

BOS BETTER ONLINE SOLUTIONS LTD

Form F-1/A

February 12, 2007

As filed with the Securities and Exchange Commission on February 12, 2007

Registration No. 333-139233

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UNITED STATES  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

AMENDMENT NO. 1

**ON FORM F-1**

TO  
**FORM F-3**

REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933

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

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

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

**3576**  
*(Primary Standard Industrial  
Classification Code Number)*

**Not Applicable**  
*(I.R.S. Employer  
Identification No.)*

Beit Rabin, Teradyon Industrial Park,  
Misgav, 20179, Israel  
(+972) 4-990-7555  
*(Address and Telephone Number of Registrant's principal executive offices)*

Corporation Service Company  
1133 Avenue of the Americas, Suite 3100  
New York, NY 10036  
Tel: (212) 299-9100  
*(Name, address and telephone number of agent for service)*

Copies To:

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NYP Tower, 17 Yitzhak Sadeh Street  
Tel Aviv 67775, Israel  
972-3-568-9000

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

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

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

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

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

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

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**THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.**

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SUBJECT TO COMPLETION, DATED February 12, 2007

PROSPECTUS

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

#### **2,000,000 Ordinary Shares**

#### **DISTRIBUTION OF RIGHTS TO PURCHASE ORDINARY SHARES**

We are distributing transferable rights to purchase up to 2,000,000 of our ordinary shares to those persons that, as of 5:00 p.m., New York City time (midnight, Israel time) on the record date of \_\_\_\_\_, 2007 were shareholders of our company. You will receive one right for each 3.37 ordinary shares that you hold on the record date. If you hold 3 or less ordinary shares, you will not receive any rights. Your rights will be aggregated for all the shares that you own on the record date and then rounded down to the nearest whole number, so that you will not receive fractional rights. For example, if you own 4 shares on the record date, you will receive one right, and if you own 10,000 shares on the record date, you will receive 2,967 rights. Each right will entitle you to purchase, at a subscription price of \$2.50, one ordinary share. The rights are exercisable during a \_\_\_\_\_-day period, beginning after 5:00 p.m., New York City time (midnight, Israel time) on \_\_\_\_\_, 2007 (the record date) and ending on \_\_\_\_\_, 2007 at 5:00 p.m., New York City time (midnight, Israel time).

Our ordinary shares trade on the NASDAQ Global Market under the symbol **BOSC** and on the Tel Aviv Stock Exchange in Israel under the symbol **BOSC**. On February 8, 2007 the last reported sale price of our ordinary shares on the NASDAQ Global Market was \$2.50 per ordinary share and on the Tel Aviv Stock Exchange was NIS 11.93 per ordinary share.

The rights are transferable and will be listed for trading for a single day on the NASDAQ Global Market under the symbol **BOSCR** and on the Tel Aviv Stock Exchange under the symbol **BOSC.R1**". The trading day will be \_\_\_\_\_, 2007. If you hold your rights through an Israeli brokerage company that holds the rights through the Company's nominee company (*Hevra Le-Rishumim of Bank Leumi Le-Israel Ltd.*), you will be considered to have instructed your broker to sell all your rights on the Tel Aviv Stock Exchange with no price limit, if you fail to give your broker instructions regarding the exercise, non-exercise or sale of the rights prior to \_\_\_\_\_, \_\_\_\_\_.

The offering is not secured by an underwriting commitment.

You should read both this prospectus and any prospectus supplement before you decide to invest in our ordinary shares.

**INVESTING IN THE SECURITIES OFFERED HEREIN INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 11 OF THIS PROSPECTUS.**

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

The date of this prospectus is \_\_\_\_\_, 2007

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

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## PROSPECTUS SUMMARY

This prospectus does not contain all of the information set forth in the registration statement, certain parts of which are omitted in accordance with the rules and regulations of the SEC. Accordingly, you should refer to the registration statement and its exhibits for further information about us and our ordinary shares. Copies of the registration statement and its exhibits are on file with the SEC. Statements contained in this prospectus concerning the documents we have filed with the SEC are not intended to be comprehensive, and in each instance we refer you to a copy of the actual document filed as an exhibit to the registration statement or otherwise filed with the SEC.

