Chain Solutions (Lynk) Inc. and its subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

ARIK ESHEL, CPA & ASSOC., PC

New York, NY

March 29, 2010

B.O.S. BETTER ONLINE SOLUTIONS LTD.

AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$597	\$1,637
Trade receivables (net of allowance for doubtful accounts of \$ 214 and \$ 65 at December 31, 2009 and 2008, respectively)	8,685	13,314
Available for sale securities (Note 6)	361	-
Other accounts receivable and prepaid expenses (Note 3)	1,043	1,155
Inventories (Note 5)	8,776	10,346
Total current assets	19,462	26,452
LONG-TERM ASSETS:		
Severance pay fund	652	652
Investment in other companies and available for sale securities (Note 6)	218	882
Deferred taxes (Note 16)	-	452
Other assets	123	-
Total long-term assets	993	1,986
PROPERTY, PLANT AND EQUIPMENT, NET (Note 7)	1,278	1,128
OTHER INTANGIBLE ASSETS, NET (Note 8)	1,999	2,418
GOODWILL (Note 9)	4,172	5,361
	\$27,904	\$37,345

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

B.O.S. BETTER ONLINE SOLUTIONS LTD.

AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2009	2008
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term bank loans and current maturities (Note 10)	\$ 11,787	\$ 10,299
Trade payables	5,097	6,458
Employees and payroll accruals	652	843
Deferred revenues	731	826
Accrued expenses and other liabilities (Note 11)	1,226	3,111
Total current liabilities	19,493	21,537
LONG-TERM LIABILITIES:		
Long-term bank loans, net of current maturities (Note 12)	816	2,256
Deferred taxes and income tax accruals (Note 16)	377	541
Accrued severance pay	770	929
Convertible note (Note 13)	1,886	-
Other long-term liabilities	919	838
Total long-term liabilities	4,768	4,564
COMMITMENTS AND CONTINGENT LIABILITIES (Note 14)		
SHAREHOLDERS' EQUITY (Note 15) (*):		
Share capital:		
Ordinary shares of NIS 20.00 par value: Authorized: 7,000,000 shares at December 31, 2009 and 2008; Issued and outstanding: 2,622,533 and 2,609,966 shares at December 31, 2009 and 2008, respectively	13,225	13,159

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Additional paid-in capital	57,042	55,830
Accumulated other comprehensive loss	(156)	(378)
Accumulated deficit	(66,468)	(57,367)
Total shareholders' equity	3,643	11,244
Total liabilities and shareholders' equity	\$ 27,904	\$ 37,345

(*) All share data are reported after the effect of the 1 for 5 reverse split that occurred on January 12, 2010.

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

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B.O.S. BETTER ONLINE SOLUTIONS LTD.

AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31,		
	2009	2008	2007
Revenues	\$33,253	\$50,849	\$23,774
Inventory write off	2,530	339	258
Cost of revenues	26,321	40,511	18,841
Gross profit	4,402	9,999	4,675
Operating costs and expenses:			
Research and development	360	844	636
Sales and marketing	7,773	9,712	3,811
General and administrative	2,364	2,029	1,980
Impairment of goodwill	1,218	1,873	-
Total operating costs and expenses	11,715	14,458	6,427
Operating loss	(7,313)	(4,459)	(1,752)
Financial expenses, net (Note 17a)	(838)	(636)	(469)
Other expenses, net (Note 2g)	(409)	(1,448)	(6,233)
Loss before taxes on income	(8,560)	(6,543)	(8,454)
Tax benefit (taxes on income) (Note 16)	(541)	403	(9)
Loss from continuing operations	(9,101)	(6,140)	(8,463)
Income (loss) from discontinued operations (Note 1c)	-	(260)	67
Net loss	\$(9,101)	\$(6,400)	\$(8,396)
Basic and diluted net loss per share from continuing operations (Note 17b) (*)	\$(3.50)	\$(2.55)	\$(4.90)
Basic and diluted net earnings (loss) per share from discontinued operations (Note 17b) (*)	\$-	\$(0.10)	\$0.05
Basic and diluted net loss per share (Note 17b) (*)	\$(3.50)	\$(2.65)	\$(4.85)

(*) All earnings (loss) per share data are reported after the effect of the 1 for 5 reverse split that occurred on January 12, 2010.

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

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B.O.S. BETTER ONLINE SOLUTIONS LTD.

