

BOS BETTER ONLINE SOLUTIONS LTD
Form 6-K
January 12, 2006

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 January 2006

B.O.S. Better Online Solutions Ltd.

(Translation of Registrant's Name into English)

100 BOS Road, Teradyon 20179, 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 Form 40-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 No

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

THIS FORM 6-K IS HEREBY INCORPORATED BY REFERENCE INTO THE REGISTRANT'S REGISTRATION STATEMENTS ON FORM F-3 (NOS. 333-117529 AND 333-130048) AND FORM S-8 (NOS. 333-110696, 333-100971 AND 333-11650), AND TO BE A PART THEREOF FROM THE DATE ON WHICH THIS REPORT IS SUBMITTED, TO THE EXTENT NOT SUPERSEDED BY DOCUMENTS OR REPORTS SUBSEQUENTLY FILED OR FURNISHED.

This Form 6-K consists of the following financial information:

Unaudited pro forma condensed financial statements for the year ended December 31, 2004 and for the nine months ended September 30, 2005, giving effect to the sale by the Registrant of its Communications Division Segment to Qualmax Inc.

Signature

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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)

BY: /S/ Nehemia Kaufman

Nehemia Kaufman
CFO

Dated: January 12, 2006

BOS BETTER ONLINE SOLUTIONS LTD. AND ITS SUBSIDIARIES (US dollar in thousands, except for share and share data)

UNAUDITED PRO FORMA CONDENSED FINANCIAL STATEMENTS

The unaudited pro forma condensed financial statements presented below have been prepared to give effect to the sale by BOS of its Communications Division Segment (hereinafter "Communications Division") to Qualmax Inc. (Pink Sheets: QMXI.PK) closed on December 31, 2005, after giving effect to the pro forma adjustments described in the accompanying notes.

The following unaudited pro forma condensed statements of operations of BOS for the year ended December 31, 2004 and for the nine months ended September 30, 2005, give effect to the sale of the Communications Division as if it had occurred on January 1, 2004 and January 1, 2005, respectively, and the historical unaudited statements of operations of BOS, for such period. The following unaudited pro forma condensed balance sheet as of September 30, 2005 gives effect to the sale of the Communications Division, as if it had occurred on such date, and reflects the assets sold based on their book values at the date of the sale. This pro forma information should be read in conjunction with the respective consolidated historical financial statements (including notes thereto) of BOS, for the year ended December 31, 2004, and for the nine months ended September 30, 2005, filed by the company with the Securities and Exchange Commission on June 27, 2005 and on November 29, 2005, respectively.

Unaudited pro forma condensed financial information is presented for illustrative purposes only and is not necessarily indicative of the financial position or results of operations that would have actually been reported had the sale occurred at the beginning of the periods presented, nor is it necessarily indicative of future financial position or results of operations. These unaudited pro forma condensed financial statements are based upon the respective historical financial statements of BOS, and do not incorporate, nor do they assume, any benefits from cost savings by the sale of the Communications Division. The pro forma adjustments are based on available financial information and certain estimates and assumptions that BOS believes are reasonable and that are set forth in the notes to the unaudited pro forma condensed financial statements.

BOS BETTER ONLINE SOLUTIONS LTD. AND ITS SUBSIDIARIES (US dollar in thousands, except for share and share data)

UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2004

| | Historical | Adjustment | Reference | Pro-Forma |
|------------------|------------|------------|-----------|-----------|
| Revenues | \$ 8,282 | \$ 1,363 | (2g) | \$ 6,919 |
| Cost of revenues | 4,608 | 949 | (2g) | 3,659 |
| Gross profit | 3,674 | 414 | (2g) | 3,260 |

BOS BETTER ONLINE SOLUTIONS LTD. AND ITS SUBSIDIARIES (US dollar in thousands, except for share and

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| | Historical | Adjustment | Reference | Pro-Forma |
|--|--------------|--------------|-------------|--------------|
| Operating expenses: | | | | |
| Research and development | 2,296 | 1,627 | (2g) | 669 |
| Less - grants and participation | (492) | (492) | (2g) | - |
| Selling and marketing | 1,706 | 691 | (2g) | 1,015 |
| General and administrative | 1,705 | 434 | (2g) | 1,271 |
| Total operating expenses | 5,215 | 2,260 | (2g) | 2,955 |
| Operating profit (loss) | (1,541) | (1,846) | (2g) | 305 |
| Financial expenses, net | (158) | - | | (158) |
| Profit (loss) before taxes on income | (1,699) | (1,846) | (2g) | 147 |
| Taxes on income | (20) | - | | (20) |
| | (1,719) | (1,846) | (2g) | 127 |
| Equity in losses of an affiliated company | (308) | - | | (308) |
| Net loss related to discontinuing operation | (9) | - | | (9) |
| Minority interest in earnings in a subsidiary | (17) | - | | (17) |
| Net loss | \$ (2,053) | \$ (1,846) | (2g) | \$ (207) |
| Basic and diluted net loss per share | \$ (0.44) | | | \$ (0.04) |
| Weighted average number of shares used in computing basic and diluted net loss per share | 4,631,106 | | | 4,631,106 |