We have not authorized anyone to provide you with information different from that contained or incorporated by reference in this prospectus. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our rights or our ordinary shares.

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

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

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

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

## QUESTIONS AND ANSWERS ABOUT B.O.S BETTER ONLINE SOLUTIONS LTD.

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This section answers in summary form some questions you may have about B.O.S Better Online Solutions Ltd. and this rights offering. The information in this section is not complete and does not contain all of the information that you should consider before exercising your subscription rights. You should read the entire prospectus carefully, including the Risk Factors section and the documents listed under Where You Can Find More Information.

### What is B.O.S Better Online Solutions Ltd.?

We are an Israeli based company, operating through our two wholly-owned Israeli subsidiaries:

BOScom Ltd. that is engaged in the Software Solutions segment of our business (previously named connectivity solutions segment); and

Odem Electronic Technologies 1992 Ltd. ( Odem ) that is engaged in the Supply-Chain Solutions segment of our business (previously named electronic components segment).

**Our Software Solutions segment,** focuses on providing connectivity 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.

**Our Supply-Chain Solutions segment,** provides, through Odem, solutions in RFID (Radio Frequency Identification Devices), semiconductors, electronic components, CCD (Charge Coupled Devices), imaging, networking, telecom and automation.

**Where are we located?**

Our headquarters, R&D and manufacturing facilities are located at Teradyon Industrial Park, Misgav Israel. The facilities of our subsidiary, Odem Electronic Technologies 1992 Ltd., are located in the city of Rishon Lezion, in the center of Israel. In January 2007, we announced the relocation of our headquarters to Rishon Lezion. In addition we will move our manufacturing and development facilities from Teradyon to the city of Yoqneam, in the North of Israel. The relocation is expected to be completed by the end of the first quarter of 2007.

Our telephone number is 972-4-990-7555. 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](http://www.boscorporate.com). In addition, our subsidiary Odem, maintains a web site showcasing our services in the field of RFID. The website address is [www.yourfid.com](http://www.yourfid.com). The contents of our web sites are not incorporated by reference into this Form F-1.

**QUESTIONS AND ANSWERS ABOUT THE RIGHTS OFFERING**

**What is a rights offering?**

A rights offering is a distribution of rights on a pro rata basis to all shareholders of a company. We are distributing to holders of our ordinary shares, at no charge, one right for each 3.37 ordinary shares held by them at 5:00 p.m., New York City time, on \_\_\_\_\_, 2007, the record date. The 3.37 ratio was derived by dividing the sum of the total number of our issued and outstanding ordinary shares as of December 31, 2006 by the dollar amount being offered in the rights offering, multiplied by the subscription price. If you hold 3 or fewer ordinary shares, you will not receive any rights. Your rights will be aggregated for all the shares that you own on the record date and then rounded down to the nearest whole number, so that you will not receive fractional rights. For example, if you own 4 shares on the record date, you will receive one right, and if you own 10,000 shares on the record date, you will receive 2,967 rights.

**What securities and how many securities may be purchased under each right?**

Each full right entitles the holder to purchase one of our ordinary shares at a price of \$2.50 per ordinary share.

**How many rights will you receive?**

Each person who, at the close of business at 5:00 p.m., New York City time (midnight, Israel time), on \_\_\_\_\_, 2007 (the record date), owns our ordinary shares will receive, at no charge, one right for each 3.37 ordinary shares owned on the record date. Your rights will be aggregated for all the shares that you own on the record date.

You may exercise all of your rights or a portion of your total rights (but only whole rights), or you may choose not to exercise any of your rights. In addition, you may sell the rights on either the NASDAQ Global Market or the Tel Aviv Stock Exchange, during one single trading day, on \_\_\_\_\_, 2007. You may pay us the subscription price either in U.S. dollars, or if you are an Israeli resident, in New Israeli Shekels according to the U.S. dollar/NIS representative exchange rate published by the Bank of Israel on the day before payment of the subscription price.

**Will the rights be listed for trading?**

Yes. The rights will be listed on the NASDAQ Global Market under the symbol "BOSCR" and the Tel Aviv Stock Exchange under the symbol "BOSC.R1".

