**As filed with the Securities and Exchange Commission on April 1, 2019**

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, D.C. 20549**

**FORM 20-F**

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**or**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2018**

**or**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from _____ to _____**

**or**

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Date of event requiring this shell company report _____**

**Commission file number: 001-14184**

**B.O.S. BETTER ONLINE SOLUTIONS LTD.**
(Exact name of Registrant as specified in its charter)

**ISRAEL**
(Jurisdiction of incorporation or organization)

**20 Freiman Street, Rishon LeZion, 7535825, Israel**
(Address of principal executive offices)

**Eyal Cohen, 972-3-9542070, eyalc@boscom.com, 20 Freiman Street, Rishon LeZion, 7535825, Israel**
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| **Ordinary Shares, nominal value NIS 80.00 per share** | **NASDAQ Capital Market** |

Securities registered or to be registered pursuant of Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock at the close of the period covered by the annual report:

3,553,714 Ordinary Shares, nominal value NIS 80.00 per share, as of December 31, 2018
and 3,857,790 Ordinary Shares, nominal value NIS 80.00 per share, as of March 15, 2019.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See definition of "accelerated filer, large accelerated filer" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒
Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act. ☐

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

| | | |
|---|---|---|
| ☒ U.S. GAAP | ☐ International Financial Reporting Standards as issued by the International Accounting Standards Board | ☐ Other |

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

This report on Form 20-F is being incorporated by reference into all effective Registration Statements filed by us under the Securities Act of 1933, as amended, to the extent not superseded by documents or reports subsequently filed or furnished.

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***Forward Looking Statements***

This Annual Report on Form 20-F contains forward-looking statements that are intended to be, and are hereby identified as, forward looking statements for the purposes of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These statements address, among other things: our strategy; the anticipated development of our products; the results of pending and completed acquisitions and our ability to make future acquisitions; our projected capital expenditures and liquidity; our development of additional revenue sources; our development and expansion of relationships; the market acceptance of our products; our technological advancement; our compliance with regulatory requirements; and our ability to operate due to political, economic and security conditions. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including all the risks discussed below and elsewhere in this report.

We urge you to consider that statements that use the terms "believe", "do not believe", "expect", "plan", "intend", "estimate", "anticipate", "projections", "forecast", "may", "continue", "should", "predict", "potential" or the negative of these terms or similar expressions are intended to identify forward-looking statements. These statements reflect our current views with respect to future events. These statements are based on assumptions and are subject to risks and uncertainties. These risk factors and uncertainties include, amongst others, the dependency of sales being generated from one or few major customers, the uncertainty of BOS being able to maintain current gross profit margins, inability to keep up or ahead of technology and to succeed in a highly competitive industry, inability to maintain marketing and distribution arrangements and to expand our overseas markets, uncertainty with respect to the prospects of legal claims against BOS, the effect of exchange rate fluctuations, general worldwide economic conditions and continued availability of financing for working capital purposes and to refinance outstanding indebtedness; and additional risks and uncertainties set forth in this Annual Report, including under the heading "Risk Factors." Except as required by applicable law, including the federal securities laws of the United States, we do not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

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**Table of Contents**

Table of Contents

## PART I

### Item 1: Identity of Directors, Senior Management and Advisors

Not applicable.

### Item 2: Offer Statistics and Expected Timetable

Not applicable.

### Item 3: Key Information Regarding BOS

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

### 3A. Selected Consolidated Financial Data

The selected consolidated statement of operations data for B.O.S. Better Online Solutions Ltd. set forth below with respect to the years ended December 31, 2018, 2017 and 2016, and the selected consolidated balance sheet data as of December 31, 2018 and 2017, have been derived from our audited Consolidated Financial Statements listed in Item 18, which have been prepared in accordance with Generally Accepted Accounting Principles in the United States ("U.S. GAAP"). The selected consolidated statement of operations data set forth below with respect to the years ended December 31, 2015 and 2014, and the consolidated balance sheet data as of December 31, 2015 and 2014 are derived from other consolidated financial statements not included herein and have been prepared in accordance with U.S. GAAP. The financial statements for the year ended December 31, 2018 and 2017 were audited by Fahn Kanne & Co. Grant Thornton Israel, an independent registered public accounting firm and a member of Grant Thornton. The financial statements for the years ended December 31, 2016, 2015 and 2014 were audited by Kost Forer Gabbay & Kasierer, an independent registered public accounting firm and a member of Ernst & Young Global. The selected consolidated financial data presented below should be read in conjunction with and is qualified entirely by reference to Item 5: "Operating and Financial Review and Prospects" and the Notes to the Financial Statements included in this Annual Report on Form 20-F.



Table of Contents

**Statement of Operations Data: (in U.S. thousands of dollars with the exception of per share data)**

| Year ended December 31, | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Revenues | 27,601 | 25,599 | 27,427 | 28,932 | 32,650 |
| Cost of revenues | 22,556 | 20,462 | 22,112 | 22,587 | 25,907 |
| **Gross profit** | **5,045** | **5,137** | **5,315** | **6,345** | **6,743** |
| Operating expenses: | | | | | |
| Sales and marketing | 3,043 | 2,768 | 3,111 | 3,389 | 3,705 |
| General and administrative | 1,882 | 1,681 | 1,498 | 1,870 | 1,834 |
| **Total operating expenses** | **4,925** | **4,449** | **4,609** | **5,259** | **5,539** |
| Operating income | 120 | 688 | 706 | 1,086 | 1,204 |
| Financial expense, net | (444) | (376) | (339) | (297 | (255 |
| **Income (loss) before taxes on income** | **(325)** | **312** | 367 | 789 | 949 |

| | | | | | |
|---|---|---|---|---|---|
| Taxes on income (tax benefit) | 108 | (22) | 7 | 16 | (41) |
| **Net income (loss)** | **(433)** | **334** | **360** | **773** | **990** |
| | | | | | |
| Basic and diluted net income (loss) per share | $ (0.30) | $ 0.17 | $ 0.14 | $ 0.24 | $ 0.28 |
| Weighted average number of shares used in computing basic net income (loss) per share | 1,449 | 1,970 | 2,587 | 3,171 | 3,500 |
| Weighted average number of shares used in computing diluted net income (loss) per share | 1,449 | 1,970 | 2,593 | 3,171 | 3,500 |

| **Consolidated Balance Sheet Data:** | **2014** | **2015** | **2016** | **2017** | **2018** |
|---|---|---|---|---|---|
| Cash and Cash Equivalents | 1,522 | 1,419 | 1,286 | 1,533 | 1,410 |
| Working Capital (*) | 634 | 5,246 | 6,099 | 7,342 | 7,637 |
| Total Assets | 16,261 | 16,825 | 18,144 | 21,407 | 20,111 |
| Short-term banks loan and current maturities of long-term bank loans | 4,867 | 400 | 400 | 505 | 467 |
| Long-term liabilities | 383 | 3,653 | 2,943 | 2,809 | 2,168 |
| Shareholders' equity | 5,297 | 6,505 | 8,584 | 10,218 | 11,511 |
| | | | | | |
| (*) Working capital comprises of: | | | | | |
| Current assets | 11,215 | 11,913 | 12,716 | 15,722 | 14,069 |
| Less: current liabilities | 10,581 | 6,667 | 6,617 | 8,380 | 6,432 |
| | 634 | 5,246 | 6,099 | 7,342 | 7,637 |

**3B. Capitalization and Indebtedness**

Not applicable.



**3C. Reasons for the Offer and Use of proceeds**

Not applicable.

**3D. Risk Factors**

The following risk factors, in addition to other information contained or incorporated by reference in this Form 20-F, should be considered carefully. 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 financial results and capital structure:**

***We require a significant amount of cash to satisfy our debt obligations. If we fail to generate sufficient cash flow from operations, we may need to renegotiate or refinance our debt, obtain additional financing, postpone capital expenditures or sell assets.***

As of December 31, 2018, we had $2.3 million in long-term debt (including current maturities of $467,000) and no short term bank loans.

We depend mainly on cash generated by continuing operating activities to make payments on our debt. We cannot assure you that we will generate sufficient cash flow from operations to make the scheduled payments on our debt. Our ability to meet our debt obligations will depend on whether we can successfully implement our business strategy, as well as on economic, financial, competitive and technical factors (See "Item 5B. Liquidity and Capital Resources" below).

Some of the factors are beyond our control, such as economic conditions in the markets where we operate or intend to operate, changes in our customers' demand for products that we sell, and pressure from existing and new competitors. Also, because certain of our loans bear interest at floating rates, we are susceptible to an increase in interest rates (See "Item 11. Quantitative and Qualitative Disclosures about Market Risk" below).

If we cannot generate sufficient cash flow from operations to make scheduled payments on our debt obligations, we may need to renegotiate the terms of our debt, refinance our debt, obtain additional financing, delay planned capital expenditures or sell assets.

If our lenders decline to renegotiate the terms of our debt in these circumstances, the lenders could declare all amounts borrowed and all amounts due to them under the agreements due and payable.

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

As of December 31, 2018, we had an accumulated deficit of $68.8 million. Although we had net income of $990,000 in 2018, $773,000 in 2017, $360,000 in 2016 and $334,000 in 2015, we had a net loss of $433,000 in 2014. In addition, we have had net losses in prior fiscal years. Our ability to maintain and improve future levels of sales and profitability depends on many factors, which include:

- delivering products in a timely manner;
- successfully implementing our business strategy;
- increased demand for existing products; and
- controlling costs.

There can be no assurance that we will be able to meet our challenges and continue to be profitable in the future or that the level of historic sales will continue 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 or to enter into new markets with new products or services or due to competition we may find it necessary to decrease prices in order to be competitive. Additionally, our gross profit margin tends to fluctuate mainly due to variety and mix of products and changing suppliers prices. 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 depend on one bank for our credit facilities.***

We rely on the First International Bank of Israel ("Bank Beinleumi") to provide all of the credit facilities to our subsidiaries. As of December 31, 2018, we had $1.87 million in long term debt to Bank Beinleumi,, net of current maturities .

***Our assets are subject to a security interest in favor of Bank Beinleumi. Our failure to repay the bank loan, if required, could result in legal action against us, which could require the sale of all of our assets.***

The repayment of our debt to Bank Beinleumi is secured by a first priority floating charge on the present and future assets of the Company and its Israeli subsidiaries, and by a first priority fixed charge on their goodwill, unpaid share capital and any insurance entitlements pertaining to assets underlying these charges. In addition, the Company and its Israeli subsidiaries entered into a series of intercompany guarantees in favor of Bank Beinleumi.

If we are unable to repay the bank loan when due, the bank could foreclose on our assets in order to recover the amounts due. Any such action might require us to curtail or cease operations (See "Item 5B. Liquidity and Capital Resources" below).

***Our debt obligations may hinder our growth and put us at a competitive disadvantage.***

Our debt obligations require us to use a substantial portion of our operating cash flow to repay the principal and interest on our loans. This reduces funds available to grow and expand our business, limits our ability to pursue business opportunities and makes us more vulnerable to economic and industry downturns. The existence of debt obligations and covenants also limits our ability to obtain additional financing on favorable terms.

***Due to restrictions in our loan agreements, we may not be able to operate our business as we desire.***

Our loan agreements contain a number of conditions and limitations on the way in which we can operate our business, including limitations on our ability to raise debt, sell or acquire assets and pay dividends. These limitations may force us to pursue less than optimal business strategies or forgo business arrangements, which could have been financially advantageous to our shareholders and us. Our debt obligations also contain various covenants, which require that we maintain certain financial ratios related to shareholders' equity and EBITDA and capital to balance sheet ratio. Our failure to comply with the restrictions and covenants contained in our loan agreements could lead to a default under the terms of these agreements (See "Item 5B. Liquidity and Capital Resources").

**Risks related to our business:**

***We depend on key personnel for the success of our business.***

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

In order to succeed we would need to be able to:

- retain the executive officers and key personnel who have been involved in the development of our two operating divisions; and
- attract and retain highly skilled personnel in various functions of our business.



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

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

Our growth increases the complexity of our operations, places significant demands on our management and our operational, financial and marketing resources and involves a number of challenges, including:

- retaining and motivating key personnel of the acquired businesses;
- assimilating different corporate cultures;
- preserving the business relationships with existing key customers and suppliers;
- maintaining uniform standards, controls, procedures and policies;
- introducing joint products, solutions and service offerings; and
- having sufficient working capital to finance growth.

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

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

***We may expand our business through acquisitions that could result in diversion of resources and extra expenses. This could disrupt our business and adversely affect our financial condition.***

In January 2016, we completed the acquisition of the business operations of iDnext Ltd. and its subsidiary Next-Line Ltd. and in March 2019 we entered into an agreement to acquire the business of Imdecol Ltd. We may expand our services through additional acquisitions. The negotiation of acquisitions, investments or joint ventures, as well as the integration of acquired or jointly developed businesses or technologies, could divert our management's time and resources. There can be no assurance that we will be able to consume this acquisition or successfully integrate and manage future acquisitions, if they occur.

Furthermore, once integrated, acquisitions may not achieve comparable levels of revenues, profitability or productivity which existed prior to the acquisitions or otherwise perform as expected. The occurrence of any of these events could harm our business, financial condition or results of operations.

***We may not be successful in achieving the potential benefits of the acquisition of the business operations of Imdecol Ltd.***

In March 2019, the Company entered into an agreement for the acquisition of the business operations of Imdecol Ltd. The transaction is expected to close by June 1, 2019. This acquisition is subject to a variety of risks that could seriously harm our business, financial condition, results of operations, and share price. These risks include, among others:

- incurrence of unexpected expenses associated with acquisition and integration of the acquired business into our Company;
- difficulties in the assimilation and integration of the acquired operations, personnel, technologies, products, and information systems;
- diversion of management's attention from other business concerns;
- contractual disputes;
- potential loss of key employees;
- incompatible business cultures;
- difficulties in implementing and maintaining uniform standards, controls and policies;
- the impairment of relationships with employees and customers as a result of integration of new personnel; and
- potential inability to retain, integrate and motivate key management, marketing, technical sales and customer support personnel.

***We do not have collateral or credit insurance for all of our customers' debt, and our allowance for bad debts may increase.***

Our customers' debt is derived from sales to customers located primarily in Israel, India, the Far East and Europe. We do not generally require collateral; however, a certain portion of our debt of customers outside of Israel is insured against customer nonpayment through the Israeli Credit Insurance Company Ltd.

The balance of allowance for bad debt as of December 31, 2018 amounted to $31,000 which was determined by our management to be sufficient. However, in the event of a global economic slowdown or if a local or global recession reoccurs, we may be required to record additional and significant allowances for bad debts.



Table of Contents

***A substantial part of the sales of our Supply Chain Solutions division is to the Indian market. A decline in our sales to India would have a material adverse effect on our business and financial results.***

In 2018, revenues derived from the sales of our Supply Chain Solutions division to India accounted to US $4.2 million, or 12.9% of our total revenues. Sales to India could decline due to changes in market demand or for political reasons. Should our sales to India be subject to substantial declines, our business and financial results will be adversely affected.

***Certain customers of our Supply Chain Solutions division may cancel purchase orders they placed before the delivery.***

Supply chain programs for the sale of electronic components, including the programs offered by our Supply Chain Solutions division, are designed to accommodate the preference of customers to work with a limited number of suppliers that are able to provide a wide range of electronic components under one order. In the event we are not able to provide all of the components required by a customer, such customer could elect to terminate the entire order before its delivery. In addition, certain of our individual product orders provide a right of termination prior to delivery.

In the event substantial orders are so cancelled, there is no assurance that we will be able to sell the pre-purchased inventory at a profit, or at all. This could result in excess and obsolete inventory and could have a material adverse effect on our results of operations.

***The electronic components provided by our Supply Chain Solutions division need to meet certain industry standards and for some customers we need to be the manufacturers' authorized distributors.***

The main business of our Supply Chain Solutions division is the provision of electronic components to the aerospace and defense industry. These components need to be in compliance with Aviation Standard number 9120 which was adopted by the International Aerospace Quality Group. Noncompliance with these standards could limit our sales.

In addition, in the face of an increased number of refurbished or non-original components offered in the marketplace, certain customers have begun to insist on only purchasing components directly from authorized distributors of the manufacturers. This could impair our ability to sell components of manufacturers for which we do not serve as authorized dealers and may have a substantial adverse effect on our business.

***Our products may contain defects that may be costly to correct, delay market acceptance of our products, harm our reputation and expose us to litigation.***

Despite testing by us, errors may be found in our software products and services. If defects are discovered, we may not be able to successfully correct them in a timely manner, or at all. Defects and failures in our products could result in a loss of, or delay in, market acceptance of our products and could damage our reputation. Although our standard license agreement with our customers contains provisions designed to limit our exposure to potential product liability claims, it is possible that these provisions may not be effective or enforceable under the laws of certain jurisdictions and we could fail to realize revenues and suffer damage to our reputation as a result of, or in defense of, a substantial claim.