BOS BETTER ONLINE SOLUTIONS LTD. AND ITS SUBSIDIARIES
(US dollar in thousands, except for share and share data)

UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS FOR THE
NINE MONTHS ENDED SEPTEMBER 30, 2005

Historical Adjustment Reference Pro-Forma

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| | | | | |
|--|------------|------------|------|------------|
| Revenues | \$ 20,801 | \$ 2,275 | (2g) | \$ 18,526 |
| Cost of revenues | 14,984 | 1,700 | (2g) | 13,284 |
| Gross profit | 5,817 | 575 | (2g) | 5,242 |
| Operating expenses: | | | | |
| Research and development | 2,084 | 1,326 | (2g) | 758 |
| Less - grants and participation | (217) | (217) | (2g) | - |
| Selling and marketing | 2,715 | 864 | (2g) | 1,851 |
| General and administrative | 2,555 | 458 | (2g) | 2,097 |
| Total operating expenses | 7,137 | 2,431 | (2g) | 4,706 |
| Operating profit (loss) | (1,320) | (1,856) | (2g) | 536 |
| Financial income (expenses), net | (360) | - | | (360) |
| Other income (expenses), net | 300 | - | | 300 |
| Income (loss) before taxes on income | (1,380) | (1,856) | (2g) | 476 |
| Taxes on income | (297) | - | | (297) |
| | (1,677) | (1,856) | (2g) | 179 |
| Equity in losses of an affiliated company | (1,720) | - | | (1,720) |
| Minority interest in earnings in a subsidiary | (230) | - | | (230) |
| Net earning (loss) from continuing segments | \$ (3,627) | \$ (1,856) | (2g) | \$ (1,771) |
| Basic and diluted net loss per share | \$ (0.69) | | | \$ (0.33) |
| Weighted average number of shares used in computing basic and diluted net loss per share | 5,287,886 | | | 5,287,886 |

BOS BETTER ONLINE SOLUTIONS LTD. AND ITS SUBSIDIARIES
(US dollar in thousands, except for share and share data)

UNAUDITED PRO FORMA CONDENSED BALANCE SHEET AS OF SEPTEMBER 30, 2005

| | Historical | Adjustment | Reference | Pro forma |
|---|------------------|----------------|-----------|------------------|
| ASSETS | | | | |
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents | \$ 4,464 | \$ (1,000) | (2a) | \$ 3,464 |
| Marketable securities | 1,093 | - | | 1,093 |
| Trade receivables, net | 5,405 | - | | 5,405 |
| Other accounts receivable and prepaid expenses | 1,080 | - | | 1,080 |
| Inventory | 4,514 | (941) | (2b) | 3,573 |
| Total current assets | 16,556 | (1,941) | | 14,615 |
| LONG-TERM INVESTMENTS | | | | |
| Long-term marketable securities | 1,053 | - | | 1,053 |
| Severance pay fund | 1,119 | - | | 1,119 |
| Investment in a company | 752 | 4,690 | (2c) | 5,442 |
| Total long-term investments | 2,924 | 4,690 | | 7,614 |
| PROPERTY AND EQUIPMENT, NET | 971 | (240) | (2d) | 731 |
| INTANGIBLE ASSETS AND DEBT ISSUANCE COST: | | | | |
| Goodwill | 1,717 | (903) | (2d) | 814 |
| Other intangible assets | 2,203 | (403) | (2d) | 1,800 |
| Total intangible assets and debt issuance cost | 3,920 | (1,306) | | 2,614 |
| Total assets | \$ 24,371 | 1,203 | | \$ 25,574 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| CURRENT LIABILITIES: | | | | |
| Short term bank loans | \$ 2,624 | \$ - | | \$ 2,624 |
| Current maturities of long-term bank loans and convertible note | 217 | - | | 217 |
| Trade payables | 3,905 | - | | 3,905 |
| Employees and payroll accruals | 788 | - | | 788 |
| Deferred revenues | 371 | - | | 371 |
| Accrued expenses and other liabilities | 1,854 | 483 | (2e) | 2,337 |
| Total current liabilities | 9,759 | 483 | | 10,242 |
| LONG-TERM LIABILITIES: | | | | |
| Long-term bank loans | 21 | - | | 21 |
| Long-term convertible note | 1,064 | - | | 1,064 |
| Put option issued to minority shareholders in a subsidiary | 42 | - | | 42 |
| Deferred taxes | 397 | - | | 397 |
| Accrued severance pay | 1,350 | - | | 1,350 |