**Why are we engaging in a rights offering?**

We are engaging in this rights offering to provide our company with funds it requires for general corporate purposes, including working capital and for future mergers and acquisitions. Initially, the Company had decided to raise equity by way of a public offering in Israel and alternatively, at management's discretion, by way of a private placement of Ordinary Shares and warrants, in either case in compliance with Regulation S promulgated under the Securities Act of 1933, as amended (the Act).

On October 4, 2006, the Company filed a draft prospectus with the Israeli Securities Authority and the Tel Aviv Stock Exchange in connection with an underwritten offering to the public in Israel of Ordinary Shares and Warrants.

According to the Israeli Companies Law of 1999, the aforementioned public offering or private placement requires shareholders approval. The Company called a special general meeting of its shareholders for this purpose in Israel on October 19, 2006, at which the shareholders requested that the Company shall conduct a rights offering rather than the proposed public offering or private placement. Following discussions at the meeting, the shareholders resolved that the Company should first attempt to raise at least \$3 million by way of a rights offering, and only if such target is not achieved, then the Company shall be able to effect the contemplated public offering in Israel or the private placement.

**How was the subscription price determined?**

Our board of directors set the terms and conditions of the rights offering, including the subscription price, with the objective to reflect recent trading prices of our ordinary shares, raise the targeted proceeds and provide all of our shareholders with a reasonable opportunity to make an additional investment in our company.

In establishing the commercial terms, including the subscription price, our board of directors considered the following factors: the strategic alternatives available to us for raising capital, the market price of our ordinary shares, the pro rata nature of the offering, our business prospects and general conditions in the securities markets.

The subscription price, however, does not necessarily bear any relationship to our past or expected future results of operations, cash flows, current financial condition, or any other established criteria for value.

**How long will the rights offering last?**

You will be able to exercise your rights only during a limited period. The rights are exercisable during a \_\_\_\_-day period, beginning after 5:00 p.m. New York City time (midnight, Israel time) on \_\_\_\_\_, 2007 (the record date) and ending at 5:00 p.m. New York City time (midnight, Israel time) on \_\_\_\_\_, 2007 (the rights expiration date). If you hold your shares through a broker, dealer or other nominee (including through members of the Tel Aviv Stock Exchange), you will be required to comply with the procedural requirements of such nominee, including the procedures relating to the last time by which you may be required to provide notice of your intention to exercise your rights (which may be earlier than the final expiration date of the rights), as well as other procedural requirements described under the heading The Rights Offering. If you do not exercise your rights by the date and in accordance with the procedures applicable to you, your ability to exercise the rights and purchase the ordinary shares will expire.

**How do you exercise your rights?**

We will send a rights certificate to each holder of our ordinary shares that on the record date is registered on our shareholder registry maintained at American Stock Transfer & Trust Co., the transfer agent for our ordinary shares. The rights certificate will evidence the number of rights applicable to each holder and will be accompanied by a copy of this prospectus.

If you are a record holder of our ordinary shares and you wish to exercise your rights, you should complete the exercise form on the back of the rights certificate and send the certificate (or a notice of guaranteed delivery), accompanied by the subscription price following the record date, to the offices of American Stock Transfer & Trust Co., as our Rights Agent, to the attention of: Reorganization Department, to be received no later than the expiration date of the rights.

The rights will expire on \_\_\_\_\_, 2007, at 5:00 p.m. New York time, (midnight, Israel time). You may make your payment to American Stock Transfer by wire transfer or cashier's check or a money order drawn on a bank located in the United States payable to the order of American Stock Transfer & Trust Co., as Rights Agent. Payment made to American Stock Transfer & Trust Co. must be in U.S. dollars.

If you are a record holder of rights that resides in Israel, you may exercise your rights by delivering the completed exercise form on the back of the rights certificate to our offices at 20 Freiman St., POB 198, Rishon Lezion, 75101, Israel, following the record date, accompanied by evidence of a wire transfer or a cashier's check or a money order drawn on a bank located in Israel payable to B.O.S Better Online Solutions Ltd. Payment to us must be either in New Israeli Shekels in accordance with the representative exchange rate published by the Bank of Israel on the business day before payment of the subscription price or in U.S. dollars if requested and we agree to such payment. The completed exercise form and payment must be delivered to us by midnight Israel time on \_\_\_\_\_, 2007 (the rights expiration date).