***Our products may infringe on the intellectual property rights of others.***

Third parties may assert claims that we have violated a patent, trademark, copyright or other proprietary intellectual property right belonging to them. As is characteristic of our industry, there can be no assurance that our products do not or will not infringe on the proprietary rights of third parties, that third parties will not claim infringement by us with respect to patents or other proprietary rights or that we would prevail in any such proceedings. Any infringement claims, whether or not meritorious, could result in costly litigation or arbitration and divert the attention of technical and management personnel. Any adverse outcome in litigation alleging an infringement could require us to develop non-infringing technology or enter into royalty or licensing agreements. If, in such situations, we are unable to obtain licenses on acceptable terms, we may be prevented from selling products that infringe on such intellectual property of a third party. In addition, an unfavorable outcome or settlement regarding one or more of these matters could have a material adverse effect on our business and operating results.

***The Supply Chain Solutions division engages in a number of business activities governed by U.S. Government Laws and Regulations, which if violated, could subject the Company to civil or criminal fines and penalties.***

The Supply Chain Solutions division engages in a number of business activities governed by U.S. Government procurement laws and regulations which change frequently, including regulations relating to import-export control and technology transfer restrictions. In addition, the U.S. Foreign Corrupt Practices Act, or the FCPA, and similar anti-corruption laws in other jurisdictions, include anti-bribery provisions. If we, or our sales representatives, fail to comply with these laws and regulations, we could be subject to administrative, civil, or criminal liabilities that could have a material adverse effect on our business and results of operations. We may not always be protected in cases of the violation of the FCPA or other anti-corruption laws by our employees or third-parties acting on our behalf and such violations may have a material adverse effect on our reputation operating results and financial condition.

***We rely on certain key suppliers.***

Most of our sales rely on products of certain key suppliers, which we represent on a non-exclusive basis. 37% of our Supply Chain Solutions division purchases in the year 2018 were sourced from five key suppliers and 44% of our RFID and Mobile Solutions division purchases in the year 2018 were sourced from six other key suppliers (including a software supplier). In the year 2017, 33% of our Supply Chain Solutions division purchases were sourced from five key suppliers and 39% of our RFID and Mobile Solutions purchases were sourced from six other key suppliers.

In the event that any of our key suppliers becomes unable to fulfill our requirements in a timely manner or if we cease our business relationship with any of these suppliers, we may experience an interruption in delivery and a decrease in our business until an alternative supplier can be procured.

***Future changes in industry standards may have an adverse effect on our business.***

New industry standards in the aviation and defense industry could cause a portion of our Supply Chain Solutions division's inventory to become obsolete and unmarketable, which would adversely affect our results of operations.

***Recent changes in Israeli law in respect of minimum wage and work and rest hours may increase our labor related expenses.***

In December 2017, the mandatory minimum wage in Israel was raised by approximately 6%, to NIS 5,300. In addition, commencing April 2018, the 43-hour workweek was shortened by one hour (at a pre-determined day), without a reduction in the monthly salary. An employee that continues to work 43 hours per week is now entitled to overtime payment. As a result, we may suffer an increase in our labor costs in Israel, which could adversely affect our profitability.

***If revenue levels for any quarter fall significantly below our expectations, our results of operations will be adversely affected.***

Our revenues in any quarter are 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 levels are relatively fixed, or require some time for adjustment. As a result, revenue levels falling significantly below our expectations will adversely affect our results of operations.





***The rate of inflation in Israel may negatively impact our costs if it exceeds the rate of devaluation of the NIS against the U.S. dollar. Similarly, the U.S. dollar cost of our operations in Israel will increase to the extent increases in the rate of inflation in Israel are not offset by a devaluation of the NIS in relation to the U.S. dollar.***

A substantial amount of our revenues is denominated in U.S. dollars ("U.S. dollars" or "dollars") or is U.S. dollar-linked. However, we incur a significant portion of our expenses, principally salaries and related personnel expenses in Israel and rent for our facilities in Israel, in NIS. As a result, we are exposed to the risk that the rate of inflation in Israel will exceed the rate of devaluation of the NIS in relation to the U.S. dollar or that the timing of this devaluation lags behind inflation in Israel. In any such event, the U.S. dollar cost of our operations in Israel will increase and our U.S. dollar-measured results of operations will be adversely affected.

Similarly, we are exposed to the risk that the NIS, after adjustment for inflation in Israel, will appreciate in relation to the U.S. dollar. In that event, the dollar-measured costs of our operations in Israel will increase and our dollar-measured results of operations will be adversely affected. In 2018, the NIS depreciated against the dollar by approximately 8.1%, while in 2017 the NIS appreciated against the dollar by 9.8%. In 2016 the NIS appreciated against the dollar by 1.5%, and in 2015 the NIS depreciated by approximately 0.3% against the U.S. dollar. In the years ended December 31, 2018 and 2017, the inflation rate in Israel was 0.8% and 0.4%, respectively. In 2016 and 2015 the annual deflation was 0.2% and 1%, respectively. Therefore, the U.S. dollar cost of our Israeli operations decreased in 2018 and 2015, and increased in 2017 and 2016. We cannot predict any future trends in the rate of inflation in Israel and whether the NIS will appreciate against the U.S. dollar or vice versa. Any increase in the rate of inflation in Israel, unless the increase is offset on a timely basis by a devaluation of the NIS in relation to the U.S. dollar, will increase our labor and other costs, which will increase the U.S. dollar cost of our operations in Israel and harm our results of operations (see "Item 5A. Results of Operation - Impact of Inflation and Currency Fluctuations" below).

***If we are unsuccessful in 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 pressures on existing products.

Our ability to anticipate changes in technology and industry standards and successfully market 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. If we are unable, for technological or other reasons, to market products that are competitive in technology and price and responsive to customer needs, our business will be materially adversely affected.

***Disruptions to our IT systems due to system failures or cyber security attacks may impact our operations, result in sensitive customer information being compromised, which would negatively materially affect our reputation and materially harm our business.***

Our servers and equipment may be subject to computer viruses, break-ins, and similar disruptions from unauthorized tampering with computer systems. Our systems have been, and are expected to continue to be, the target of malware and other cyber-attacks. Although we have invested in measures to reduce these risks,

there can be no assurance that our current information technology (IT) systems are fully protected against third-party intrusions, viruses, hacker attacks, information or data theft or other similar threats. A cyber-attack that bypasses our IT security systems causing an IT security breach may lead to a material disruption of our IT business systems and/or the loss of business information. A cyber-attack on our systems or networks that impairs our IT systems could disrupt our business operations and our ability to sell our products. Any such event could have a material adverse effect on our business. To the extent that such disruptions or uncertainties result in delays or cancellations of customer orders or shipment of our products, or in theft, destruction, loss, misappropriation or release of our confidential information or our intellectual property, our business, financial condition, results of operations and prospects could be materially adversely affected.

***Our Supply Chain division has significant sales worldwide and could encounter problems if conditions change in the places where we market products.***

We have sold and intend to continue to sell products in overseas markets, including in India, the Far East and Europe. A number of risks are inherent in engaging in international transactions, including:

- possible problems in collecting receivables;
- the imposition of governmental controls, or export license requirements;
- political and economic instability in foreign companies;
- foreign currency exchange rate risk;
- trade restrictions or changes in tariffs being imposed; and
- laws and legal issues concerning foreign countries.

Should we encounter such difficulties in conducting our international operations, they may adversely affect our business condition and results of operations.



Table of Contents

***Unfavorable global economic conditions could have a material adverse effect on our business, operating results and financial condition.***

A financial and economic downturn in Israel, India or in one or more of our overseas markets may cause revenues of our customers to decrease. This may result in reductions in sales of products and services in some markets, longer sales cycles, slower adoption of new technologies and increased price competition. In addition, weakness in the end-user market could negatively affect the cash flow of our customers who could, in turn, delay paying their obligations to us. This could increase our credit risk exposure and cause delays in our recognition of revenues on future sales to these customers.

***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, indemnification by the Company for its directors and senior officers for: (a) monetary liability imposed upon a director or officer 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 or her capacity as a director or officer of the Company, (b) reasonable litigation expenses, including attorney's fees, incurred by a director or officer (A) pursuant to an investigation or a proceeding commenced against him or her by a competent authority, provided that (i) it was terminated without an indictment and without having a monetary charge imposed on them in lieu of criminal proceedings (as such terms are defined in the Israeli Companies Law 1999 – 5759 (the "Israeli Companies Law")); or (ii) it was terminated without the filing of an indictment but with a monetary charge imposed on him or her in lieu of criminal proceedings for a crime that does not require proof of criminal intent; (B) or in connection with a financial sanction, as a result of an act or omission of such person in its capacity as a director or officer of the Company, (c) reasonable litigation expenses, including attorney's fees, incurred by a director or officer or imposed on him or her by a court, in a proceeding brought against him or her by or on behalf of the Company or by a third party, or in a criminal action in which he or she 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 its capacity as a director or officer of the Company, (d) expenses, including reasonable litigation expenses and legal fees, incurred by such a director or officer as a result of a proceeding instituted against him in relation to (A) infringements that may result in imposition of financial sanction pursuant to the provisions of Chapter H'3 under the Israeli Securities Law 5728 – 1968 (the "Israeli Securities Law") or (B) administrative infringements pursuant to the provisions of Chapter H'4 under the Israeli Securities Law or (C) infringements pursuant to the provisions of Chapter I'1 under the Israeli Securities Law; and (e) payments to an injured party of infringement under Section 52ND(a)(1)(a) of the Israeli Securities Law. Payments pursuant to such indemnification obligation may materially adversely affect our financial condition.

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

Based upon our current and projected income, assets and activities, we do not believe that at this time BOS is a passive foreign investment company for U.S. federal income tax purposes, but there can be no assurance that we will not be classified as such in the future. Such classification may have materially adverse tax consequences for our U.S. shareholders. One method of avoiding such tax consequences is by making a "qualified electing fund" election for the first taxable year in which the Company is a PFIC. However, such an election is conditioned upon our furnishing our U.S. shareholders annually with certain tax information. We do not presently prepare or provide such information, and such information may not be available to our U.S. shareholders if we are subsequently determined to be a PFIC. You are advised to consult with your own tax advisor regarding the particular tax consequences related to the ownership and disposition of our Ordinary Shares under your own particular factual circumstances.

***A decline in the value of our market capitalization or other factors could require us to write-down the value of our goodwill, which could have a material adverse effect on our results of operations.***

Our balance sheet contains a significant amount of goodwill and other amortizable intangible assets in long-term assets, totaling about $4.76 million at December 31, 2018. We review goodwill annually for impairment, or more frequently when indications for potential impairment exist. We review other amortizable intangible assets for impairment when indicators for impairment exist. The volatility of our share price can cause significant changes to our market capitalization.



Table of Contents

If our market capitalization experiences a significant decline and is below the value of our Shareholders' equity, if the carrying amount of a reporting unit exceeds its fair value, or if any other quantitative or qualitative indication of impairment of goodwill arises in the future, we may be required to record impairment charges for our goodwill. Any such write-downs, if required, could result in a significant non-cash expense on our income statement, which could have a material adverse effect on our results of operations.

***There are substantial risks associated with the YA II Standby Equity Distribution Agreement, which could contribute to the decline of our share price***

***and have a dilutive impact on our existing shareholders.***

The sale of our Ordinary Shares to YA II PN, Ltd. (or YA II) (formerly YA Global Master SPV Ltd.), pursuant to the Standby Equity Distribution Agreement, dated as May 8, 2017, (the "2017 SEDA"), (see "Item 5B – Liquidity and Capital Resources") will have a dilutive impact on our shareholders. Under the 2017 SEDA, we have the right to sell, over a period of up to 4 years, Ordinary Shares to YA II for up to a total purchase price of $2,000,000, out of which $1,100,000 remain available as of March 15, 2019. YA II may resell some, if not all of the shares we issue to it under the 2017 SEDA and such sales could cause the market price of our Ordinary Shares to decline.

***We may fail to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, which could have a material adverse effect on our operating results, investor confidence in our reported financial information, and the market price of our Ordinary Shares.***

Our efforts to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, governing internal control and procedures for financial reporting have resulted in increased general and administrative expenses and a diversion of management time and attention. We expect these efforts to require the continued commitment of significant resources. We may identify material weaknesses or significant deficiencies in our assessments of our internal control over financial reporting. Failure to maintain effective internal control over financial reporting could result in investigations or sanctions by regulatory authorities, and could have a material adverse effect on our operating results, investor confidence in our reported financial information, and the market price of our Ordinary Shares.

***If our employees commit fraud or engage in other misconduct, including noncompliance with regulatory standards and requirements or insider trading, our business may experience material adverse consequences.***

During the course of our operations, our directors, executives and employees may have access to material, nonpublic information regarding our business, our results of operations or potential transactions we are considering. Despite the adoption of an Insider Trading Policy, we may not be able to prevent a director, executive or employee from trading in our ordinary shares on the basis of, or while having access to such information.

In addition, while we have designed and operate an internal control system, we cannot provide absolute assurance that instances of fraud, if any, shall be prevented or detected.

If a director, an executive or an employee was to be investigated, or an action was to be brought against him or her for insider trading or fraud, it could have a negative impact on our reputation and our share price. Such a claim, with or without merit, could also result in substantial expenditures of time and money, and divert attention of our management team from other tasks important to the success of our operations.



Table of Contents

**Risks related to our Ordinary Shares:**

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

The market price of our Ordinary Shares has been and may continue to be highly volatile and subject to wide fluctuations. From January 1, 2018 through March 15, 2019, the daily closing price of our Ordinary Shares in NASDAQ has ranged from $1.93 to $3.94 per share. We believe that these fluctuations have been in response to a number of factors including the following, some of which are beyond our control:

- variations between actual results and projections;
- the limited trading volume in our stock;
- changes in our bank debts; and
- Nasdaq Capital Market Listing Standards non-compliance notices.

In addition, stock markets in general have from time to time experienced extreme price and volume fluctuations. This volatility is often unrelated or disproportionate to the operating performance of the affected companies. These broad market fluctuations may adversely affect the market price of our Ordinary Shares, regardless of our actual operating performance.

***The Company's shares may be delisted from the NASDAQ Capital Market if it does not meet NASDAQ's continued listing requirements.***

Over the years, the Company has received several notices from the NASDAQ Stock Market advising it of the non-compliance of its shares with continued listing requirements on the NASDAQ Capital Market.

There can be no assurance that the Company will continue to qualify for listing on the Nasdaq Capital Market. If the Company's Ordinary Shares are delisted from the Nasdaq Capital Market, trading in its Ordinary Shares could be conducted on the over-the-counter market. In addition, if the Company's Ordinary Shares were delisted from the Nasdaq Capital Market, it would be subject to the so-called penny stock rules that impose restrictive sales practice requirements on broker-dealers who sell those securities. Consequently, de-listing, if it occurred, could affect the ability of our shareholders to sell their Ordinary Shares in the secondary market. The restrictions applicable to shares that are de-listed, as well as the lack of liquidity for shares that are traded on an electronic bulletin board, may adversely affect the market price of such shares.

**Risks related to our location in Israel:**

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

We are incorporated under the laws of the State of Israel, where we also maintain our headquarters and our principal research and development and sales and marketing facilities. As a result, political, economic and military conditions affecting Israel directly influence us.



Table of Contents

Since its establishment in 1948, a number of armed conflicts have taken place between Israel and its neighboring countries. In recent years, these have included hostilities between Israel and Hezbollah in Lebanon, and Israel and Hamas in the Gaza Strip, both of which resulted in rockets being fired into Israel causing casualties and disruption of economic activities. Recent political uprisings and conflicts in various countries in the Middle East, including Egypt and Syria, are affecting the political stability of those countries. Any armed conflicts, terrorist activities, political instability or hostilities in the region or that involve Israel or the interruption or curtailment of trade within Israel or between Israel and its trading partners could adversely affect our business, financial condition and results of

operations and could make it more difficult for us to raise capital. In addition, Israel faces threats from more distant neighbors, in particular, Iran that has threatened to attack Israel. Iran is also believed to have a strong influence among extremist groups in areas that neighbor Israel, such as Hamas in Gaza and Hezbollah in Lebanon. Additionally, the Islamic State of Iraq and Syria (ISIS), a violent jihadist group, is involved in hostilities in Iraq and Syria and its stated purpose is to take control of the Middle East, including Israel.

Our commercial insurance does not cover losses that may occur as a result of an event associated with the security situation in the Middle East. Although the Israeli government has in the past covered the reinstatement value of certain damages that were caused by terrorist attacks or acts of war, we cannot assure you that this government coverage will be maintained, or if maintained, will be sufficient to compensate us fully for damages incurred. Any losses or damages incurred by us could have a material adverse effect on our operations.

To date, these matters have not had any material effect on our business and results of operations; however, the regional security situation and worldwide perceptions of it are outside our control and there can be no assurance that these matters will not negatively affect us in the future.

Furthermore, several countries and companies restrict business with Israel and Israeli companies. Restrictive laws or policies directed towards Israel or Israeli businesses may have an adverse impact on our operations, our financial results or the expansion of our business.