AND ITS SUBSIDIARIES

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share data

	Ordinary shares (*)	Share capital	Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated comprehensive deficit	Total comprehensive loss	Total shareholders' equity
Balance at January 1, 2007	1,353,420	\$ 6,571	\$ 48,330	\$ 19	\$ (42,571)		\$ 12,349
Issuance of Ordinary shares for options exercised	4,700	23	23	-	-		46
Issuance of shares related to the private placements, net	294,236	1,483	1,983	-	-		3,466
Issuance of shares related to rights offering, net	347,883	1,720	2,229	-	-		3,949
Issuance of shares related to conversion of convertible note	175,734	831	1,066	-	-		1,897
Share-based compensation expense	-	-	516	-	-		516
Warrants related to a convertible note issued to lenders	-	-	611	-	-		611
Other comprehensive loss:							
Net loss	-	-	-	-	(8,396)	\$ (8,396)	(8,396)
Total comprehensive loss						\$ (8,396)	
Balance at December 31, 2007	2,175,973	10,628	54,758	19	(50,967)		14,438
Issuance of Ordinary shares for options exercised	534	3	(3)	-	-		-
Issuance of shares related to the private placement, net	311,414	1,843	(52)	-	-		1,791
Issuance of shares related to acquisition of Dimex, net	122,045	685	546	-	-		1,231

Share-based compensation expense	-	-	581	-	-		581
Other comprehensive loss:							
Foreign currency translation adjustments	-	-	-	(397)	-	\$ (397)	(397)
Net loss	-	-	-	-	(6,400)	(6,400)	(6,400)
Total comprehensive loss						\$ (6,797)	
Balance at December 31, 2008	2,609,966	13,159	55,830	(378)	(57,367)		11,244
Issuance of Ordinary shares for options exercised	12,567	66	(66)	-	-		-
Issuance expenses	-	-	(17)	-	-		(17)
Issuance of warrants related to convertible note	-	-	646	-	-		646
Share-based compensation expense	-	-	649	-	-		649
Other comprehensive loss:							
Foreign currency translation adjustments	-	-	-	168	-	\$ 168	168
Unrealized gain related to available for sale securities				54	-	54	54
Net loss	-	-	-	-	(9,101)	(9,101)	(9,101)
Total comprehensive loss						\$ (8,879)	
Balance at December 31, 2009	2,622,533	\$ 13,225	\$ 57,042	\$ (156)	\$ (66,468)		\$ 3,643

(*) All share data are reported after the effect of the 1 for 5 reverse split that occurred on January 12, 2010.

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

B.O.S. BETTER ONLINE SOLUTIONS LTD.

AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2009	2008	2007
Cash flows from operating activities:			
Net loss	\$(9,101)	\$(6,400)	\$(8,396)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Loss (income) from discontinued operations	-	260	(67)
Depreciation and amortization	653	674	418
Inventory write off	2,530	339	258
Impairment of goodwill	1,218	1,873	-
Capital gain from sale of investment in company	-	(8)	-
Impairment of available for sale securities and investment in other companies	357	1,456	5,588
Severance pay, net	(160)	168	(64)
Capital gain from sale of property, plant and equipment	-	-	(19)
Share-based compensation expenses related to employees	649	581	516
Financial expenses in connection with long-term convertible note	211	-	710
Decrease (increase) in trade receivables, net	4,659	1,547	(687)
Change in deferred taxes, net	133	(317)	(118)
Decrease (increase) in other accounts receivable and prepaid expenses	(129)	135	(121)
Increase in inventories	(942)	(31)	(1,467)
Decrease in trade payables	(1,366)	(328)	(1,135)
Increase (decrease) in employees and payroll accruals, deferred revenues, accrued expenses and other liabilities	18	727	(11)
Net cash provided by (used in) operating activities from continuing operations	(1,270)	676	(4,595)
Net cash used in operating activities from discontinued operations	-	(260)	-
Net cash provided by (used in) operating activities	(1,270)	416	(4,595)
Cash flows from investing activities:			
Purchase of property, plant and equipment	(335)	(251)	(214)
Proceeds from sale of property, plant and equipment	-	-	31
Proceeds from sale of investment in company	-	165	-
Acquisitions, net of cash acquired (a,b,c,d)	(1,026)	(8,964)	(4,548)
Net cash used in investing activities	(1,361)	(9,050)	(4,731)
Cash flows from financing activities:			
Proceeds from issuance of shares, net	(17)	1,758	6,625
Proceeds from short and long-term bank loans	22	4,242	5,364

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Proceeds (payments) from long-term convertible note and warrants, net of issuance expenses	1,584	-	(471)
Proceeds from exercise of options	-	-	46
Net cash provided by financing activities	1,589	6,000	11,564
Increase (decrease) in cash and cash equivalents	(1,042)	(2,634)	2,238
Effect of exchange rate changes on cash and cash equivalents	2	-	-
Cash and cash equivalents at the beginning of the year	1,637	4,271	2,033
Cash and cash equivalents at the end of the year	\$597	\$1,637	\$4,271

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

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B.O.S. BETTER ONLINE SOLUTIONS LTD.

AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2009	2008	2007
Supplemental disclosure of cash flow activities:			
(i) Net cash paid during the year for:			
Interest	\$ 770	\$ 700	\$ 336
Income tax	\$ 249	\$ 200	\$ 38
(ii) Non-cash activities:			
Conversion of convertible note into shares	\$ -	\$ -	\$ 2,017
Transfer of unpaid liability related to Dimex acquisition into convertible note	\$ 675	\$ -	\$ -
Deferred charges related to convertible note	\$ 62	\$ -	\$ -
Purchase of property and equipment	\$ 47	\$ -	\$ -

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

B.O.S. BETTER ONLINE SOLUTIONS LTD.

AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2009	2008	2007
Acquisition of BOS - Supply Chain Solutions			
(a) (Summit) Corp.			
Fair value of net tangible assets acquired (excluding cash and cash equivalents) and liabilities assumed at acquisition date	\$ -	\$ -	\$ 3,192
Fair value of net intangible assets acquired at acquisition date	60	255	2,058
Less - amount acquired by issuance of shares	-	-	(903)
	\$ 60	\$ 255	\$ 4,347
(b) Acquisition of BOS - Dimex Ltd.			
Fair value of net tangible assets acquired (excluding cash and cash equivalents) and liabilities assumed at acquisition date	\$ -	\$ 7,326	\$ -
Fair value of net intangible assets acquired at acquisition date	-	5,191	-
Less - amount acquired by issuance of shares	-	(1,053)	-
Less - unpaid balance on account of acquisition	-	(2,755)	-
Less – repayment of deferred consideration on account of acquisition	966	-	-
	\$ 966	\$ 8,709	\$ -
(c) Acquisition of CYMS Ltd assets and liabilities			
Fair value of net tangible assets acquired (excluding cash and cash equivalents) and liabilities assumed at acquisition date	\$ -	\$ -	\$ 11
Fair value of net intangible assets acquired at acquisition date	-	-	55
Less - amount acquired by issuance of shares	-	-	(15)
	\$ -	\$ -	\$ 51
(d) Acquisition of OptimizeIT assets and liabilities			

Fair value of net intangible assets acquired at acquisition date	\$ -	\$ -	\$ 170
Less - amount acquired by issuance of shares	-	-	(20)
	\$ -	\$ -	\$ 150

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL

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

In 2009, in order to strengthen the BOS brand-name and as part of the Company's integration process, the Company decided to implement name changes in its wholly-owned subsidiaries, as follows:

Previous name	New name
Dimex Solutions Ltd.	BOS-Dimex Ltd.
Odem Electronic Technologies 1992 Ltd.	BOS-Odem Ltd.
Lynk USA, Inc	BOS - Supply Chain Solutions (Lynk) Inc
Summit Radio Corp.	BOS - Supply Chain Solutions (Summit) Corp.

The Company's shares are listed in NASDAQ under the ticker BOSC. Effective as of May 12, 2009, the Company's Ordinary shares were delisted from trade on the Tel-Aviv Stock Exchange ("TASE"). Following the delisting of the Company's shares from the TASE, the Company is not subject to reporting requirements in Israel, under the Israeli Securities Law.

- b. The Company incurred a loss of \$9,101 in the year ended December 31, 2009. Furthermore, in 2009 the Company generated negative cash flow from current operations amounting to \$1,208. Due to the above, the Company's cash and cash equivalent decreased from \$1,637 as of December 31, 2008 to \$597 as of December 2009. In addition, Short-term bank loans and current maturities increased by \$1,488 during year 2009. In addition, as of December 31, 2009 the Company did not meet the bank covenants (see Note 10 and Note 12).

In view of the above, and as a result of the global economic crisis, in 2009, the Company has implemented an overall efficiency plan, including: changes in the management of the Company, improved logistic efficiency by consolidation of facilities in Israel, reduction in workforce and reduction in payroll of employees. In addition, on February 4, 2010, the Company entered into an amendment to the Dimex Systems Asset Purchase Agreement of January 2008 that revised the schedule of remaining payments to Dimex Systems (see Note 20b). On February 8, 2010, the Company and its Israeli subsidiaries executed revised loan documents governing their credit line from Bank Leumi (see Note 20c). On February 26, 2010, the Company sold all of its holdings in NWB for a consideration of \$300 (see Note 20d). The Company expects that it will meet the revised Bank covenants through December 31, 2010 and also believe that its cash resources are sufficient to meet its operating needs for at least the next 12 months.