If you are a beneficial owner of our ordinary shares and hold them through a broker, dealer or other nominee (including a member of the Tel Aviv Stock Exchange), see "What should you do if you want to participate in this rights offering, but your shares are held in the name of your broker, dealer or other nominee?"

**How do you transfer your rights?**

The subscription rights are transferable and will be evidenced by rights certificates. If you are a record holder of our ordinary shares and wish to transfer your rights to another person, you may do so by completing the transfer form on the back of your certificate and submitting it to American Stock Transfer & Trust Co., as Rights Agent, prior to \_\_\_\_\_, 2007. If you wish to sell your rights on the NASDAQ Global Market or the Tel Aviv Stock Exchange, you should independently engage a broker to execute this sale on your behalf. The rights will be listed for trading on these exchanges during their regular trading hours for one day only on \_\_\_\_\_, 2007. We cannot assure you that a trading market for the rights will exist or develop.

**After you exercise your rights, can you change your mind?**

No. You cannot revoke the exercise of your rights, even if you later learn information about us that you consider to be unfavorable. You should not send the completed exercise form on the back of the rights certificate unless you are certain that you wish to purchase the ordinary shares.



**Is exercising your rights risky?**

Yes. The exercise of your rights involves substantial risks. Exercising your rights means buying additional securities, and you should carefully consider this purchase as you would do with respect to any other equity investment. Among other things, you should carefully consider the risks described under Risk Factors.

**Is there an over-subscription privilege?**

No. Unexercised rights will be listed for trading on the NASDAQ Global Market and on the Tel Aviv Stock Exchange for one day only on \_\_\_\_\_, 2007. Additional rights may be purchased from selling shareholders on such day.

**Do you have to exercise all of your rights?**

No. You may exercise any number of your rights, or you may choose not to exercise any rights. However, if you do not exercise your rights and other shareholders do, the percentage of our ordinary shares that you own will diminish, and your voting and other rights will be diluted.

**Can you sell or give away your rights?**

Yes. You may transfer or sell, at any time prior to the expiration date ( \_\_\_\_\_, 2007, at 5:00 p.m. New York time, midnight, Israel time), all or a portion of the rights. You are responsible for all commissions, fees and other expenses, including brokerage commissions and transfer taxes, incurred in connection with the purchase or sale of rights. The unexercised rights will be listed for trading on the NASDAQ Global Market and on the Tel Aviv Stock Exchange for one day only on \_\_\_\_\_, 2007. For further details regarding trading in our rights, please see The Rights Offering Transferability of Rights.

Some of the tax consequences of selling your rights for certain U.S. and Israeli shareholders are described herein under the heading Material Income Tax Considerations. You are, however, advised to seek specific tax advice from your personal tax advisor, as this prospectus does not summarize all tax consequences arising under U.S. state tax laws, Israeli tax laws, tax laws outside of the U.S. and Israel or any tax laws relating to special tax circumstances or particular types of taxpayers.

**What are the federal income tax and Israeli income tax consequences of exercising your rights?**

The receipt and exercise of your rights are intended to be nontaxable; however, no ruling from the U.S. Internal Revenue Service or the Israeli Income Tax Authority will be sought. Therefore, you should seek specific tax advice from your personal tax advisor.

Disclosure of the material income tax consequences in the United States resulting from the distribution of the rights to a U.S. holder, and related transactions by the U.S. holder, including the exercise or expiration of rights, and the disposition of rights or ordinary shares issuable upon exercise of the rights is included under Material Income Tax Considerations United States Tax Considerations. We have received an opinion of Phillips Nizer LLP, regarding the material federal income tax consequences. Disclosure of the material income tax consequences in Israel resulting from the distribution of the rights to an Israeli holder, and related transactions by the Israeli holder is included under Material Income Tax Considerations Israel Tax Considerations. This prospectus does not conclusively summarize tax consequences arising under U.S. state tax laws, Israeli tax laws, tax laws outside of the U.S. and Israel or any tax laws relating to special tax circumstances or particular types of taxpayers.