A number of our key personnel in Israel have standing obligations to perform periodic reserve duty in the Israel Defense Forces and are subject to be called up for active military duty at any time. If our key personnel are absent from our business for a significant period of time, we may experience disruptions in our business that could affect the development, sales or technical support of our products. As a result, we might not be able to compete in the market and our results of operations could be harmed.

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

Provisions of Israeli law may delay, prevent or make undesirable a merger or an acquisition of all or a significant portion of our shares or assets. Israeli corporate law regulates acquisitions of shares through tender offers and mergers, requires special approvals for transactions involving significant shareholders and regulates other matters that may be relevant to these types of transactions. These provisions of Israeli law could have the effect of delaying or preventing a change in control and may make it more difficult for a third party to acquire us, even if doing so would be beneficial to our shareholders. These provisions may limit the price that investors may be willing to pay in the future for our Ordinary Shares. Furthermore, Israeli tax considerations may make potential transactions undesirable to us or to some of our shareholders.

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

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

All of our directors and officers reside outside of the United States. Therefore, a judgment obtained against us, or any of these persons, including a judgment based on the civil liability provisions of the U.S. federal securities laws, may not be collectible in the United States and may not be enforced by an Israeli court. It also may be difficult for you to effect service of process on these persons in the United States or to assert U.S. securities law claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on an alleged violation of U.S. securities laws reasoning that Israel is not the most appropriate forum in which to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proven as a fact by expert witnesses, which can be a time consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel that addresses the matters described above. As a result of the difficulty associated with enforcing a judgment against us in Israel, you may not be able to collect any damages awarded by either a U.S. or foreign court.



Table of Contents

***Your rights and responsibilities as our shareholder will be governed by Israeli law, which differ in some respects from the rights and responsibilities of shareholders of United States corporations.***

Since we are incorporated under Israeli law, the rights and responsibilities of our shareholders are governed by our articles of association and Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in United States-based corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith towards the company and other shareholders and to refrain from abusing its power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters, such as an amendment to the company's articles of association, an increase of the company's authorized share capital, a merger and approval of related party transactions that require shareholder approval. In addition, a shareholder who knows that it possesses the power to determine the outcome of a shareholders' vote or to appoint or prevent the appointment of a director or executive officer in the company has a duty of fairness towards the company. These provisions may be interpreted to impose additional obligations and liabilities on our shareholders that are not typically imposed on shareholders of U.S. corporations.

***Our business could be impacted as a result of actions by activist shareholders or others.***

We may be subject, from time to time, to legal and business challenges in the operation of our company due to actions instituted by activist shareholders or others. Responding to such actions could be costly and time-consuming, may not align with our business strategies and could divert the attention of our Board of Directors and senior management from the pursuit of our business strategies. Perceived uncertainties as to our future direction as a result of shareholder activism may lead to the perception of a change in the direction of the business or other instability and may affect our relationships with vendors, customers, prospective and current employees and others.

On February 6, 2019, the Company received a letter from L.I.A. Pure Capital stating that Pure Capital is the owner or has voting rights with respect to shares of the Company representing more than 5% of the outstanding share capital of the Company, and requesting that the Company convene a shareholders meeting in order to replace the members of the board of directors of the Company. On March 7, 2019, the Company issued a notice of special General Meeting that is scheduled to be held on April 11, 2019. For more information please refer to Company's Proxy Statement on Form 6-K, filed with the SEC on March 7, 2019.

***As a foreign private issuer whose shares are listed on the Nasdaq Capital Market, we follow and may in the future elect to follow certain home country corporate governance practices instead of certain Nasdaq requirements.***

We are a foreign private issuer as such term is defined under U.S. federal securities laws. As a foreign private issuer, we have elected to follow certain home country corporate governance practices instead of certain requirements of the Marketplace Rules of the Nasdaq Capital Market, or the Nasdaq Marketplace Rules. We may in the future elect to follow Israeli corporate governance practices with regard to, among other things, the composition of our board of directors ("Board of Directors"), compensation of officers, director nomination procedures and quorum requirements at shareholders' meetings. In addition, we may elect to follow Israeli corporate governance practices instead of the Nasdaq requirements to obtain shareholder approval for certain dilutive events (such as for the establishment or amendment of certain equity-based compensation plans, issuances that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company). Accordingly, our shareholders may not be afforded the same protection as provided under Nasdaq's corporate governance rules. Following our home country governance practices as opposed to the requirements that would otherwise apply to a U.S. company listed on the Nasdaq Capital Market may provide less protection than is accorded to investors of domestic issuers. See "Item 16G – Corporate Governance."

***If we were to lose our foreign private issuer status under U.S. federal securities laws, we would incur additional expenses associated with compliance with the U.S. securities laws applicable to U.S. domestic issuers.***

As a foreign private issuer, we are exempt from the rules and regulations under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), related to the furnishing and content of proxy statements, and our officers, directors, and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file annual, quarterly and current reports and financial statements with the Securities and Exchange Commission as frequently or as promptly as domestic companies whose securities are registered under the Exchange Act.

The regulatory and compliance costs to us under U.S. securities laws, if we are required to comply with the reporting requirements applicable to a U.S. domestic issuer, may be significantly higher than the cost we currently incur as a foreign private issuer.



Table of Contents

***As a public company in the United States, we incur significant accounting, legal and other expenses as a result of listing our Ordinary Shares on the Nasdaq Capital Market, and we may need to devote substantial resources to address new compliance initiatives and reporting requirements.***

As a public company in the United States, the Exchange Act requires that we file periodic reports with respect to our business and financial condition and maintain effective disclosure controls and procedures and internal control over financial reporting. In addition, subsequent rules implemented by the SEC and the NASDAQ Stock Market may also impose various additional requirements on public companies. As a result, we incur significant accounting, legal and other expenses as a result of listing our Ordinary Shares on the Nasdaq Capital Market. These include costs associated with corporate governance requirements of the SEC and the Marketplace Rules of Nasdaq, as well as requirements under Section 404 and other provisions of the Sarbanes-Oxley Act of 2002. Any future changes in the laws and regulations affecting public companies in the United States and Israel, will result in increased costs to us as we respond to such changes. These laws, rules and regulations could make it more difficult or more costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these requirements could also make it more difficult for us to attract and retain qualified persons to serve on our Board of Directors, our board committees or as executive officers.

## Item 4: Information on the Company

### 4A. History and Development of the Company

We were incorporated in Israel in 1990 and are subject to the Israeli Companies Law. Our executive offices, shipping and service operations are located in Israel. Our address in Israel is 20 Freiman Street, Rishon LeZion, 7535825, Israel. The Company's Ordinary Shares are currently listed on the NASDAQ Capital Market under the symbol "BOSC".

Our address in the United States is B.O.S. Better Online Solutions Ltd. c/o Ruby-tech, Inc. 147-20 184th St., Jamaica NY 11413, USA.

Our telephone number is 972-3-954-2000 and our website address is www.boscom.com. Our subsidiaries' websites are: BOS-Odem Ltd ("Odem") - www.odem.co.il; BOS-Dimex Ltd. ("Dimex") – www.dimex.co.il. and www.idnext.co.il. The information contained on, or linked from, our websites is not a part of this report.

We operate our business through two divisions:

- Supply Chain Solutions – conducted through our wholly owned subsidiary, Odem. Our Supply Chain Solutions business offers mainly electro mechanical components to customers in the defense, high technology industry and supply chain services for aviation customers that prefer to consolidate their component acquisitions through a supplier that is able to provide a comprehensive solution to their components-supply needs.

- RFID and Mobile Solutions – conducted through our wholly owned subsidiary, Dimex. Our RFID and Mobile Solutions offerings form a comprehensive turn-key solution for Automatic Identification and Data Collection (AIDC), combining mobile infrastructure and a software application of manufacturers that we represent. In addition, following the acquisition in January 2016 by Dimex of the business operations of iDnext Ltd. and its subsidiary Next-Line Ltd., Dimex also offers on-site inventory count services in the fields of apparel, food, convenience and pharma, and asset tagging and counting services for corporate and governmental entities.



Table of Contents

On January 1, 2016, Dimex consummated the acquisition of the business operations of iDnext Ltd. ("iDnext") and its subsidiary Next-Line Ltd. ("Next-Line"), for a total consideration of $886,000. The consideration was comprised of a loan conversion in the amount of $256,000, initially advanced as a loan to iDnext and Next-Line in December 2015 and applied towards the consideration upon the closing of the acquisition, a cash payment of $154,000 and the issuance of 162,734 Ordinary Shares of the Company for a value of $298,000. Additionally, Dimex has recorded a liability in the amount of $178,000, reflecting its commitment to make additional contingent payments based on the annual operational profit of the acquired business in the calendar years 2016 and 2017. In 2016, this liability was fully written off due to insufficient operating profit of the acquired business in the year ended December 31, 2016. In the year 2017 the acquired business did not meet the profitability targets that would trigger the additional contingent payments.

On March 19, 2019 the Company signed a definitive agreement to purchase the assets of Imdecol Ltd., a global integrator and manufacturer of automatic and robotic systems that enhance the productivity of production lines. The transaction is expected to close by June 1, 2019.

The purchase price of Imdecol's business is based on a multiple of four times the average annual operating profit of Imdecol's business for the years 2017, 2018, 2019 and for the 12 months ended June 30, 2020.

The purchase price consists of a combination of cash and ordinary shares of BOS, payable as follows:

- NIS 1 million (approximately $280,000) was paid to Imdecol upon signing the definitive agreement. This amount was extended initially as a bridge loan, which bears interest at 10% per annum and is secured by a first degree fixed pledge and charge on the shares of the shareholders of Imdecol. At closing, the loan shall be applied towards the purchase price. The loan shall become due and payable if closing is not effected by August 31, 2019.

- An additional NIS 4.5 million (approximately $1.25 million) shall be paid to Imdecol at closing.

- NIS 1.5 million (approximately $417,000) shall be paid to Imdecol no later than August 2020, by way of issuance of BOS's ordinary shares. The value of the ordinary shares will be determined according to their market price prior to issuance and the shares will be subject to a lock-up period until June 2022.

- An additional amount in cash may be paid by August 2020, based on the performance of the Imdecol business through June 2020.

In addition, BOS will acquire Imdecol's inventory at its book value on the closing date, which is estimated at NIS 2.6 million (approximately $720,000). BOS will pay an advance of NIS 1.5 million (approximately $417,000) upon closing and the balance will be paid on an ongoing basis as the inventory is consumed. The cash portion of the acquisition price will be financed mainly through a combination of commercial bank loans and internal cash resources.

On February 6, 2019, the Company received a letter from L.I.A. Pure Capital stating that Pure Capital is the owner or has voting rights with respect to shares of the Company representing more than 5% of the outstanding share capital of the Company, and requesting that the Company convene a shareholders meeting in order to replace the members of the board of directors of the Company. On March 7, 2019, the Company issued a notice of special General Meeting that is scheduled to be held on April 11, 2019. For more information please refer to Company's Proxy Statement on Form 6-K, filed with the SEC on March 7, 2019.

On November 23, 2010, the Company's two U.S. subsidiaries that are part of its Supply Chain Solutions division, Lynk and its subsidiary BOS Supply Chain Solutions (Summit) Inc. ("Summit"), filed a Chapter 7 petition with the US Bankruptcy Court. In March 2011, the Lynk case was closed. In April 2014, the Summit case was closed.

**4B. Business Overview**

BOS manages its business in two reportable divisions: RFID and Mobile Solutions (through its subsidiary Dimex), and Supply Chain Solutions (through its subsidiary Odem).

The Company's customers represent a cross-section of industry leaders, from the avionics, defense, retail, manufacturers, government and livestock markets. The Company's Supply Chain Solutions customers include, among others, Cyient DLM Private Limited, Centum Electronics Limited and Fokker Elmo Sasmos Interconnection Systems Ltd. from the Indian market, C&O Telecom (H.K) Co., Limited from the Chinese market and Refael and the Israel Aerospace Industries from the Israeli market.. The Company's RFID and Mobile Solutions currently has all of its sales in Israel and its customers include, among others, Shufersal Ltd., Hamashbir Lazarchan Ltd., Fox Vizel Ltd., The Central Company for Sales and Distribution Ltd., Gotex Brandsand Tnuva Ltd.

In its RFID and Mobile Solutions division, the Company continues to invest in efforts to expand its product offerings.



Table of Contents

**BOS' Product Offerings**

*RFID and Mobile Solutions*

RFID (Radio Frequency Identification) refers to the use of an automatic identification method to remotely retrieve data using devices called RFID tags. An RFID tag is an object such as a pendant, bead, nail, label, micro wire or fiber, which can be applied to or incorporated into a product, animal, or person for the purpose of identification using radio waves.

BOS' RFID and Mobile Solutions division offers the integration of turnkey solutions as well as stand-alone products, including best-of-breed RFID and Automatic Identification Data Capture (AIDC) hardware, communications, equipment and industry-specific software applications. Customers can opt for a full solution comprised of hardware and software, or choose to purchase specific items as a stand-alone product or service.

The Company's RFID and Mobile Solutions division purchases AIDC equipment based on RFID and the barcode technology of leading global manufacturers. Such manufacturers include Zebra Technologies Corp., IPT Mobile Ltd., Ingram Micro Israel Ltd., DLog GmbH, Honeywell International Inc., Tadbik Ltd., Bibliotheca RFID Library Systems AG and Unique Technology Europe BV.

Specifically, the Company's RFID and Mobile Solutions division offers the following products and services:

- **Hardware**:
    - Thermal and barcode printers;
    - RFID and barcode scanners and readers;
    - Wireless, mobile and forklift terminals;
    - Wireless infrastructure;
    - Active and passive RFID tags (HF & UHF); and
    - Consumables (ribbons, labels, tags)
- **Software**:
    - Implementation and integration of a Warehouse Management System ("WMS"), which is proprietary software of Mantis Informatics S.A**.** that is licensed by the Company. WMS is an optimized data collection solution for logistics management in logistic centers and warehouses. The solution is based on RFID tags or bar codes, and is intended to provide customers with greater visibility into a retailer's stock management and warehouse/logistics operations. The System enables storeroom managers to receive advanced delivery notifications and system alerts for delivery discrepancies, and provides them with the ability to locate inventory in their stockroom. It provides inventory managers with a direct communication link to the sales floor and assists them in minimizing inventory loss or theft. It also enables sales floor representatives to instantly check on the availability of a product, offer alternatives if the product is out of stock and provide the customer with up-to-date product information.
    - In August 2012, the Company entered into a cooperation agreement with an independent software development company for developing tailor made software solutions according to customers demand.



Table of Contents

- **Systems:**

  The Company provides systems for comprehensive solution for inventory/assets tracking. The system is comprised from hardware, software and integration with the customers' information system. The Company has provided systems for varied solutions which include among others:

    - RFID system for libraries. The system is comprised of automatic self-service stations, staff stations, security gates, and RFID tags that are

affixed to the books. The system was developed by Bibliotheca and the Company is the integrator in Israel.

- RFID-based system for tracking inventory in a produce packing house. The RFID system enables automatic tracking of fruit pallets from the sorting machine through the various cold storage rooms and until the truck loading. It continuously shows the location of the pallets in the various stations in the packing house and interfaces with the ERP of the packing house. The system was designed using BOS' experience and knowledge of the working processes in a packing house, and is comprised of RFID readers, RFID tags, the Company tailor-made software, and an interface with the ERP of SAP, Priority and SBO.

- Automatic system for industrial packing lines, that matches between a product and its packaging. The system is designed to be deployed mainly in production lines of food producers and pharmaceutical manufacturers. The system uses machine vision readers of Cognex Corporation together with Company's software and integration.

- Automatic system for production line whereby manufacturing companies can track the progress and status of items on a production line. The solution is based on RFID tags or bar codes, and is intended to provide greater visibility into a customer's manufacturing process, as well as traceability for critical parts. With this system, items entering the manufacturing plant are labeled with RFID tags or bar codes, which allow fixed readers, located along the production line, to record the product's progress through the production line stations. Mobile readers may also be used to collect data from the parts labeled with RFID tags or bar codes.

- Automatic system to identify and track vehicles in a variety of transportation-related settings, such as automobile dealers, importers or distributors. By using RFID tags on their vehicles it enables companies to effectively manage, track, support and plan all day-to-day vehicle-related activities.

- **Services:**

  The Company's RFID and Mobile Solutions division also provides complementary services such as:

  - A service lab that offers maintenance and repair services to data collection equipment, as well as warehouse and on-site service plans; and

  - Dimex offers on-site inventory count services in the fields of apparel, food, convenience and pharma, and asset tagging and counting services for corporate and governmental entities.

  In 2018, 45% of our revenues were attributed to sales generated from the Company's RFID and Mobile Solutions division.

  In addition, following the acquisition of the business operations of Imdecol Ltd., which is expected to close by June 1, 2019, Dimex shall also offer automatic and robotic systems that enhance the productivity of production lines.

*Supply Chain Solutions*

The Company's Supply Chain Solutions division provides electronic components, telecommunications equipment and components consolidation services to the aerospace, defense, medical and telecommunications industries as well as enterprise customers worldwide.