- c. All share data in this report are reported after the effect of the 1 for 5 reverse split that occurred on January 12, 2010 (see Note 15).
- d. The Company has two operating segments, the RFID and Mobile Solutions segment and the Supply Chain Solutions segment.

The Company's wholly-owned subsidiaries include:

In Israel:

- (1) BOS-Dimex Ltd. (previously " Dimex Solutions Ltd "), which purchased in March 2008 all of Dimex Systems Ltd. assets and activities, and its wholly-owned subsidiary, Dimex Hagalil Projects (2008) Ltd., which was incorporated in January 2008 and purchased all of Dimex Hagalil Ltd. assets and activities (together: "BOS-Dimex"). BOS-Dimex is a part of the RFID and Mobile Solutions segment;

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL (Cont.)

(2) BOS-Odem Ltd. ("BOS-Odem"), an Israeli company, is a major solution provider and distributor of RFID and electronics components and advance technologies in the Israeli market. BOS-Odem is a part of the Supply Chain Solutions segments; and

(3) Quasar Telecom (2004) Ltd. ("Quasar Telecom"), which is inactive.

In the U.S.:

(1) Ruby-Tech Inc., a New York corporation, a wholly-owned subsidiary of BOS-Odem and a part of both the RFID and Mobile Solutions and the Supply Chain Solutions segments;

(2) BOS - Supply Chain Solutions (Lynk) Inc., a Delaware Corporation, and its subsidiaries:

a) BOS-Supply Chain Solutions Inc. (Summit) Ltd. ("Summit"), part of the Supply Chain Solutions segment, was purchased on November 21, 2007 from Summit's shareholders. Summit is a supply chain provider, mainly of electronic components to the aircraft and defense industries.

b) Pacific Information Systems, Inc. ("PacInfo"), a Delaware corporation and PacInfo's subsidiary, Dean Tech Technologies Associates, LLC., a Texan corporation, both of which are no longer active.

(3) BOS Delaware Inc., a Delaware corporation, which ceased operations in 2002.

In Europe:

BOS-Dimex has a UK subsidiary, Better On-Line Solutions Ltd., since 2002, this company and its subsidiary, Better On-Line Solutions S.A.S incorporated in France, are no longer active.

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

(1) Surf Communication Systems Ltd. ("Surf") is a developer and global supplier of universal access and network convergence software solutions to the wire line and wireless telecommunications and data communications industries. As of December 31, 2009, the Company holds 7.7% of the outstanding shares of Surf (see Note 2g).

(2) New World Brands Inc. (OTC: NWBD.OB) ("NWB"), a U.S. public corporation. The Company's holdings in NWB were received as the consideration for the sale of the Company's communication segment. As of December 31, 2009, the Company holds 13.63% of the outstanding shares of NWB (see Note 6).

e. Business combination:

Acquisition of Summit:

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On November 21, 2007, the Company purchased 100% of the outstanding shares of Summit, from Summit's shareholders. In consideration for Summit's shares, the Company (i) issued 72,000 of the Company's Ordinary shares subject to "lock-up" periods of 1-2 years and (ii) paid an amount of \$ 4,472 in cash. In addition, Summit's selling shareholders were to receive contingent consideration ("Earn Out") of up to \$ 500, based on performance in the years 2008 and 2009. As of December 31, 2009, the Company paid \$ 60 related to earn out of years 2008 and 2009.

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B.O.S. BETTER ONLINE SOLUTIONS LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL (Cont.)

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

	November 21, 2007
Issuance of shares (1)	\$ 874
Cash consideration	4,472
Transaction costs (includes issuance costs in the amount of \$ 29)	355
Total purchase price	\$ 5,701

- (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 Company has allocated the total purchase price as follows:

Allocation of purchase price	As of November 21, 2007	Estimated useful life
Cash	\$ 451	
Tangible assets (1)	3,192	
Backlog (2)	55	
Customer list (3)	167	12 years
Non-competing rights (4)	40	6 years
Deferred tax liability	(113)	
Goodwill	1,909	
Total purchase price	\$ 5,701	

- (1) Includes fair value of inventory - reflects the expected profit from realization of the inventory.
- (2) Backlog - the economic value of the backlog is calculated by deducting the relative expenses which will be accrued to sales equal to the backlog.
- (3) Customer list - the Company's purchase price allocation of the acquired customer list was performed by calculating cash flow benefits based on the income approach.
- (4) Non-competing rights - the value of the non-competing right is calculated by assessing the economic damage which might occur due to possible competition by the sellers, and which is mitigated by signing a non-competing agreement. The value of the non-competing right is the discounted cash flow which relates to portion of the Company's income that could have been lost if the sellers compete.

The acquisitions have been treated using the purchase method of accounting in accordance with ASC 805, "Business Combinations" ("ASC 805"). 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.

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