**What happens if you choose not to exercise your rights?**

You will retain your current number of ordinary shares even if you do not exercise your rights. However, if you do not exercise your rights and other shareholders who receive rights do, the percentage of our ordinary shares that you own will diminish, and your voting and other rights will be diluted.

If you hold our shares through an Israeli brokerage company that holds the rights through the Company's nominee company (*Hevra Le-Rishumim of Bank Leumi Le-Israel Ltd.*) and you do not provide notice of your exercise of the rights or give any other instructions by the time determined by your broker on \_\_\_\_\_, 2007 (the rights trading day), under the rules of the Tel Aviv Stock Exchange, you will be considered to have provided an instruction to sell all your rights on the Tel Aviv Stock Exchange with no price limit. The proceeds of such sale shall be transferred to you. If you do not hold your shares through the nominee company, you may either elect to sell your unexercised right, or have them lapse unsold.

**Has our board of directors made a recommendation regarding this offering?**

No. Our board of directors makes no recommendation to you about whether you should exercise any rights.

**What should you do if you want to participate in this rights offering, but your shares are held in the name of your broker, dealer or other nominee?**

If you are a beneficial owner of our ordinary shares and hold them through a broker, dealer or other nominee (including a member of the Tel Aviv Stock Exchange), you should expect your broker, dealer or other nominee to notify you of this rights offering and the procedures for exercising or transferring your rights. If you wish to exercise your rights, you will need to have your broker, dealer or other nominee act for you. To indicate your decision with respect to your rights, you should complete and return to your broker, dealer or other nominee the form provided to you accompanied by the subscription payment payable to your broker, dealer or other nominee. You should receive this form from your broker, dealer or other nominee. If you are a beneficial owner of our ordinary shares and hold them through a broker, dealer or other nominee (including a member of the Tel Aviv Stock Exchange), you should NOT return your exercise form or transfer the subscription payment directly to us. Your broker, dealer or other nominee will execute the exercise of your rights through the appropriate facilities. However, if you own your shares through a member of the Tel Aviv Stock Exchange that holds the rights through the Company's nominee company (*Hevra Le-Rishumim of Bank Leumi Le-Israel Ltd.*), the rules of the Tel Aviv Stock Exchange provide that if no contrary instructions have been received from you by the time determined by your broker on \_\_\_\_\_, 2007 (the rights trading day), you will be considered to have instructed your broker to sell all your rights on the Tel Aviv Stock Exchange with no price limit.

**What fees or charges apply if you exercise your rights?**

We are not charging any fee or sales commission to issue rights to you and we are not charging any fee or sales commission, other than the subscription price, to issue the ordinary shares if you exercise your rights. If you exercise your rights through a broker, dealer or other nominee, you are responsible for paying any fees that may be charged thereby.

**How will this rights offering affect the price of our ordinary shares on the Tel Aviv Stock Exchange and on NASDAQ?**

NASDAQ will not reduce the opening price of the ordinary shares at the opening of trading on the NASDAQ Ex-day, which is the first day that our ordinary shares will trade on NASDAQ without entitlement to receive the rights. The NASDAQ Ex-day will be the first trading day on NASDAQ following the record date. The NASDAQ Ex-day for the rights offering will, therefore, be \_\_\_\_\_, \_\_\_\_\_. In accordance with the rules of the Tel Aviv Stock Exchange, the Tel Aviv Stock Exchange will reduce the opening price of the ordinary shares at the opening of trading on the Tel Aviv Stock Exchange Ex-day, which is the first day that our ordinary shares will trade on the Tel Aviv Stock Exchange following the record date; the Tel Aviv Stock Exchange Ex-day for the rights offering will, therefore, be \_\_\_\_\_, \_\_\_\_\_. For this purpose the Tel-Aviv Stock Exchange employs a reduction formula in which the numerator is the sum of: (i) the number of shares entitling the shareholder to one right (the Base Unit ) multiplied by the share s closing price on the Tel-Aviv Stock Exchange on the trading day prior to the Ex-day (the Closing Price ), and (ii) the subscription price; and the denominator is the sum of the Base Unit and the number of rights granted to the holder of a Base Unit, provided however, that if the Closing Price is lower than the result of the aforementioned formula , the opening price on the Ex-day shall be the Closing Price.