These services include:

- The representation of global manufacturers and distribution of their electronics components and communications products (see below);

- For aerospace customers:

  - Consolidation services – offering customers with one contact point for a wide range of electromechanical components of various manufacturers;

  - Kitting services – Performing inventory and quality control management of components entering production lines; and

  - Inventory management for ongoing projects, including all warehouse functions such as storage and operations.



The Company's Supply Chain Solutions division represents and distributes engineering designs for sale on a non-exclusive basis to, among others, International Rectifier Inc., Sensata Technologies Inc., Integrated Power Designs, Inc., Positronic Global Connector Solutions, Netpower, Switchcraft Inc., First Sensor A.G., Fema Electronics Corporation, SGC Technologies Inc. and Civue Optotech Inc.

In 2018, 55% of our revenues were attributed to sales of the Supply Chain Solutions division.

**Marketing, Distribution and Sales**

*RFID and Mobile Solutions*

The Company markets its RFID and Mobile Solutions primarily to medium and large sized corporations in Israel through a combination of direct sales and sales agents.

*Supply Chain Solutions*

The Company markets its Supply Chain Solutions directly to customers or through distributors worldwide. The Company's sales force is comprised of direct sales teams and sales agents.

***Seasonality***

The Company's sales are subject to seasonality. The revenues of the first and fourth quarter are usually relatively higher than the revenues for the second and third quarter. The seasonality is attributable mainly to inventory counting services which generate a majority of their revenues in the fourth and first quarter of the year.

The following tables set forth the Company's revenues (in thousands of $), by major geographic areas and by divisions, for the periods indicated below:

*Sales by major geographic areas ($ in thousands)*

| | 2018 | % | 2017 | % | 2016 | % |
|---|---|---|---|---|---|---|
| Israel | $ 22,990 | 70 | $ 21,870 | 75 | $ 20,619 | 75 |

| | | | | | | |
|---|---|---|---|---|---|---|
| India | $ 4,209 | 13 | $ 4,497 | 16 | $ 3,119 | 11 |
| Far East | $ 3,800 | 12 | $ 1,416 | 5 | $ 2,964 | 11 |
| America | $ 1,189 | 4 | $ 918 | 3 | $ 411 | 2 |
| Europe | $ 462 | 1 | $ 231 | 1 | $ 314 | 1 |
| Total Revenues | $ 32,650 | 100 | $ 28,932 | 100 | $ 27,427 | 100 |

*Sales by quarters*

| | 2018 | % | 2017 | % | 2016 | % |
|---|---|---|---|---|---|---|
| Q1 | $ 8,291 | 25 | $ 7,064 | 24 | $ 8,067 | 29 |
| Q2 | $ 7,552 | 23 | $ 6,716 | 23 | $ 6,308 | 23 |
| Q3 | $ 7,714 | 24 | $ 7,227 | 25 | $ 6,275 | 23 |
| Q4 | $ 9,093 | 28 | $ 7,925 | 28 | $ 6,777 | 25 |
| Total Revenues | $ 32,650 | 100 | $ 28,932 | 100 | $ 27,427 | 100 |



Table of Contents

*Sales by divisions*

| | 2018 | % | 2017 | % | 2016 | % | 2015 |
|---|---|---|---|---|---|---|---|
| RFID and Mobile Solutions | $ 14,633 | 45 | $ 13,666 | 47 | $ 12,197 | 44 | $ 9,270 |
| Supply Chain Solutions | $ 18,205 | 55 | $ 15,495 | 53 | $ 15,291 | 56 | $ 16,336 |
| Intercompany | $ (188) | - | $ (229) | - | $ (61) | - | $ (7) |
| Total Revenues | $ 32,650 | 100 | $ 28,932 | 100 | $ 27,427 | 100 | $ 25,599 |

**Competition**

*RFID and Mobile Solutions*

The RFID and Mobile Solutions market is subject to rapidly changing technology and evolving standards incorporated into mobile equipment, Enterprise Resource Planning systems, computer networks and host computers. As the market grows, so does the number of competitors. A few of the competitors in Israel have greater financial, marketing and technological resources than BOS.

In Israel, the Company's main competitors in the RFID and Mobile Solutions market are eWave mobile Ltd., Dannet Advanced Technologies Ltd., Imagecode Solutions Ltd., Dangot Computers Ltd. and Globe Tag Ltd.

*Supply Chain Solutions*

The Company holds several representation agreements with major manufacturers. The representation agreements are not entered into on an exclusive basis.

The Company's Israeli competitors for distribution to the electronic industry include the publicly traded Telsys Ltd. and STG International Electronics (1981) Ltd., as well as Nisco Projects Ltd., Eastronics Ltd., Elimec Engineering Ltd. and Teder Electro Mechanical Engineering Ltd.

In the international market, the Company's competitors consist of mainly Arrow Electronics International Inc., Avnet Electronics Marketing, TTI Inc., PEI-Genesis Inc., Weco Electrical Connectors Inc., Electro Enterprises Inc., Flame Enterprise Inc., Norstan Electronics Inc., Peerless Electronics Inc. and Future Electronics.

**Strategy**

The Company's vision is to become a leading integrator in the field of RFID and Mobile Solutions and global provider of electronic components with supply chain added value services.

The key elements of the Company's strategy are as follows:

- Expand its RFID and Mobile product and solutions offerings, mainly through acquisitions of complementary solutions. This will include the sale and integration of new complementary hardware and software to its existing customer base and sales to new customers. As part of implementing our growth strategy Dimex acquired in January 2016, the business operations of iDnext Ltd. and its subsidiary Next-Line Ltd. Following this acquisition, Dimex offers on-site inventory count services in the fields of apparel, food, convenience and pharma, and asset tagging and counting services for corporate and governmental entities;

- Expand the Supply Chain Solutions product offerings and sales outside of Israel and mainly into India. Sales to the Far East, including India, amounted to $8 million and $5.9 million in years 2018 and 2017, respectively.



Table of Contents

**Exchange Controls**

See "Item 10D. Exchange Controls."

For other government regulations affecting the Company's business, see "Item 5A. Results of Operations - Grants and Participation."

**4C. Organizational Structure**

The Company's wholly owned subsidiaries include:

In Israel:

(1) Dimex, an Israeli corporation, representing the RFID and Mobile Solutions division;

(2) Odem, an Israeli corporation, representing the Supply Chain Solutions division;

In the United States:

(1) Ruby-Tech, a New York corporation, is a wholly owned subsidiary of Odem and a part of the Supply Chain Solutions division.

**4D. Property, Plants and Equipment**

Our offices are located in the following facility in Israel :

| Location | Size (square meters) | Lease period |
|---|---|---|
| Rishon LeZion | 2,121 | January 2018 through April 2023 |

Our average monthly rental fee for the year 2018 and for the year 2017 amounted to $16,385 and $14,405, respectively.

In April 2018 we completed renovation works for our warehouses and lab at a new location in the same building in Rishon LeZion .Currently, we lease 2,121 square meters that include our offices and the new facilities.

**Item 4A: Unresolved Staff Comments**

Not Applicable.

**Item 5: Operating and Financial Review and Prospects**

The following management's discussion and analysis of financial condition and results of operations should be read in conjunction with our financial statements and notes thereto. Certain matters discussed below and throughout this Annual Report are forward-looking statements that are based on our beliefs and assumptions as well as information currently available to us. Such forward-looking statements may be identified by the use of the words "anticipate", "believe", "do not believe", "estimate", "expect", "plan", "intend", "projections", "forecast", "may", "continue", "should", "predict", "potential" or the negative of these terms or similar expressions. Such statements reflect our current views with respect to future events and are subject to certain risks and uncertainties. While we believe such forward-looking statements are based on reasonable assumptions, should one or more of the underlying assumptions prove incorrect, or these risks or uncertainties materialize, our actual results may differ materially from those described herein.

**Overview**

BOS is a provider of turnkey AIDC mobility solutions and a global distributor of electronic components for the civil aircraft industry, defense industry and high technology equipment manufacturers.



Table of Contents

The Company's RFID and Mobile products and services assist customers in improving the efficiency of their enterprise logistics, enhancing and automating their data collection processes and improving asset tracking.

BOS manages its business in two reportable divisions: RFID and Mobile Solutions (through its subsidiary Dimex), and Supply Chain Solutions (through its subsidiary Odem).

*Revenues*

The Company derives its revenues mainly from the sale of products and supporting services.

In accordance with ASC Topic 605 "Revenue Recognition", until December 31, 2017 (prior to the adoption of ASC Topic 606) the Company recognized revenues from sale of products when the following fundamental criteria were met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the price to the customer is fixed or determinable; and (iv) collection of the resulting receivable is reasonably assured.

Revenues from service contracts were recognized ratably over the service period.

The Company applied the provisions of ASC Topic 605-25, "Revenue Recognition - Multiple-Element Arrangements", as amended. ASC Topic 605-25 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products and services. For such arrangements, each element of the contract is accounted for as a separate unit when it provides the customer value on a stand-alone basis.

The Company followed the guidance in ASC 605-35, "Revenue Recognition - Construction-Type and Production-Type Contracts" ("ASC 605-35"), with respect to revenues from customized software solutions, whereby the Company applied the Completed contract method, since the Company was unable to obtain reasonable dependable estimates of the total effort required for completion. Under the completed contract method, all revenue and related costs of revenue were deferred and recognized upon completion. Provisions for estimated losses on contracts in process were recognized in the period such losses were determined.

Deferred revenues included unearned amounts received from customers (mostly for service contracts and advances from customers) but not yet recognized as revenues. Deferred revenues from service contracts were recognized over the period of the contract and advances were recognized once the delivery of the products is done.

*Revenue recognition accounting policy applied from January 1, 2018* (following the adoption of ASC Topic 606):

On January 1, 2018, the Company adopted ASC Topic 606, Revenue from Contracts with Customers ("ASC 606") using the modified retrospective transition method to all contracts that were not completed on the effective date of ASC 606. Among others, the Company implemented internal controls and key system functionality to enable the preparation of financial information on adoption. The adoption of ASC 606 resulted in changes to the Company's accounting policies for revenue recognition previously recognized under ASC 605 as detailed below. However, there were no significant changes to the timing or pattern of revenue recognition to any of the revenue streams of the Company under ASC 606 and those that were previously reported under ASC 605. Accordingly, the adoption of ASC 606 did not have material effect on the consolidated statements of operations and balance sheets.

In accordance with ASC 606, The Company determines revenue recognition through the following five steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and

- Recognition of revenue when, or as, the Company satisfies a performance obligation.

A contract with a customer exists when all of the following criteria are met: the parties to the contract have approved it (in writing, orally, or in accordance with other customary business practices) and are committed to perform their respective obligations, the Company can identify each party's rights regarding the distinct goods or services to be transferred ("performance obligations"), the Company can determine the transaction price for the goods or services to be transferred, the contract has commercial substance and it is probable that the Company will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

The transaction price represents the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer. The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. Variable consideration is included in the transaction price only if it is not considered constrained (i.e. it is considered probable that a significant reversal in the amount of cumulative revenue recognized will not occur).



Table of Contents

Revenue is recognized when, or as, the Company satisfies a performance obligation by transferring a promised good or service to a customer. A product is transferred when, or as, the customer obtains control of that product, and a service is considered transferred as the services are received and used by the customers.

Revenues are recorded in the amount of consideration to which the Company expects to be entitled in exchange for performance obligations upon transfer of control to the customer. If a contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations such as different products or products and services the Company performs an allocation of the transaction price to each performance obligation based on a relative standalone selling price basis.

The Company records revenues net of any value added or sales tax.

In accordance with ASC 606, the Company's revenues are recognized as follows

1. The Company generates its revenues primarily from the sale of products such as electro mechanical components and RFID and Automatic Identification Data Capture hardware manufactured by third parties, through a direct sales to its customers. Revenues from sales of products are recognized at the point of time when the control of the product is passed on to the customer, mostly upon delivery to the customer, either at the Company premises by delivery to the customer carrier or upon delivery to the customer premises, as applicable to each contract.

2. Revenues from service contracts are recognized over the contract's period (for time-based services) or based on the amount of work performed (for on-site inventory count and similar services). Renewals of service support contracts create new performance obligations that are satisfied over the term with the revenues recognized ratably over the period.

3. For arrangements that involve the delivery or performance of multiple products or products sold with service contracts, the Company analyzes whether the goods or services that were promised to the customer are distinct. A good or service promised to a customer is considered 'distinct' if both of the following criteria are met: 1. The customer can benefit from the goods or service, either on its own (i.e. without any professional services, updates or technical support) or together with other resources that are readily available to the customer; and, 2. The Company's promise to transfer the goods or service to the customer is separately identifiable from other promises in the contract.

   Revenues from service contracts sold to customers within a single contractually binding arrangement together with products, were determined to be distinct and therefore, are accounted for revenue recognition purposes, as a separate performance obligation. Accordingly, the amount attributed to the service contract is recognized over time, on a straight-line basis over the contract's period, as the services are mostly refer to time-based support services.

4. Deferred revenues include unearned amounts received from customers (mostly for service contracts and advances from customers) but not yet recognized as revenues. Deferred revenues from service contracts are recognized over the period of the contract and advances are recognized once the delivery of the products is done. Deferred revenues include advanced payments from customers in the amount of $243 as of December 31, 2018. This amount is expected to be recognized during 2019, once the delivery of the products is done. In addition, deferred revenues include unearned amounts from service contracts, which are mostly for a period of three to five years, and the Company recognizes the revenues over the contract's period. As of December 31, 2018, the deferred revenues from service contracts amounted to $408. This amount will be recognized in the years 2019 until 2021, and immaterial amounts related to software.

*Costs and Operating Expenses*

Our costs associated with a particular project may vary significantly depending on the specific requirements of the customer, the terms of the agreement, as well as on the nature of the products. As a result, our gross profits from each project may vary significantly.

In August 2012, we entered into a cooperation agreement with an independent software development company for the maintenance, development and support of our software solutions. The selling and marketing of the software solutions continues to be performed by our RFID and Mobile Solutions division.

Our selling and marketing expenses consist primarily of salaries and related costs, commissions earned by sales, marketing and operational personnel, facilities costs, trade show expenses, promotional expenses and overhead costs allocated to selling and marketing activities, as well as depreciation expenses and travel costs.

Our general and administrative expenses consist primarily of salaries and related costs earned by management and financial departments, professional service fees, expenses related to our directors, Nasdaq fees, investor relations and legal fees.

Our operating results are significantly affected by, among other things, the level of revenues. Our revenues in any quarter are substantially dependent on orders received and delivered in that quarter. As a result, our revenues and income (loss) may fluctuate substantially from quarter to quarter. Certain of our expenses are mainly fixed or partially fixed and any fluctuation in revenues will generate a significant variation in gross profit and net income (loss).



Table of Contents

**Critical accounting policies**:

Our discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our financial statements in conformity with generally accepted accounting principles in the United States requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These amounts and disclosures could potentially be materially different under other assumptions and conditions. These are our management's

best estimates based on experience and historical data, however, actual results could differ materially from these estimates. Our significant accounting principles are presented within Note 2 to our Consolidated Financial Statements attached to this annual report. While all the accounting policies impact the financial statements, certain policies may be viewed to be critical. Management believes that the following policies are those that are most important to the portrayal of our financial condition, results of operations and for fully understanding and evaluating our reported results:

- Inventories
- Impairment of long-lived assets and intangible assets subject to amortization
- Goodwill
- Revenue recognition

a. Inventories:

The inventory is valued at the lower of cost or net realizable value. Cost is determined using the moving average cost method. In 2018 and 2017, inventory write-offs amounted to $52 and $75, respectively.

Inventory write-offs and write-downs are provided to cover risks arising from slow-moving items or technological obsolescence.

b. Impairment of long-lived assets and intangible assets subject to amortization:

The Company's long-lived assets are reviewed for impairment in accordance with ASC 360-10, *Accounting for the Impairment or Disposal of Long-Lived Asset*, whenever events or changes in circumstances indicate that the carrying amount of an asset (or asset group) may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset (or asset group) to the future undiscounted cash flows expected to be generated by the assets (or asset group). If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds their fair value.

Recoverability of intangible assets is measured by a comparison of the carrying amount of the asset to the undiscounted future cash flows expected to be generated by the asset. If intangible assets are considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired assets.

Intangible assets with finite lives are amortized using the straight-line basis over their useful lives, to reflect the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up. As of December 31, 2018 the remaining intangible assets were comprised of costumer relationship. (see Note 7 to the Consolidated Financial Statements for the year ended December 31, 2018).

For each of the three years ended on December 31, 2018, 2017 and 2016, no impairment losses were identified.



Table of Contents

c. Goodwill:

Goodwill represents excess of the costs over the net assets of businesses acquired. Under ASC 350, *Intangibles - Goodwill and Other* ("ASC 350"), goodwill is not amortized but instead is tested for impairment at least annually or between annual tests in certain circumstances, and written-down when impaired.