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| | Historical | Adjustment | Reference | Pro forma |
|---|------------|------------|-----------|-----------|
| Total Long Term Liabilities | 2,874 | - | | 2,874 |
| MINORITY RIGHTS IN A SUBSIDIARY | 346 | - | | 346 |
| LIABILITIES RELATED TO DISCONTINUED OPERATIONS | 237 | - | | 237 |
| SHAREHOLDERS' EQUITY | | | | |
| Total shareholders' equity | 11,155 | 720 | (2f) | 11,875 |
| Total liabilities and shareholders' equity | \$ 24,371 | \$ 1,203 | | \$ 25,574 |

BOS BETTER ONLINE SOLUTIONS LTD. AND ITS SUBSIDIARIES
(US dollar in thousands, except for share and share data)

NOTE 1: GENERAL

The unaudited pro forma condensed financial statements reflect the following:

On December 31, 2005, BOS sold its Communications Division Segment (hereinafter "Communications Division"), including its property and equipment, goodwill, technology, trade name and existing distribution channels to Qualmax Ltd., a wholly owned Israeli subsidiary of Qualmax Inc. The consideration paid to BOS in the transaction was approximately 3.2 million Qualmax shares of common stock constituting approximately 17% of Qualmax's total issued and outstanding Common Stock and \$800 in royalties to be paid at a rate of 4% from future revenues Qualmax generates from the sold business ("Royalties"). Additional shares may be issued to BOS at the end of four consecutive fiscal quarters following the closing of the transaction, contingent upon Qualmax generating by then certain revenues from the sold business ("Earn Out Shares"). The maximum number of Earn Out Shares that may further be issued to BOS is approximately one million Qualmax shares. BOS received certain piggy-back registration rights with respect to the Qualmax shares.

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

BOS has also signed a bridge loan agreement with Qualmax Ltd. 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, Qualmax shall pay only the interest accrued on the loan and monthly principal and interest payments shall commence thereafter. As a security for the loan, Qualmax has granted BOS a second degree-subordinated floating charge on its assets. In addition, repayment of the loan is guaranteed by Qualmax Inc.

The loan agreement provides that if the sold business would generate 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 BOS 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.

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

BOS BETTER ONLINE SOLUTIONS LTD. AND ITS SUBSIDIARIES
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Following the Qualmax transaction, BOS' holdings of Qualmax shares constitute approximately 17% of the total issued and outstanding shares of Qualmax Inc. In addition, BOS does not have the right to appoint a director to Qualmax's board of directors. Since according to BOS' agreement with Qualmax, the registration of BOS holdings in Qualmax is not within the control of BOS, these shares are considered restricted stock under FAS 115 "Accounting for Certain Investments in Debt and Equity Securities", and consequently are not subject, at this stage, to the requirement to be recorded at quoted market price. As a result, the Qualmax shares held by BOS will be accounted for under the cost accounting method whereby the fair value attributed to such shares is based on a valuation performed by an independent valuation specialist.

NOTE 2: PRO-FORMA

The pro forma condensed balance sheet includes the adjustments necessary to give effect to the sale as if it had occurred on September 30, 2005.

Adjustments included in the pro forma condensed balance sheet are summarized as follows:

- a) The loan granted to Qualmax at an amount of \$ 1,000.
 - b) Inventory of the Communications Division amounted to \$ 941 as of September 30, 2005.
 - c) The consideration received for the sale of the Communications Division was 3,195,795 of Qualmax shares with a value of \$4,586. In addition, as part of the loan granted by BOS, Qualmax issued to BOS 107,143 Warrants with a value of \$104. The valuation of the shares and Warrants is based on the specialist valuation mentioned in Note 1.
 - d) The amounts of the Communications Division's Property and Equipment, intangible assets and goodwill as of September 30, 2005 were \$ 240, \$ 403 and \$ 903 respectively
 - e) Accrued expenses and liabilities related to the sale of the Communications Division amounted to \$ 483 as of September 30, 2005.
 - f) The total adjustment of shareholders' equity due to the sale of the Communication Division as of September 30, 2005 amounted to \$ 720. This adjustment includes the gain from the sale of the Communications Division as opposed to the adjustments of the condensed statements of operations for the periods ending September 30, 2005 and December 31, 2004, which do not include the gain from the sale of this Division.
 - g) The pro forma condensed statements of operations for the year ended December 31, 2004 and for the nine month period ended September 30, 2005 include the adjustments necessary to give effect to the sale of the Communications Division as if it had occurred on January 1, 2004 and January 1, 2005, respectively.
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