**When will you receive your new shares?**

If you exercise your rights in this rights offering and the Rights Agent has received your duly completed exercise form and your payment has cleared, your purchase of ordinary shares will be effected at 5:00 p.m., New York City time (midnight, Israel time) on \_\_\_\_\_, 2007 (the rights expiration date), and you will receive certificates representing the ordinary shares purchased upon exercise of the rights as soon as practicable thereafter. We have the discretion to delay allocation and distribution of any shares you may elect to purchase by exercise of your privilege in order to comply with state securities laws and regulations. Brokers may be unwilling to sell your ordinary shares until you have received certificates representing your ordinary shares.

**Have any shareholders indicated that they will exercise their rights?**

Yes. Touareg Consulting Ltd. which owns an aggregate of 8.05% of our outstanding shares, has indicated its intention to exercise its rights, and may acquire and exercise additional rights, if they are available.

Members of our management have not provided us with any indication as to whether they will exercise rights to be granted to them.

**Are there any conditions to the consummation of the rights offering?**

There are no conditions to the consummation of the rights offering. However, we reserve the right to reject your exercise of rights if your exercise is not in accordance with the terms of the rights offering or in proper form. Neither we nor the Rights Agent will have any duty to notify you of a defect or irregularity in your exercise of rights. We will not be liable for failing to give you that notice. We will also not accept your exercise of rights if our issuance of shares pursuant to your exercise could be deemed unlawful or materially burdensome. In addition, we will not be required to issue shares prior to the rights expiration date.

**Can we withdraw the rights offering?**

Yes. Our board of directors may withdraw the rights offering in its sole discretion at any time prior to 5:00 p.m. New York City time (midnight, Israel time) on \_\_\_\_\_, 2007 (the record date), for any reason (including, without limitation, a change in the market price of our ordinary shares). If we withdraw the rights offering, we will issue a press release notifying shareholders of the cancellation, and any money received from subscribing shareholders will be refunded promptly, without interest.

**How much money will we receive from the rights offering?**

The amount of gross proceeds from the rights offering depends on the number of rights that are exercised into our ordinary shares. If all the rights are exercised, we will receive gross proceeds of \$5 million.

**If the rights offering is not completed, will my subscription payment be refunded to me?**

Yes. The Rights Agent will hold all funds it receives in a segregated bank account until completion of the rights offering. If the rights offering is not completed, we will immediately instruct the Rights Agent to return your payment in full. If you own shares in street name, it may take longer for you to receive payment because the Rights Agent will send payments through the record holder of your shares. You will not be credited interest on your payment.

**How will we use the proceeds from the rights offering?**

We will use the proceeds generated from the exercise of rights in this rights offering towards general corporate purposes, including working capital, as well as toward the financing of future mergers and acquisitions.

**How many shares will be outstanding after the rights offering if all the rights are exercised?**

As of the December 31, 2006, 6,744,798 of our ordinary shares were issued and outstanding. The number of ordinary shares that will be outstanding after the rights offering depends on the number of rights that are exercised. If all the rights are exercised in full, an additional 2,000,000 of our ordinary shares will be outstanding.

**Who should I contact if I have other questions?**

If you have other questions or need assistance, please contact the Information Agent, The Altman Group at 800-330-5136.

**RISK FACTORS**

*You should carefully consider the risks described below and all the information contained in this prospectus before making an investment decision regarding our ordinary shares. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The risks described below are not the only risks facing our company. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also adversely affect our business, financial condition, results of operation and liquidity. The trading price of our ordinary shares could decline due to any of these risks, and you may lose all or part of your investment.*

Risks 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 information for the nine months ended September 30, 2006, we had an operating loss of \$773,000, other income of \$899,000, which was mainly due to the receipt of Qualmax Inc. shares and a net loss of \$220,000. 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.