The Company performs its annual impairment analysis of goodwill as of December 31 of each year, or more often if indicators of impairment are present. The provisions of ASC 350 require that a two-step impairment test be performed on goodwill at the level of the reporting units. In the first step, or "Step 1", the Company compares the fair value of each reporting unit to its carrying value. If the fair value exceeds the carrying value of the net assets, goodwill is considered not impaired, and the Company is not required to perform further testing. If the carrying value of the net assets exceeds the fair value, then the Company must perform the second step, or "Step 2", of the impairment test in order to determine the implied fair value of goodwill. To determine the fair value used in Step 1, the Company uses discounted cash flows. If and when the Company is required to perform a Step 2 analysis, determining the fair value of its net assets and its off-balance sheet intangibles would require it to make judgments that involve the use of significant estimates and assumptions.

The Company operates in two operating-based segments: RFID and Mobile Solutions and Supply Chain Solutions. The Company's goodwill is related to the RFID and Mobile Solutions segment, which represents a reporting unit as a whole.

The Company determined the fair value of such reporting unit using the Income Approach, which utilizes a discounted cash flow model, as it believes that this approach best approximates the reporting unit's fair value at this time. The impairment test was based on a valuation performed by management with the assistance of a third party appraiser. Judgments and assumptions related to revenue, operating income, future short-term and long-term growth rates, weighted average cost of capital, interest, capital expenditures, cash flows, and market conditions are inherent in developing the discounted cash flow model. The material assumptions used for the Income Approach for 2018 were five years of projected net cash flows, WACC of 15% and a long-term growth rate of 2%. The Company considered historical rates and current market conditions when determining the discount and growth rates to use in its analyses. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for its goodwill.

The aggregate fair value of the RFID and Mobile Solutions segment depends on various factors, some of which are qualitative and involve management judgment, including stable backlog coverage and experience in meeting operating cash flow targets.

During years 2018, 2017 and 2016 no impairment losses have been identified.

d. Revenue Recognition:

The Company derives its revenues mainly from the sale of products and supporting services.

In accordance with ASC Topic 605 "Revenue Recognition", until December 31, 2017 (prior to the adoption of ASC Topic 606) the Company recognized revenues from sale of products when the following fundamental criteria were met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the price to the customer is fixed or determinable and (iv) collection of the resulting receivable is reasonably assured.

Revenues from service contracts were recognized ratably over the service period.

The Company applied the provisions of ASC Topic 605-25, "Revenue Recognition - Multiple-Element Arrangements", as amended. ASC Topic 605-25 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products and services. For such arrangements, each element of the contract is accounted for as a separate unit when it provides the customer value on a stand-alone basis.

The Company followed the guidance in ASC 605-35, "Revenue Recognition - Construction-Type and Production-Type Contracts" ("ASC 605-35"), with

respect to revenues from customized software solutions, whereby the Company applied the Completed contract method, since the Company was unable to obtain reasonable dependable estimates of the total effort required for completion. Under the completed contract method, all revenue and related costs of revenue were deferred and recognized upon completion. Provisions for estimated losses on contracts in process were recognized in the period such losses were determined.

Deferred revenues included unearned amounts received from customers (mostly for service contracts, software projects and advances from customers) but not yet recognized as revenues. Deferred revenues from service contracts were recognized over the period of the contract and advances were recognized once the delivery of the products is done.

Revenue recognition accounting policy applied from January 1, 2018 (following the adoption of ASC Topic 606):

On January 1, 2018, the Company adopted ASC Topic 606, Revenue from Contracts with Customers ("ASC 606") using the modified retrospective transition method to all contracts that were not completed on the effective date of ASC 606. Among others, the Company implemented internal controls and key system functionality to enable the preparation of financial information on adoption. The adoption of ASC 606 resulted in changes to the Company's accounting policies for revenue recognition previously recognized under ASC 605 as detailed below. However, there were no significant changes to the timing or pattern of revenue recognition to any of the revenue streams of the Company under ASC 606 and those that were previously reported under ASC 605. Accordingly, the adoption of ASC 606 did not have material effect on the consolidated statements of operations and balance sheets.



Table of Contents

In accordance with ASC 606, The Company determines revenue recognition through the following five steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, the Company satisfies a performance obligation.

A contract with a customer exists when all of the following criteria are met: the parties to the contract have approved it (in writing, orally, or in accordance with other customary business practices) and are committed to perform their respective obligations, the Company can identify each party's rights regarding the distinct goods or services to be transferred ("performance obligations"), the Company can determine the transaction price for the goods or services to be transferred, the contract has commercial substance and it is probable that the Company will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

The transaction price represents the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer. The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. Variable consideration is included in the transaction price only if it is not considered constrained (i.e. it is considered probable that a significant reversal in the amount of cumulative revenue recognized will not occur).

Revenue is recognized when, or as, the Company satisfies a performance obligation by transferring a promised good or service to a customer. A product is transferred when, or as, the customer obtains control of that product, and a service is considered transferred as the services are received and used by the customers.

Revenues are recorded in the amount of consideration to which the Company expects to be entitled in exchange for performance obligations upon transfer of control to the customer. If a contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations such as different products or products and services the Company performs an allocation of the transaction price to each performance obligation based on a relative standalone selling price basis.

The Company records revenues net of any value added or sales tax.

In accordance with ASC 606, the Company's revenues are recognized as follows:

1. The Company generates its revenues primarily from the sale of products such as electro mechanical components and RFID and Automatic Identification Data Capture hardware manufactured by third parties, through a direct sales to its customers. Revenues from sales of products are recognized at the point of time when the control of the product is passed on to the customer, mostly upon delivery to the customer, either at the Company premises by delivery to the customer carrier or upon delivery to the customer premises, as applicable to each contract.

2. Revenues from service contracts are recognized over the contract's period (for time-based services) or based on the amount of work performed (for on-site inventory count and similar services). Renewals of service support contracts create new performance obligations that are satisfied over the term with the revenues recognized ratably over the period.

3. For arrangements that involve the delivery or performance of multiple products or products sold with service contracts, the Company analyzes whether the goods or services that were promised to the customer are distinct. A good or service promised to a customer is considered 'distinct' if both of the following criteria are met: 1. The customer can benefit from the goods or service, either on its own (i.e. without any professional services, updates or technical support) or together with other resources that are readily available to the customer; and, 2. The Company's promise to transfer the goods or service to the customer is separately identifiable from other promises in the contract.

   Revenues from service contracts sold to customers within a single contractually binding arrangement together with products, were determined to be distinct and therefore, are accounted for revenue recognition purposes, as a separate performance obligation. Accordingly, the amount attributed to the service contract is recognized over time, on a straight-line basis over the contract's period, as the services are mostly refer to time-based support services.

4. Deferred revenues include unearned amounts received from customers (mostly for service contracts and advances from customers) but not yet recognized as revenues. Deferred revenues from service contracts are recognized over the period of the contract and advances are recognized once the delivery of the products is done. Deferred revenues include advanced payments from customers in the amount of $243 as of December 31, 2018. This amount is expected to be recognized during 2019, once the delivery of the products is done. In addition, deferred revenues include unearned amounts from service contracts, which are mostly for a period of three to five years, and the Company recognizes the revenues over the contract's period. As of December 31, 2018, the deferred revenues from service contracts amounted to $408. This amount will be recognized in the years 2019 until 2021, and immaterial amounts related to software.

**Legal Contingencies**

On December 4, 2018 the lessors of the Company's facilities in Rishon Lezion filed a claim against the Company in the amount of NIS 1,800,000 (approximately $500,000). The Company was the previous owner of these facilities and had sold them to the Lessor in May 2013. The plaintiffs claim the Company misrepresented the physical status of the sold premises. The Company rejects the claim and has filed a counterclaim of NIS 850,000 (approximately $222,000) alleging breaches by the lessors of the lease agreement.

On April 9, 2017 D.D. Goldstein Properties and Investments Ltd., a shareholder of the Company (the "Plaintiff") filed a claim against the Company's Chairman Yosi Lahad, the Company's Co-CEO, Yuval Viner, the Company's Co-CEO and CFO, Eyal Cohen and Ms. Gabriela Jacobs, an (indirect) shareholder of the Company.

On February 17, 2019 the parties reached a settlement agreement, which received court approval, pursuant to which the claim was dismissed against a certain payment to the Plaintiff. The payment was made by the Company's insurance company, and the Company contributed the deductible in the amount of $35,000.

**5A. Operating Results**

**Comparison of 2018 and 2017**

Consolidated revenues increased by 13% to $32.7 million in year 2018 from $28.9 million in year 2017. Our supply chain division saw revenue growth of 17% and the RFID & Mobile division had revenue growth of 7%. The growth of the Supply Chain division revenues was due primarily to increased sales in the Far East. The growth in the RFID and Mobile Division revenues was due to new customers.

Gross profit for 2018 was $6.75 million (a gross margin of 20.7%) as compared to $6.35 million (a gross margin of 21.9%) for 2017. The decrease in gross profit margin was due primarily to a decline in the gross profit margin of the RFID and Mobile Division from 26.5% in year 2017 to 23% in year 2018, as a result of competition.

Operating expenses increased to $5.54 million in 2018 from $5.26 million in 2017. The increase in expenses was due primarily to the following factors:

- An increase of $120,000 in the fees for the services of iDnext and Next-Line. iDnext and Next-Line provide professional services to the inventory counting unit, which is part of the RFID and Mobile Division. In January 2016, the Company bought the assets of iDnext and Next-Line. In February 2019, the Company terminated the service agreement with iDdnext and Next-Line.

- An increase of $80,000 in sales and marketing expenses that was due to an increase in commissions to sales agents and employees as a result of a 13% growth in revenues in year 2018 as compared to year 2017.

- Our payroll payments to employees are incurred in NIS. In order to manage the exposure to foreign currency exchange rates related to these expenses, the Company uses derivative instruments. In 2018, the NIS depreciated against the dollar by 8.1%, resulting in an increase of $74,000 in our hedging expenses.

Financial expenses decreased to $255,000 in year 2018 from $297,000 in year 2017. The reduction in financial expenses, mainly in interest expenses, was due to the reduction of our bank loan balances from $3 million (NIS 10.5 million) in December 31, 2017 to $2.34 million (NIS 8.7 million) in December 31, 2018.





Net income for year 2018 was $990,000 as compared to net income of $773,000 in 2017. The basic and diluted net income per share in 2018 was $0.28, compared to basic and diluted net income per share of $0.24 in 2017.

**Comparison of 2017 and 2016**

Consolidated revenues increased by 5% to $28.9 million in year 2017 from $27.4 million in year 2016. The increase is mainly related to an increase in revenues of the RFID and Mobile division from $12.2 million in 2016 to $13.7 million in 2017. The growth in the RFID and Mobile division is attributed mainly to inventory counting services.

Gross profit for 2017 was $6.35 million (gross margin of 21.9%) as compared to $5.3 million (gross margin of 19.3%) for 2016. The increase in gross profit is attributable to the increase in revenues and increase in gross profit margins in both divisions. The increase in gross profit margins in both divisions is mainly attributed to increase in sales price.

Operating expenses increased to $5.26 million in 2017 from $4.6 million in 2016. The increase in expenses is attributed mainly to the following factors:

- We incur a significant portion of our expenses in NIS. Such costs are mainly attributed to salaries and lease of our facilities and cars. Hence, devaluation of US dollar against the NIS during year 2017 in the rate of 9.8% increased our cost of our operations by approximately $192,000 as compared to year 2016.

- General and administrative expenses of year 2016 include income in the amount of $178,000 that are attributed to the write-off in a contingent liability related to the acquisition of the business operations of iDnext (see Note 3 to the Consolidated Financial Statements for the year ended December 31, 2017).

- An increase of $170,000 in sales and marketing expenses that was due to an increase in commissions to sales agents and employees as a result of a 6% growth in revenues in year 2017 as compared to year 2016

Financial expenses decreased to $297,000 in year 2017 from $339,000 in year 2016. The reduction in financial expenses, mainly in interest expenses, was due to the reduction of our bank loan balances(denominated in NIS) from $3.1 million (NIS 12.1 million) in December 31, 2016 to $3 million (NIS 10.5 million) in December 31, 2017.

Net income for year 2017 was $773,000 as compared to net income of $360,000 in 2016. The basic and diluted net income per share in 2017 was $0.24, compared to basic and diluted net income per share of $0.14 in 2016.

**Variability of Quarterly Operating Results**

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

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

- establish effective sales channels and manage them;
- introduce and deliver new products on a timely basis;
- anticipate accurately customer demand patterns;



Table of Contents

- manage future inventory levels in line with anticipated demand; and
- successfully meet bank financial covenants.

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

**Impact of Inflation and Currency Fluctuations**

In 2018, the NIS depreciated against the dollar by approximately 8.1%, while in 2017 the NIS appreciated against the dollar by 9.8%. In 2016 the NIS appreciated against the dollar by 1.5% and in 2015, the NIS depreciated by approximately 0.3%, against the dollar. In the year ended December 31, 2018 and 2017, the inflation rate in Israel was 0.8% and 0.4%, respectively. In 2016 and 2015, the annual deflation was 0.2% and 1%, respectively. Therefore, the U.S. dollar cost of our Israeli operations decreased in 2018 and 2015 and increased in 2017 and 2016. We cannot predict any future trends in the rate of inflation in Israel and whether the NIS will appreciate against the U.S. dollar or vice versa. Any increase in the rate of inflation in Israel, unless the increase is offset on a timely basis by a devaluation of the NIS in relation to the U.S. dollar, will increase our labor and other costs, which will increase the U.S. dollar cost of our operations in Israel and harm our results of operations.

**Effective Corporate Tax Rate**

The Israeli corporate tax rate was 26.5% in 2015, 25% in 2016 and 24% in 2017. Effective as of January 1, 2018 the corporate tax rate is 23%.

**Conditions in Israel**

We are incorporated under the laws of the State of Israel, where we also maintain our headquarters and our research and development and manufacturing facilities. See Item 3D. “Risk Factors – Risks Relating to Our Location in Israel” for a description of governmental, economic, fiscal, monetary or political polices or factors that have materially affected or could materially affect our operations.



Table of Contents

**5B. Liquidity and Capital Resources**

In the year ended on December 31, 2018, the Company had net income of $990,000 as compared to $773,000 in the year 2017 and $360,000 in the year 2016. In the year ended December 31, 2018, the Company generated a positive cash flow from operating activities amounting to $765,000 as compared to cash flow from operating activities amounting to $355,000 in 2017 and a negative cash flow from operating activities amounting to $361,000 in 2016. The Company’s cash and cash equivalents amounted to $1.4 million as of December 31, 2018. The Company had a positive working capital of $7,637,000, $7,342,000, and $6,099,000 as of December 31, 2018, December 31, 2017, and December 31, 2016, respectively.

We finance our activities by different means, including short and long-term loans, cash flow from operating activities and issuance of Company shares.

Working capital requirements will vary from time-to-time and will depend on numerous factors, including but not limited to, the operating results, scope of sales and supplier and customer credit terms.

As of December 31, 2018, we had $1.87 million in long-term debt (net of current maturities of $467,000) and no short term bank loans.

The Company’s loans from Bank Beinleumi are secured by:

- first ranking fixed charge on any unpaid share capital of the Company, the goodwill of the Company, and any insurance entitlements in the Company’s assets pledged thereunder; and
- floating charges on all of the assets of the Company and our Israeli subsidiaries, owned now or in the future.

The Company also guarantees the liabilities of its Israeli subsidiaries to Bank Beinleumi and each of its Israeli subsidiaries guarantees the Company’s liabilities to Bank Beinleumi.

We rely on Bank Beinleumi to provide all of the credit facilities to our subsidiaries. In October 2017 we replaced all our Bank Leumi credit facilities with credit facilities from Bank Beinleumi, so that currently our outstanding bank debt, is owed to Bank Beinleumi.

In February 2015, the Company entered into the 2015 SEDA with YA Global. The 2015 SEDA provides that, upon the terms and subject to the conditions set forth therein, YA Global is committed to purchase up to $1,300,000 of the Company’s Ordinary Shares over a 40-month commitment period. The Company issued 28,930 shares to YA Global as a commitment fee for this financing. The purchase price of the Ordinary Shares will be at a 7% discount off the average share trading price, calculated as described in the 2015 SEDA. The Ordinary Shares to be issued to YA Global under the 2015 SEDA will be issued pursuant to an exemption from registration under the Securities Act of 1933, as amended. Pursuant to the 2015 SEDA, the Company has an obligation to file a registration statement with the U.S. Securities and Exchange Commission covering the resale by YA Global of any shares to be issued to YA Global under the 2015 SEDA. As of March 15, 2019, $1,195,000 has been drawn on this equity line, for which the Company issued an aggregate of 628,229 Ordinary Shares.

In May 2017, the Company entered into the 2017 SEDA with YA II. The 2017 SEDA provides that, upon the terms and subject to the conditions set forth therein, YA II is committed to purchase up to $2,000,000 of the Company’s Ordinary Shares over a 4-year commitment period. The Company issued 67,307 shares to YA Global II SPV, LLC as a commitment fee for this financing. The purchase price of the Ordinary Shares will be at a 7% discount off the average share trading price, calculated as described in the 2017 SEDA. The Ordinary Shares to be issued to YA II under the 2017 SEDA will be issued pursuant to an exemption from registration under the Securities Act of 1933, as amended. Pursuant to the 2017 SEDA, the Company has an obligation to file a registration statement with the U.S. Securities and Exchange Commission covering the resale by YA II of any shares to be issued to YA II under the 2017 SEDA. As of March 15, 2019, $900,000 has been drawn on this equity line for which the Company has issued an aggregate of 355,048 Ordinary Shares. The Company has an effective registration statement covering the resale by YA II of up to 878,161 Ordinary Shares that the Company may sell to YA II under the 2017 SEDA (including Ordinary Shares which have been issued as of March 15, 2019).

On January 1, 2016 the Company issued 162,734 Ordinary Shares as part of the consideration in the iDnext business acquisition.

On July 18, 2018, our general meeting of shareholders approved an increase of 2,000,000 Ordinary Shares in the Company's authorized share capital, following which the Company's authorized share capital is NIS 480,000,000, divided into 6,000,000 Ordinary Shares, nominal value NIS 80.00 per Share.

We have in-balance sheet financial instruments and off-balance sheet contingent commitments. Our in-balance sheet financial instruments consist of our assets and liabilities. Our cash is held in bank accounts in U.S. dollars and NIS bearing no interest. As of December 31, 2018, our trade receivables' and trade payables' aging days were 96 and 58 days, respectively. The fair value of our financial instruments is similar to their book value. Our off-balance sheet contingent commitments consist of: (a) royalty commitments that are directly related to our future revenues, (b) lease commitments of our premises and vehicles, and (c) directors' and officers' indemnities, in excess of the proceeds received from liability insurance which we obtain.

The Company had working capital of $7,637,000 as of December 31, 2018. It is the Company's opinion that current working capital is sufficient for the Company's ongoing operation. The Company may grow its business through acquisitions of complementary business for both divisions. In order to finance such acquisitions, the Company might need to significantly increase its debt and raise additional equity financing.



Table of Contents

**Cash Flows**

Net cash provided by operating activities was $765,000 in 2018 and $355,000 in 2017. Net cash used in operating activities in 2016 was $(361,000), due to working capital requirements related to the acquisition of the business of iDnext and Next-Line.

Net cash used in investment activities in year 2018 amounted to $796,000 and includes cost of $500,000 related to warehouse renovation. Net cash used in investment activities in year 2017 amounted to $344,000 and includes cost of $138,000 related to offices renovation. Net cash used in investment activities in year 2016 amounted to $268,000 and included payment of $154,000 for acquisition of the business of iDnext and Next-Line business.

Net cash used in financing activities in 2018 amounted to $92,000. Net cash provided by financing activities in 2017 and 2016 amounted to $236,000 and $496,000, respectively.

**5C. Research and Development**

Since August 2012 and following a cooperation agreement the Company entered into with an independent software development company for the maintenance, development and support of our software solutions, the Company has no research and development expenses. The selling and marketing of the software solutions continues to be performed by our RFID and Mobile Solutions division.

**5D. Trend Information**

BOS' vision is to become a leading Israeli integrator of RFID and Mobile solutions in Israel and a global provider of electronic components with supply chain added value services.

Committed to this vision, we anticipate that RFID and Mobile product offerings will increase, mainly through acquisitions of complementary solutions.

On March 19, 2019 the Company signed a definitive agreement to purchase the assets of Imdecol Ltd., a global integrator and manufacturer of automatic and robotic systems that enhance the productivity of production lines. The transaction is expected to close by June 1, 2019. Through the integration with Imdecol, BOS RFID and Mobile division will significantly expand its offerings to its existing worldwide manufacturer client base.

**5E. Off-Balance Sheet Arrangements**

Not applicable.

**5F. Tabular Disclosure of Contractual Obligations**

The following table of our material contractual obligations as of December 31, 2018, summarizes the aggregate effect that these obligations are expected to have on our cash flow in the periods indicated (in U.S. thousands of dollars with the exception of per share data):

| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
|---|---|---|---|---|---|
| Long-term loans (1) | $ 2,334 | $ 467 | $ 1,401 | $ 466 | $ - |
| Accrued severance pay (2) | $ 301 | $ - | $ - | $ - | $ 301 |
| Operating lease - cars(3) | $ 337 | $ 220 | $ 117 | $ - | - |
| Purchase obligation for service and inventory | $ 7,866 | $ 7,605 | $ 261 | - | - |
| Facilities lease | $ 768 | $ 177 | $ 468 | $ 123 | $ - |
| Total | $ 11,606 | $ 8,469 | $ 2,247 | $ 589 | $ 301 |

(1) In October 2017, the Company and its Israeli subsidiaries entered into an agreement with Bank Beinleumi for the provision of credit facilities in order to refinance Company's loans with Bank Beinleumi.
(2) The time for payment of the severance cannot be predicted.
(3) The Company has pre-paid the last instalment of each of the motor vehicles as a deposit.



Table of Contents

**Item 6: Directors, Senior Management and Employees**

**6A. Directors and Senior Management**

Set forth below is information regarding our directors and senior management.

| Name | Age | Position |
|---|---|---|
| Mr. Yosi Lahad (*) | 64 | Chairman of the Board of Directors |
| Mr. Yuval Viner | 56 | Co-Chief Executive Officer and Director |
| Mr. Avidan Zelicovsky | 49 | President and Director |

| | | |
|---|---|---|
| Mr. Eyal Cohen | 49 | Co-Chief Executive Officer and Chief Financial Officer |
| Ms. Revital Cohen | 42 | Director |
| Ms. Odelia Levanon (*) | 56 | Director |
| Mr. Ziv Dekel | 54 | Director |
| Mr. Ralph Sassun (*) | 49 | Chairman of Audit and Compensation Committees |

(*) Member of our audit committee and compensation committee.

**Mr. Yosi Lahad** was appointed as Chairman of the Board in 2015. Mr. Lahad brings valuable experience in strategic and business development in a variety of industries and mainly in automation and robotic systems. Mr. Lahad has served as the CEO or Chairman for several technology companies from early stage to growth and has overseen several M&A transactions in the United States, Israel and China. Mr. Lahad serves as an active Board Chairman/member of JPI Group China, a consulting company for the Chinese market, of AtlasSense, a provider of innovative analytics of health information, and of NextWave Robotics. Previously, Mr. Lahad served as the Managing Director of Tadiran's operations in China and as a Division VP at ELBIT Systems. Mr. Lahad has been a faculty member/Adjunct Professor lecturing on strategy of emerging companies and innovation in a joint program of Wharton school of business at University of Pennsylvania and Tel-Aviv University. Mr. Lahad holds a BSc. in engineering from the Technion, an MSc. in engineering from the University of Texas (UTA) and an MBA from Tel Aviv University.

**Mr. Yuval Viner** is the Company's Co-CEO, leading the Company's RFID and Mobile division and has been a member of the Board of Directors since 2015. Mr. Viner has more than 25 years of experience in integration of inventory tracking systems. He joined BOS' in 2008 as part of the Company's acquisition of the assets of Dimex Systems. Mr. Viner has been with Dimex since 1993. Mr. Viner is a graduate of the Practical Engineering Academy of Tel Aviv.

**Mr. Avidan Zelicovsky** is the President of the Company, leading the Company's Supply Chain division and has been a member of the Board of Directors since 2015. Mr. Zelicovsky has more than 20 years of experience in supply chain management, with a focus on electronic components for the aerospace, defense and high technology industry. He joined BOS as part of the Company's acquisition of Odem in November 2004. Mr. Zelicovsky has been with Odem since 996. He holds a BA in Business Administration from the Tel Aviv College of Management and an LL.M. from the Bar-Ilan University.

**Mr. Eyal Cohen** was appointed as the Company's Chief Financial Officer in January 2007. In August 15, 2017, Mr. Cohen was appointed as the Company's Co-Chief Executive Officer, a position he holds together with Mr. Yuval Viner. From 2004 through 2006, Mr. Cohen served as the Company's controller, and prior to that held the position of Chief Financial Officer at Cellact Ltd, a technology company. From 1998 to 2001, Mr. Cohen was the controller of e-SIM Ltd., a technology company traded on NASDAQ in the past, and in the years 1995-1997 held an audit manager position in technology department of PricewaterhouseCoopers. Mr. Cohen holds a B.A. in Accounting and Business Administration from the College of Management in Tel-Aviv and is a certified public accountant in Israel and in the United States, in the state of Maine.



Table of Contents

**Ms. Revital Cohen** joined our Board of Directors in December 2017. Since 2011, Ms. Cohen has served as a consultant to enterprises that enhance the efficiency of inventory management, mainly through implementation of enhanced and innovative technology. Ms. Cohen offers a deep understanding of the logistics industry and a valuable perspective as a logistic consultant. Prior to 2011, Ms. Cohen was a senior consultant with Step Economic Consulting Ltd. She holds a BA in Sociology and Education, and an MA in Organizational Studies from the Hebrew University in Jerusalem. Ms. Cohen is a sister-in-law of Mr. Eyal Cohen, the Company's Co-CEO and CFO.

**Ms. Odelia Levanon** joined our Board of Directors in November 2015. She has more than 15 years' of experience as Chief Information Officer for leading retailers in Israel, some of which have been BOS' customer and she contributes to BOS a valuable customer perspective. Ms. Levanon served for 12 years as Chief Information officer of Mega retail (was one of the biggest food retail chain in Israel) and for 3 years as Chief Information officer of Irani Group (one of the leading fashion retail chain in Israel). Since November 2017, Ms. Levanon has been the CEO of the IUCC - Inter-University Computation Center. Ms. Levanon is a lecturer on management information systems at the Israel Academic College in Ramat Gan. Ms. Levanon holds a B.Sc. in Mathematics and Computer Sciences and an M.Sc. in Computer Sciences, both from Tel Aviv University.

**Mr. Ziv Dekel** joined our Board of Directors in June 2015. Mr. Dekel contributes valuable experience in strategic business planning and assisted BOS through the process of preparing its current strategic plan. Mr. Dekel has over 25 years of management and strategic consulting experience for a wide range of business entities in diverse industries. In 1989, Mr. Dekel joined Shaldor Strategy Counseling as an analyst, and from 2002 through 2010 served as Shaldor's CEO and Managing Partner. Mr. Dekel holds a BA in Economics and an MBA, both from Tel-Aviv University.

Mr. Ralph Sassun joined our Board of Directors in January 2019. Mr. Sassun brings extensive experience in international finance. He served as the Head of Treasury for Zim Integrated Shipping Services Ltd (TASE: ILCO) from 2010 through 2014 and as Director of Economics & Treasury for Ceragon Networks Ltd. (NASDAQ&TASE: CRNT) during 2002-2009. Currently, Mr. Sassun serves as the CFO and COO of Inovytec Medical Solutions Ltd. Mr. Sassun holds a BA and an MA in Economics and Statistics from The Hebrew University of Jerusalem, as well as an MBA from Tel-Aviv University.

**6B. Compensation**

The following table presents the total compensation paid to or accrued on behalf of all of our directors and officers as a group for the year ended December 31, 2018. Directors who are also executive officers do not receive director fees.

| | Salaries, Directors' fees, Service fees, Commissions and Bonus | Pension, Retirement and Similar benefits |
|---|---|---|
| All directors and officers as a group (then 8 persons). | $ 805,000 | $ 89,000 |



Table of Contents

**Compensation Requirements under Israeli Law**

*Compensation Policy*

In December 2012, an amendment to the Israeli Companies Law, or Amendment 20, became effective, requiring public companies to appoint a compensation committee. See "Compensation Committee" below for information concerning our Compensation Committee.

Pursuant to Amendment 20, we were required to adopt a compensation policy regarding the terms of office and employment of office holders, including compensation, severance and other benefits, exemptions from liability, insurance and indemnification. The Compensation Policy must be based on the considerations, must include the provisions and needs to reference the matters which are detailed in the Israeli Companies Law. An "office holder" is defined in the Israeli Companies Law as a general manager, chief executive officer, chief business manager, deputy general manager, vice general manager, any other person

assuming the responsibilities of any of the foregoing positions without regard to such person's title, a director and a manager directly subordinate to the chief executive officer.

As required by the Israeli Companies Law, our Compensation Policy for Executive Officers and Directors (the "Compensation Policy") was approved by our Board of Directors, after considering the recommendations of the Compensation Committee. According to the Israeli Companies Law, a compensation policy must also be approved by a majority of a company's shareholders, provided that (i) such majority includes at least a majority of the shareholders who are not controlling shareholders and who do not have a personal interest in the matter, who are present and voting, or (ii) the non-controlling shareholders and shareholders who do not have a personal interest in the matter who were present and voted against the policy hold two percent or less of the voting power of the company (the "Compensation Majority"). Our new Compensation Policy was approved by a Compensation Majority on July 18, 2018.

The Compensation Policy must be approved by the Board of Directors and the Company's shareholders every three years. In the event that the Compensation Policy is not approved by the Company's shareholders, the Compensation Committee and the Board of Directors may still approve the policy, if the Compensation Committee and the Board of Directors determine, based on specified reasons and following further discussion of the matter,that the Compensation Policy is in the best interests of the Company.

Changes to existing terms of office and employment of office holders (other than directors), only requires the approval of the Compensation Committee, if the Compensation Committee determines that the revised terms are not substantially different from the existing terms.

Pursuant to Amendment 20, any arrangement between a company and an office holder (other than a director or the chief executive officer) as to his or her terms of office and employment must be in line with the company's compensation policy and requires the approval of such company's compensation committee and board of directors. However, under certain circumstances and conditions, the compensation committee and the board of directors may approve an arrangement that deviates from the company's compensation policy, provided that such arrangement is approved by the Compensation Majority of the company's shareholders. The board of directors and the compensation committee of a company may, under special circumstances and for specified reasons, approve such an arrangement even if the shareholders did not approve it, following a re-discussion of the matter in which, among other things, any shareholders' objections were examined.

*Directors*

Pursuant to Amendment 20, any arrangement between a company and a director as to his or her terms of office and employment must be in compliance with the Compensation Policy and requires the approval of the Compensation Committee, the board of directors and the shareholders by a simple majority.

Under the Israeli Companies Law and regulations promulgated pursuant thereto, the compensation payable to External Directors and independent directors is subject to certain further limitations.

In accordance with the approval of our shareholders in December 2017, directors who are not employees or service providers of the Company (excluding the Chairman) are entitled to receive annual compensation of NIS 29,270 (approximately $8,150), paid on a quarterly basis, and an additional NIS 2,175 (approximately $604) for each board and board committee meeting attended (or 60% of the attendance fee for a board meeting held via teleconference or 50% of such fee for a meeting held without convening).



In addition, in December 2017 our shareholders approved a grant to each of our directors (excluding the Chairman) of options to purchase 7,500 Ordinary Shares. The options shall be granted to those directors elected or re-elected by the shareholders in December 2017, provided that three years have lapsed since the Company's previous grant of options to such director, and to future directors to be elected for the first time to the Board of Directors. The grant date will be the date of approval of appointment or reappointment of the director at the shareholders meeting. The options' exercise price is calculated as the weighted average of the closing prices of the shares on the Nasdaq Capital Market during the 20 trading days preceding the date of approval of the grant by the Board of Directors.

- The options will vest and become exercisable annually over a period of three years, in three equal parts, such that one third of the options shall vest on each of the first, second and third anniversary of the grant date, provided that the director is still serving on the Company's Board of Directors at the applicable vesting date.

- The maximum option term is five years from the date of grant.

- Payment of the exercise price must be made in full upon exercise of the options, by cash or check or cash equivalent, or by the assignment of the proceeds of a sale of some or all of the Ordinary Shares being acquired upon exercise of options, or by any combination of the foregoing.

- The options are exercisable only by the director, and may not be assigned or transferred except following approval of the Company's audit committee or compensation committee, as applicable, by will or by the laws of descent and distribution. The options shall be exercisable during the term the director holds office (up to five years) or within 60 days following termination of this position, with certain exceptions in the case of the death or disability.

The Compensation of the directors is in compliance with the Company's Compensation policy approved by the shareholders on July 18, 2018.

Under recent amendments to Regulation 5D of the Israeli Companies Regulations (Reliefs for Public Companies whose Shares are Listed on a Stock Exchange Outside of Israel), 5760-2000 ("Relief Regulations"), Israeli companies with securities listed on certain foreign exchanges, including NASDAQ, such as the Company, that satisfy certain conditions, namely, (i) meeting the applicable foreign country laws and regulations that apply to companies organized in that country relating to the appointment of independent directors and composition of audit and compensation committees; and (ii) have no controlling shareholder, are exempt from the requirement to appoint External Directors and certain other corporate governance requirements that are otherwise dictated under the Israeli Companies Law. Accordingly, on October 16, 2017, we have chosen to opt out of the requirement to appoint External Directors under the Relief Regulations and related Israeli Companies Law rules concerning the composition of the audit committee and compensation committee of the board of directors.

The Company does not have any contracts with any of its non-employee or non-consultant directors that would provide for benefits upon termination of service.