***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 Electronic Technologies, whose sales accounted for 75% of our total sales in 2005, and 90% of our total sales in the nine months ended September 20, 2006, 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 1992Ltd. ( Odem ), is from one major customer, Israel Aircraft Industries ( IAI ). Our business relationship with IAI involves the following risks:***

***An interruption in our business relationship with IAI would materially adversely impact our financial results.***

Sales to IAI accounted for 14% of our revenues in year 2005 and for 22% in the first nine months of 2006. An interruption in our business relationship with IAI 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 IAI, may materially adversely impact our financial results.***

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In September 2004, Odem entered into a long term sales agreement with IAI for the supply of electronic components for two models of business jets. The agreement provides for a fixed sales price of the components during the term of the agreement through 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 IAI requires us to hold a 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 IAI, we are obligated to hold inventory of products necessary for three months of IAI's production of two models of business jets. 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 overseas 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 and in the first nine months of 2006, our sales to the Far East accounted for 22% and 11% of our total sales, respectively. We have limited sales and marketing experience in the Far East. Furthermore, in October 2005 the major supplier of products sold by Odem in the Far East territory, opened a headquarters in China, and began selling in competition with Odem in this territory, causing a substantial decrease in Odem's sales to the Far East. If we are unable to compensate for the decrease in Far East sales by increasing sales to other territories, our business condition and results of operation may be materially adversely affected.

***In December 2005, we 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., in consideration of common stock of Qualmax Inc.

On September 18, 2006, Qualmax announced that it had consummated the transfer of all of its assets and liabilities to New World Brands, Inc. ( "New World" ), in exchange for Series A Convertible Preferred Stock of New World convertible into common stock with approximately 86% of the voting power of New World. The shares of common stock of New World are quoted on the Over the Counter Bulletin Board. Immediately prior to the closing of this transaction, New World sold all of its former business operations.

On January 10, 2007, we announced that we closed a transaction with Qualmax and its subsidiaries, New World Brands and IPGear, pursuant to which we converted approximately \$1.5 million payable to us by Qualmax and IPGear into 5,506,522 shares of Series A Convertible Preferred Stock of New World, which are convertible into approximately 16.5 million shares of New World Common Stock, reflecting a conversion rate of \$0.09 per one share of Common Stock. Conversion of the Series A Preferred Stock into Common Stock will take place automatically upon effectiveness of an amendment to New World's certificate of incorporation authorizing an increase in the number of outstanding shares of Common Stock.

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In connection with the transaction, we agreed to grant New World, contingent upon the satisfaction of certain conditions, a three-year option to purchase up to 30% of the New World shares held by us, at prices ranging from \$0.12 to \$0.24 per share of Common Stock.

In addition, we agreed to enter into a lock up agreement, restricting the transfer of our share holdings in Qualmax and in New World, for up to two years.

New World has a limited operating history on which to judge whether or not this company will be successful. If New World is not successful in its business or if New World's share price is subject to a prolonged decline, we may lose the value of our investment, and be required to record an impairment of the investment, which could materially adversely affect our results of operation.

***We have limited order backlog. If revenue levels for any quarter fall below our expectations, our results of operations 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 operations.

***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 Software Solutions segment in the United States 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 Software Solutions in the United States through one master distributor. In 2005 and in the first nine months of 2006, our sales of Software Solutions (connectivity products) in the US market accounted for 9% and 8% of our total sales, respectively, and for approximately 23% and 21% of our gross profit, respectively. 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.

***Our Software Solutions segment is 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 Software 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.

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The market for our Software Solutions 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 for Software Solutions 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's 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 wind up 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 September 30, 2006, 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. However, our acquisitions have not always proven 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 a significant part of our gross profit and if sales of the seproducts decline, it would have a material adverse effect on us.***

Our Software Solutions to the IBM midrange computer communications market contributed 30% of our gross profit in year 2005 and 29% of our gross profit in the first nine months of the year 2006. If sales of our Software Solutions 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 our Software Solutions segment.

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 data 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.

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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 in the normal course of our business, may receive written demands for payments from prospective plaintiffs. 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 results 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, 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.

### ***We may be obligated to indemnify our 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 attorney's 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 Israeli 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.