*Chairman of the Board*

In accordance with the approval of our shareholders in December 2017, the Company's Chairman is entitled to an annual cash compensation of NIS 110,000 (approximately $31,500) in 2017 and NIS 120,000 (approximately $34,600) in 2018. The Chairman shall not be entitled to any additional compensation for participation in Board meetings (i.e. attendance fees). Additionally, the shareholders approved the grant to the Company's Chairman of options to purchase 25,500 Ordinary Shares, subject to the reappointment of Mr. Lahad to the Board of Directors at the shareholders meeting of 2018 (at which time, three years will have lapsed since the previous grant of options to Mr. Lahad). The option terms of the Chairman's grant are as follows:

- The options' exercise price is calculated as the weighted average of the closing prices of the shares on the Nasdaq Capital Market during the 20 trading days preceding the date of approval of the grant by the Board of Directors.

- The options will vest and become exercisable annually over a period of three years, in three equal parts, such that one third of the options shall vest on each of the first, second and third anniversary of the grant date, provided that the Chairman is still serving on the Company's Board of Directors at the applicable vesting date.

- The maximum option term is five years from the date of grant.

- Payment of the exercise price must be made in full upon exercise of the options, by cash or check or cash equivalent, or by the assignment of the proceeds of a sale of some or all of the Ordinary Shares being acquired upon exercise of options, or by any combination of the foregoing.

- The options are exercisable only by the Chairman, and may not be assigned or transferred except following approval of the Company's audit committee or compensation committee, as applicable, by will or by the laws of descent and distribution. The options shall be exercisable during the term the Chairman holds office (up to five years) or within 60 days following termination of this position, with certain exceptions in the case of the death or disability.



Table of Contents

*Chief Executive Officers*

Pursuant to Amendment 20, any arrangement between a company and its chief executive officer, or CEO, as to his or her terms of office and employment must be in line with the Compensation Policy and requires the approval of the compensation committee, the Board of Directors and the Company's shareholders by the Compensation Majority.

Under certain circumstances and conditions, the Compensation Committee and the Board of Directors may approve an arrangement that deviates from the Compensation Policy provided it is approved by the shareholders by the Compensation Majority. In addition, under certain circumstances, a company may be exempt from receiving the shareholders' approval with respect to the terms of office and employment of a candidate for chief executive officer if such candidate meets certain independence criteria and the compensation committee has determined for specified reasons that shareholder approval would prevent the engagement, provided that the terms are in-line with the Compensation Policy.

Set forth below is the compensation of our executives in the year ended December 31, 2018:

*Co-CEO Mr. Yuval Viner*

*Monthly Salary*:

A gross monthly base salary of NIS 44,472 (approximately $12,066) linked to an increase in the CPI, plus customary benefits, which include managers' insurance, education fund, car expenses and long-term disability insurance.

*Bonus*:

A bonus based on achievements of the Company's 2018 targets for Net GAAP profit: one month's salary for a net profit exceeding $600,000 and two salaries for net profit in excess of $770,000. In view of the Company's net profit in 2018 Mr. Viner received a bonus equal to two months' salaries.

In addition, in special circumstances, the Board may grant the Co-Chief Executive Officer a bonus irrespective of the achievements of the net profit targets, provided such bonus is capped at a one month salary. On February 25, 2019, our Board approved a special bonus of one half of a monthly salary (NIS 22,236) to Mr. Viner.

The entire bonus to Mr. Viner was paid by issuance of 10,429 shares of the Company. The price per share was based on the weighted average closing price of the Company's shares on NASDAQ during the 20 trading days preceding the date of the approval of the annual financial statements of the Company.

Pursuant to our Compensation Policy, the total annual bonus for the Co-Chief Executive Officer is capped at five (5) monthly salaries. The Board of Directors may reduce any bonus payable to the Co-Chief Executive Officer by up to 20%, at its discretion.

*Options*:

On December 12, 2017, the Company's shareholders approved a grant of options to purchase 20,000 of the Company's Ordinary Shares, on the following terms:

- Exercise price: the weighted average closing price of the Ordinary Shares on the NASDAQ during the 20 trading days preceding the date of the approval of the proposed grant by the shareholders of the Company, amounting to $2.131.

- Vesting schedule: the options will vest and become exercisable over a period of three years, in three equal parts, such that one third of the options shall vest on each of the first, second and third anniversary of the date of approval of the grant by the shareholders of the Company, provided that the Co-Chief Executive Officer is still holding office with the Company at the applicable vesting date.

- The options shall expire on the fifth anniversary of the date of approval by the Company's shareholders of their grant.



Table of Contents

*Co-CEO and CFO, Mr. Eyal Cohen:*

*Monthly Salary*:

A gross monthly base salary of NIS 44,472 (approximately $12,066) linked to an increase in the CPI, plus customary benefits, which include managers' insurance, education fund, car expenses and long-term disability insurance.

*Bonus*:

A bonus based on achievements of the Company's 2018 targets for Net GAAP profit: one salary for a net profit exceeding $600,000 and two months' salaries for net profit in excess of $770,000. In view of the Company's net profit in 2018 Mr. Cohen received a bonus equal to two months' salaries.

In addition, in special circumstances, the Board may grant the Co-Chief Executive Officer (and Chief Financial Officer) a bonus irrespective of the achievements of the net profit targets, provided such bonus is capped at a one month salary. On February 25, 2019, our Board approved a special bonus of one half of a monthly salary (NIS 22,236) to Mr. Cohen.

The entire bonus to Mr. Cohen was paid by issuance of 10,429 shares of the Company. The price per share was based on the weighted average closing price of the Company's shares on NASDAQ during the 20 trading days preceding the date of the approval of the annual financial statements of the Company.

As provided in our Compensation Policy, the total annual bonus for the Co-Chief Executive Officer and Chief Financial Officer is capped at five (5) monthly salaries. The Board of Directors may reduce any bonus payable to the Co-Chief Executive Officer and Chief Financial Officer by up to 20%, at its discretion.

*Options*:

On December 12, 2017, the Company's shareholders approved the grant of options to purchase 20,000 of the Company's Ordinary Shares, on the following terms:

- Exercise price: the weighted average closing price of the Ordinary Shares on the NASDAQ during the 20 trading days preceding the date of the approval of the proposed grant by the shareholders of the Company, amounting to $2.131.
- Vesting schedule: the options will vest and become exercisable over a period of three years, in three equal parts, such that one third of the options shall vest on each of the first, second and third anniversary of the date of approval of the grant by the shareholders of the Company, provided that the Co-Chief Executive Officer and Chief Financial Officer is still holding office with the Company at the applicable vesting date.
- The options shall expire on the fifth anniversary of the date of approval by the Company's shareholders of their grant.



Table of Contents

*President Mr. Avidan Zelicovsky*

Pursuant to Amendment 20, any arrangement between a company and its President, as to his or her terms of office and employment must be in line with the Compensation Policy and requires the approval of the Compensation Committee, the Board of Directors and the Company's shareholders by the Compensation Majority.

*Monthly Salary*:

A gross monthly base salary of NIS 44,472 (approximately $12,066) linked to an increase in the CPI, plus customary benefits, which include managers' insurance, education fund, car expenses and long-term disability insurance.

*Bonus*:

A bonus based on achievements of the Company's 2018 targets for Net GAAP profit: one month's salary for a net profit exceeding $600,000 and two months' salaries for net profit in excess of $770,000. In view of the Company's net profit in 2018 Mr. Zelicovsky received a bonus equal to two salaries.

In addition, in special circumstances, the Board may grant the President a bonus irrespective of the achievements of the net profit targets, provided such bonus is capped at a one month salary. On February 25, 2019, our Board approved a special bonus of one monthly salary (NIS 44,472) to Mr. Zelicovsky.

*Options*:

On December 12, 2017, the Company's shareholders approved a grant of options to purchase 20,000 of the Company's Ordinary Shares, on the following terms:

- Exercise price: the weighted average closing price of the Ordinary Shares on the NASDAQ during the 20 trading days preceding the date of the approval of the proposed grant by the shareholders of the Company, amounting to $2.131.
- Vesting schedule: the options will vest and become exercisable over a period of three years, in three equal parts, such that one third of the options shall vest on each of the first, second and third anniversary of the date of approval of the grant by the Company's shareholders.
- The options shall expire on the fifth anniversary of the date of approval by the Company's shareholders of their grant.

For additional information on the compensation of our directors and management see our proxy statements filed with the SEC under Form 6-K on October 25 and June 4, 2018.



Table of Contents

**6C. Board Practices**

**Directors:**

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

NASDAQ Marketplace Rules require that the board of directors of a NASDAQ-listed company have a majority of independent directors, within the meaning of NASDAQ rules. Our Board of Directors has determined that Messrs. Lahad, Dekel, Sassun and Ms. Levanon, who constitute a majority of the Board of Directors, are independent directors under the applicable Nasdaq Stock Market requirements. In accordance with Nasdaq Rules, our independent directors conduct executive sessions at least twice a year.

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

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

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

In accordance with the requirements of the Nasdaq Stock Market, nominees for directors are recommended for election by a majority of the independent directors.

**External Directors:**

Under the Israeli Companies Law, public companies are required to elect two External Directors who must meet specified standards of independence. External directors may not have during the two years preceding their appointment, directly or indirectly through a relative, partner, employer or controlled entity, any affiliation with (i) the company, (ii) those of its shareholders who are controlling shareholders at the time of appointment and/or their relatives, or (iii) any entity controlled by the company or by its controlling shareholders. Under recent amendments to Relief Regulations, Israeli companies with securities listed on certain foreign exchanges, including NASDAQ, such as the Company, that satisfy certain conditions, namely, (i) meeting the applicable foreign country laws and regulations that apply to companies organized in that country relating to the appointment of independent directors and composition of audit and compensation committees; and (ii) have no controlling shareholder, are exempt from the requirement to appoint External Directors and certain other corporate governance requirements that are otherwise dictated under the Israeli Companies Law. Accordingly, on October 16, 2017, we have chosen to opt out of the requirement to appoint External Directors under the Relief Regulations and related Israeli Companies Law rules concerning the composition of the audit committee and compensation committee of the board of directors.

**Fiduciary Duties of Office Holders**:

The Israeli Companies Law codifies the fiduciary duties that "office holders," including directors and executive officers, owe to a company. An office holder's fiduciary duties consist of a duty of care and a duty of loyalty. The duty of care requires an office holder to act at a level of care that a reasonable office holder in the same position would employ under the same circumstances. This includes the duty to utilize reasonable means to obtain (i) information regarding the business feasibility of a given action brought for his or her approval or performed by him or her by virtue of his or her position; and (ii) all other information of importance pertaining to the foregoing actions. The duty of loyalty requires that an office holder act in good faith and for the benefit of the company, including (i) avoiding any conflict of interest between the office holder's position in the company and any other position he or she holds or his or her personal affairs; (ii) avoiding any competition with the company's business, (iii) refraining from exploiting any business opportunity of the company in order to receive personal gain for the office holder or others, and (iv) disclosing to the company any information or documents relating to the company's affairs that the office holder has received by virtue of his or her position as an office holder.



Table of Contents

**Disclosure of Personal Interests of an Office Holder; Approval of Transactions with Office Holders:**

The Israeli Companies Law requires that an office holder promptly, and no later than at the first board meeting at which such transaction is considered, disclose any personal interest that he or she may have and all related material information known to him or her and any documents in his or her possession, in connection with any existing or proposed transaction relating to the company. In addition, if the transaction is an extraordinary transaction, namely, (i) a transaction other than in the ordinary course of business; (ii) a transaction that is not on market terms; or (ii) a transaction likely to have a material impact on the company's profitability, assets or liabilities, the office holder must also disclose any personal interest held by the office holder's spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of the foregoing ("relatives"), or by any corporation in which the office holder or a relative is a 5% or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager.

Under the Israeli Companies Law, all arrangements as to compensation of office holders who are not directors require approval by the board of directors, and exculpation, insurance and indemnification of, or an undertaking to, indemnify an office holder who is not a director requires both board of directors and compensation committee approval. The compensation of office holders who are directors must be approved by our Compensation Committee, Board of Directors and shareholders, in that order.

Some other transactions, actions and arrangements involving an office holder (or a third party in which an office holder has an interest) must be approved by the board of directors or as otherwise provided for in a company's articles of association, however, a transaction that is beneficial for the company's may not be approved. In some cases, such a transaction must be approved by the audit committee and by the board of directors itself, and under certain circumstances shareholder approval may be required. Generally, in all matters in which a director has a personal interest he or she shall not be permitted to vote on the matter or be present in the meeting in which the matter is considered, except in case of a transaction that is not extraordinary or for the purpose of presenting the proposed transaction, if the chairman of the audit committee or board of directors (as applicable) determines it necessary. Should a majority of the audit committee or of the board of directors have a personal interest in the matter, then: (a) all of the directors are permitted to vote on the matter and attend the meeting at which the matter is considered; and (b) the matter requires approval of the shareholders at a general meeting.

**Audit Committee:**

Under the Israeli Companies Law, the board of directors of any public company must appoint an audit committee. Our audit committee currently consists of Ralph Sassun, Odelia Levanon and Yosi Lahad. The chairperson of the audit committee is Ralph Sassun.

Under the Nasdaq Rules we are required to maintain an audit committee consisting of at least three independent directors, all of whom are financially literate and one of whom has accounting or related financial management expertise.

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

Mr. Ralph Sassun is an audit committee financial expert as defined by the SEC rules and has the requisite financial sophistication as defined by the Nasdaq Rules.



Table of Contents

Our audit committee oversees (in addition to the Board of Directors) the accounting and financial reporting processes of the Company and audits of our financial statements, including the integrity of our financial statements, compliance with legal and regulatory requirements, our independent auditors' qualifications, independence, compensation and performance, and the performance of our internal audit function. Our audit committee is also required to (i) find deficiencies in the business management of the Company and propose to our Board of Directors ways to correct such deficiencies; (ii) determine whether certain related party actions and transactions are "material" or "extraordinary" in connection with their approval procedures; (iii) approve related-party transactions as required by Israeli law; and (iv) establish whistle blower procedures (including in respect of the protections afforded to whistle blowers). Additional duties of our audit committee are (i) to

establish procedures to be followed in respect of non-extraordinary related party transactions with a controlling shareholder which may include, where applicable, the establishment of a competitive process for such transaction, under the supervision of the audit committee, or whomever it designates for this purpose, in accordance with criteria determined by the audit committee, (ii) to establish procedures for approving certain related party transactions with a controlling shareholder, which having been determined by the audit committee not to be extraordinary transactions, were also determined by the audit committee not to be negligible transactions; and (iii) such other duties as may be directed by our Board of Directors. The audit committee may consult from time to time with our independent auditors and internal auditor with respect to matters involving financial reporting and internal accounting controls.

The Company has adopted an audit committee charter which sets forth the responsibilities of the committee. A copy of this charter is available upon written request to the Company at its address in Israel.

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

**Compensation Committee**:

Our Board of Directors has established a compensation committee, which offers recommendations to the Board of Directors regarding equity compensations issues (with the Board of Directors also approving compensation of our executive officers). The compensation committee also makes recommendations to our Board of Directors in connection with the terms of employment of our chief executive officer and all other executive officers.

Under the Israeli Companies Law, a company's compensation committee is responsible for: (i) making recommendations to the board of directors with respect to the approval of the compensation policy applicable to the company's office holders and any extensions thereto; (ii) providing the board of directors with recommendations with respect to any amendments or updates to the Compensation Policy and periodically reviewing the implementation thereof; (iii) reviewing and approving arrangements with respect to the terms of office and employment of office holders; and (iv) determining whether or not to exempt a transaction with a candidate for chief executive officer from shareholder approval.

Under the Nasdaq Rules, we are required to maintain a compensation committee consisting of at least two independent directors. Our compensation committee currently consists of Ralph Sassun, Yosi Lahad and Odelia Levanon. The chairperson of the compensation committee is Ralph Sassun.



Table of Contents

**Internal Auditor**

Under the Israeli Companies Law, the board of directors of a public company must appoint an internal auditor based on the recommendation of the audit committee. The role of the internal auditor is, among other things, to examine whether a company's actions comply with applicable law and orderly business procedure. Under the Israeli Companies Law, the internal auditor may not be an interested party or an office holder or a relative of an interested party or of an office holder, nor may the internal auditor be the company's independent auditor or its representative. An "interested party" is defined in the Israeli Companies Law as: (i) a holder of 5% or more of the issued share capital or voting power in a company, (ii) any person or entity who has the right to designate one or more directors or to designate the chief executive officer of the company, or (iii) any person who serves as a director or as a chief executive officer of the company.

BDO Consulting Group, BDO Ziv Haft's consulting arm, serves as our internal auditor.

**Duties of Shareholders**

Under the Israeli Companies Law, a shareholder has a duty to refrain from abusing its power in the company and to act in good faith and in an acceptable manner in exercising its rights and performing its obligations to the company and other shareholders, including, among other things, voting at general meetings of shareholders on the following matters:

- an amendment to the articles of association;
- an increase in the company's authorized share capital;
- a merger; and
- the approval of related party transactions and acts of office holders that require shareholder approval.

A shareholder also has a general duty to refrain from discriminating against other shareholders.

The remedies generally available upon a breach of contract will also apply to a breach of the above mentioned duties, and in the event of discrimination against other shareholders, additional remedies are available to the injured shareholder.

In addition, any controlling shareholder, any shareholder that knows that its vote can determine the outcome of a shareholder vote and any shareholder that, under a company's articles of association, has the power to appoint or prevent the appointment of an office holder, or has another power with respect to a company, have a duty to act with fairness towards the company. The Israeli Companies Law does not describe the substance of this duty, except to state that the remedies generally available upon a breach of contract will also apply in the event of a breach of the duty to act with fairness, taking the shareholder's position in the company into account.

**Israeli Securities Authority Administrative Enforcement:**

Under the Israeli Securities Law, the Israeli Securities Authority, or the ISA, may take certain administrative enforcement actions against a company or a person, including a director, officer or shareholder of a company, if performing certain transgressions designated in the Securities Law.

The ISA is also authorized to impose fines on any person or company breaching certain provisions designated under the Israeli Companies Law.

**6D. Employees**

As of March 15, 2019, we had 77 employees, all of whom are located in Israel. Of these 77 employees: 10 employees are in general and administrative positions, 14 employees are in marketing and sales, 16 employees are employed as technicians and 37 employees are in operating activities. In addition, the Company employs temporary employees who provide inventory counting services, in a number which fluctuates according to the particular projects, and customarily increases towards year end. We believe that our relations with our employees are satisfactory. We have not experienced a collective labor dispute or a strike.

Israeli labor laws are applicable to all of our employees in Israel.

We and our employees are not parties to any collective bargaining agreements and our employees are not represented by any labor union. However, certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations (including the Manufacturers' Association of Israel) are applicable to all Israeli employees by order of the Israeli Ministry of Labor and Welfare. These provisions principally concern the length of the work day and the work week, minimum wages for workers, contributions to pension funds, insurance for work-related accidents, procedures for dismissing employees, determination of severance pay and other conditions of employment. These provisions are modified from time to time.

Israeli labor laws subject employers to increased liability, including monetary sanctions and criminal liability, in cases of violations of certain labor laws and certain violations by contractors providing maintenance, security and cleaning services.

Our Israeli employees are covered by pension insurance policies according to law requirements. Israeli employees and employers are required to pay predetermined sums to the Israeli National Insurance Institute which amounts also include, since January 1, 1995, payments for national health insurance.

**6E. Share Ownership**

The beneficial ownership of our ordinary shares is determined in accordance with the rules of the SEC. Under these rules, a person is deemed to be a beneficial owner of a security if that person has or shares voting power, which includes the power to vote or to direct the voting of the security, or investment power, which includes the power to dispose of or to direct the disposition of the security. For purposes of the table below, we deem ordinary shares issuable pursuant to options that are currently exercisable or exercisable within 60 days as of March 15, 2019 to be outstanding and to be beneficially owned by the person holding the options or warrants for the purposes of computing the percentage ownership of that person, but we do not treat them as outstanding for the purpose of computing the percentage ownership of any other person. The percentage of ordinary shares beneficially owned is based on 3,857,790 ordinary shares outstanding as of March 15, 2019.

As of March 15, 2019, shares and options held by our officers and directors, then consisting of 8 persons, are as follows:

| Name | Position | Number of shares and options Beneficially Owned | Percentage of Shares and options Beneficially Owned |
|---|---|---|---|
| Mr. Yosi Lahad | Chairman of the Board of Directors | 144,575 | 3.7%* |
| Ms. Revital Cohen | Director | 47,600 | 1.2% |
| Mr. Yuval Viner | Co-Chief Executive Officer and Director | 53,889 | 1.4% |
| Mr. Eyal Cohen | Co-Chief Executive Officer and Chief Financial Officer | 69,978 | 1.8% |
| All other directors and officers (4 persons) | | 42,470 | 1.1% |

* Includes 127,200 Ordinary Shares in respect of which Mr. Lahad, by virtue of his position as Chairman of the Board, received a proxy from D.D. Goldstein Ltd.





**Share Option Plans**

The purpose of Share Option Plans is to enable us to attract and retain qualified persons as employees, officers, directors, consultants and advisors and to motivate such persons by providing them with an equity participation in the Company.

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

Ordinary Shares

*2003 Plan*

In May 2003 the Company's shareholders approved the adoption of the 2003 Israeli Stock Option Plan or the Plan. In December 2017, the shareholders approved an increase of the pool of shares reserved for issuances under the Plan, to 500,000 Ordinary Shares. In December 2012, the Company's shareholders approved a 10 year extension to the Plan, according to which the Board of Directors may grant options under the Plan through May 31, 2023. In July 18, 2018, the Company's shareholders approved (i) an increase of the number of Ordinary Shares available for issuance under the Plan, by 200,000 to a total of 700,000 Ordinary Shares, and the corresponding amendment of Section 7.1 of the Plan, and (iian amendment of the Plan allowing for the grant of Ordinary Shares in addition to options.

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

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

The Company has elected to designate the Plan under the "capital gains" track of Section 102 of Israeli Income Tax Ordinance 5721-1961 (the "Tax Ordinance"), designed to afford qualified optionees certain tax benefits under the Tax Ordinance (a "Section 102 Plan"). Pursuant to the election made by the Company, capital gains derived by optionees arising from the sale of shares pursuant to the exercise of options granted to them under the Plan, will be subject to a flat capital gains tax rate of 25% (instead of the gains being taxed as salary income at the employee's marginal tax rate). However, as a result of this election, the Company is not allowed to claim the amounts credited to such employees as a benefit when the related capital gains tax is payable by them, as an expense for tax purposes. The Company may change its election from time to time, as permitted by the Tax Ordinance. There are various conditions that must be met in order to qualify for these benefits, including the registration of the options in the name of a trustee (the "Trustee") for each of the employees who is granted options. Each option, and any Ordinary Shares acquired upon the exercise of the option, must be held by the Trustee for a period commencing on the date of grant and ending no earlier than 24 months from the date of grant.

As of March 15, 2019, we had 195,680 options outstanding under the Plan (of which 32,679 are exercisable) with the following exercise prices as set forth below:

| Exercise Price Per Share $ | Number of Options Outstanding |
|---|---|

| | | |
|---|---|---|
| $ | 2.126 | 9,999 |
| $ | 2.131 | 45,002 |
| $ | 2.287 | 7,500 |
| $ | 2.388 | 100,500 |
| $ | 2.96 | 16,929 |
| $ | 3.875 | 375 |
| $ | 4.02 | 5,000 |
| $ | 6.67 | 10,375 |
| | Total | 195,680 |



Table of Contents

**Item 7: Major Shareholders and Related Party Transactions**

**7A. Major Shareholders**

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

The beneficial owners of more than five percent (5%) of the Company's outstanding Ordinary Shares are specified below.

The changes in holdings (excluding warrants) of the major shareholders over the last three years are detailed, to the best of our knowledge or based on the respective shareholder's public filings, in the table below:

| Holdings as of: | December 31, 2016 | December 31, 2017 | December 31, 2018 | March 15, 2019 |
|---|---|---|---|---|
| L.I.A. Pure Capital Ltd. (1) | | | | 221,941 (5.75%) |

(1) According to a 13D/A report from March 18, 2019. Includes 50,072 Ordinary Shares owned by Next-Line and 112,662 Ordinary Shares owned by iDnext for which Pure Capital has been provided with an irrevocable proxy to vote. Kfir Silberman is the control shareholder of Pure Capital.

As of March 15, 2019, there were 49 record holders of Ordinary Shares, of which 5 were registered with addresses in the United States, representing approximately 89.5% of the outstanding Ordinary Shares. However, the number of record holders in the United States is not representative of the number of beneficial holders, nor is it representative of where such beneficial holders are resident since many of the Ordinary Shares are held of record by brokers and other nominees.



Table of Contents

**7B. Related Party Transactions**

**Management Services Agreement with iDnext Ltd.**

On January 1, 2016 the Company, through its wholly owned subsidiary Dimex, consummated the acquisition of the business operations of iDnext Ltd. and its subsidiary Next-Line. iDnext is controlled by Mr. Moti Harel, who was a member of the Company's Board of Directors until December 12, 2017.

Pursuant to a Management Services Agreement entered into as part of the acquisition agreement, iDnext was paid a monthly fee of NIS 33,000 (approximately $8,500) through December 31, 2017. The Management Services Agreement expired on December 31, 2017, and a new agreement was signed on June 2018, effective as of January 1, 2018. According to the new agreement:

a. iDnext's monthly fee increased from NIS 33,000 to NIS 53,000 and it was also entitled to a bonus of 15% from the net profits of a certain product line.
b. Three employees of BOS Dimex became employees of iDnext, which provided their services to Dimex for a monthly fee of NIS 35,000.
c. Mr. Harel was appointed to Dimex's Board of Directors in June 2018.

On February 10, 2019 the Company terminated the agreement with iDnext.

For further payments which the Company paid and accrued pursuant to the Management Services Agreement in 2018, see Note 18a to the Consolidated Financial Statements for the year ended December 31, 2018.

**Intercompany Payments**

During the years 2017 and 2018 the Company charged each of its subsidiaries, Odem and Dimex $350,000 and $350,000 respectively for their share of corporate overhead.

Since January 2016 until March 15, 2019, the Company has raised $3.22 million, all of which were contributed to its subsidiaries and used for working capital, bank loans repayments and for acquisitions. In certain cases, the Company pays by shares for acquisitions made by a subsidiary (for example, the iDnext acquisition).

**Indemnity Undertakings by the Company to its Directors and Officers**

On February 18, 2003, the Company's shareholders approved indemnity undertakings to its directors and officers (including future directors and officers as may be appointed from time to time), in excess of any insurance proceeds, not to exceed, in the aggregate over the years, a total amount of $2,500,000. On May 18, 2006, at the recommendation of the audit committee and the Board of Directors, the shareholders approved amendments to the indemnity undertakings, in light of changes to the Israeli Companies Law. On December 20, 2011, following an amendment to the Israeli Securities Law and a corresponding amendment to the Israeli Companies Law, which had authorized the Israeli Securities Authority to impose administrative sanctions against companies and their office holders for certain violations of the Israeli Securities Law or the Israeli Companies Law, the Company's shareholders approved a modified form of such indemnification agreement to ensure that the Company's directors were afforded protection to the fullest extent permitted by law, which form was approved and ratified by the Company's shareholders on October 22, 2015 and on July 18, 2018. In addition, under the new indemnification agreements, the Company exempts and releases each director from any and all liability to the Company related to any breach by each director of his duty of care to the Company, to the maximum extent permitted by law.



Table of Contents

**7C. Interests of Experts and Counsel**

Not applicable.

## Item 8: Financial Information

**8A. Consolidated Statements and Other Financial Information**

**Consolidated Financial Statements**

See "Item 18. Financial Statements."

**Sales Outside of Israel**

The total amount of revenues of the Company and its subsidiaries from sales out of Israel has been as follows:

| Year | Export revenues | % of all revenues |
|---|---|---|
| 2018 | $ 9,660,000 | 30% |
| 2017 | $ 7,062,000 | 25% |
| 2016 | $ 6,808,000 | 25% |

**Legal Proceedings**

As of the date of this report the Company is involved in the following legal actions:

On December 4, 2018 the lessors of the Company's facilities in Rishon Lezion filed a claim against the Company in the amount of NIS 1,800,000 (approximately $500,000). The Company was the previous owner of these facilities and had sold them to the Lessor in May 2013. The plaintiffs claim the Company misrepresented the physical status of the sold premises. The Company rejects the claim and has filed a counterclaim of NIS 850,000 (approximately $222,000) alleging breaches by the lessors of the lease agreement.

**Dividend Policy**

The Company does not currently have a dividend policy. The declaration and payment of any cash dividends in the future will be determined by the Board of Directors in light of the conditions existing at that time. This will include our earnings and financial condition. We may only pay cash dividends in any fiscal year, out of "profits", as defined under Israeli law. Any cash dividend in the future out of an approved enterprise will be subject to an additional tax. Currently we have no profits from an approved enterprise; hence no provision has been made for tax on future dividends.

**8B. Significant Changes**

Not applicable.



Table of Contents

## Item 9: The Offer and Listing

**9A. Offer and Listing Details**

Commencing April 1996, our Ordinary Shares were traded, and our warrants, until they expired on April 2, 2000, were traded in the over-the-counter market in the United States, and quoted on what is now called the NASDAQ Capital Market under the symbol "BOSC" and "BOSCW," respectively. In September 2000, our Ordinary Shares started to be traded on what is now called the NASDAQ Global Market. In January 2002, our shares also began trading on the TASE, under the symbol "BOSC", pursuant to the dual-listing regulations of the Israeli Securities Authority. On May 12, 2009, we delisted our Ordinary Shares from trade on the TASE. The delisting of the Ordinary Shares from the TASE did not affect the continued listing of the Ordinary Shares on the NASDAQ Global Market under the symbol BOSC. After the delisting of the Company's Ordinary Shares from the TASE, we are no longer subject to reporting requirements in Israel. On October 16, 2009, the Company's Ordinary Shares were transferred to the NASDAQ Capital Market and are traded on such market under the symbol "BOSC".

**9B. Plan of Distribution**

Not applicable.

**9C. Markets**

Our securities are traded on the NASDAQ Capital Market under the symbol "BOSC".

**9D. Selling Shareholders**

Not applicable.

**9E. Dilution**

Not applicable.

**9F. Expenses of Issue**

Not applicable.



Table of Contents

## Item 10: Additional Information

**10A. Share Capital**

Not applicable.

**10B. Memorandum and Articles of Association**

The Company's registration number at the Israeli Registrar of Companies is 52-0042565.

In March 2002 the Company adopted new articles of association ("Articles of Association"), in view of the Israeli Companies Law. Since then, certain articles of the Articles of Association have been amended.

Set forth below is a summary of certain provisions of our Memorandum of Association ("Memorandum") and Articles of Association. This summary is not complete and should be read together with our Memorandum and Articles of Association, incorporated by reference hereto.

***1. Objects of the Company:***

The Company's Memorandum (Article 2(p)) and Articles of Association (Article 2) provide that the Company may engage in any legal business.

***2. Provisions related to the directors of the Company:***

The Board of Directors may issue shares and other securities, which are convertible or exercisable into shares, up to the limit of the Company's authorized share capital.

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

We are subject to the provisions of the Israeli Companies Law, which became effective on February 1, 2000, as amended. See Item 6C "Board Practices" above.

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

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



Table of Contents

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

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

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

The Board of Directors is the organ authorized to decide upon the distribution of dividends and bonus shares (Article 26.1). The shareholders who are entitled to a dividend are the current shareholders as of the date of the resolution for the dividend or on a later date if another date is specified in the resolution on the dividend's distribution. If the Board of Directors does not otherwise determine, any dividend may be paid by way of a cheque or payment order that shall be sent by mail to the registered address of the shareholder or person entitled thereto, or in the case of registered joint shareholders to the shareholder whose name appears first in the shareholders' register in relation to the joint shareholding. Every such cheque shall be drawn up to the order of the person to whom it is being sent. The receipt of a person who on the date of the dividend's declaration is listed in the shareholders' register as the holder of any share or, in the case of joint shareholders, of one of the joint shareholders shall serve as confirmation of all the payments made in connection with such share. For the purpose of implementing any resolution pursuant to the provisions of this paragraph, the Board of Directors may settle, as it deems fit, any difficulty arising in relation to the distribution of the dividend and/or bonus shares, including determine the value for the purpose of the said distribution of certain assets and resolve that payments in cash shall be made to members in reliance upon the value thus determined, determine regulations in relation to fractions of shares or in relation to non-payment of amounts less than NIS 200.

(b) Voting Rights

All holders of paid-up Ordinary Shares of the Company have an equal right to participate in and vote at the Company's general meetings, whether ordinary or special, and each of the shares in the Company shall entitle its holder, present at the meeting and participating in the vote, himself, by proxy or through a voting instrument, to one vote (Article 4.2.1). Such voting rights may be affected in the future by the grant of any special voting rights to the holders of a class of shares with preferential rights. Shareholders may vote either in person or through a proxy or voting instrument, unless the Board of Directors prohibits voting through a voting instrument on a certain matter and stated so in the notice of the meeting (Articles 14.1 and 14.6). A resolution at the general meeting shall be passed by an ordinary majority unless another majority is specified in the Israeli Companies Law or the Company's Articles of Association (Article 14.3). For applicable provisions of the Israel Companies Law, see Item 6C "Board Practices".

(c) Election of Directors

The Company's directors are elected by the shareholders at a shareholders' meeting. The Ordinary Shares do not have cumulative voting rights with respect to the election of directors. The holders of Ordinary Shares, conferring more than 50% of the voting power present by person or by proxy at the shareholders' meeting, have the power to elect the directors. The directors elected shall hold office until the next annual meeting, or sooner if they cease to hold office pursuant to the provisions of the Company's Articles of Association. In addition, the Board of Directors may appoint a director (to fill a vacancy or otherwise) between shareholder meetings, and such appointment shall be valid until the next annual meeting or until such appointee ceases to hold office pursuant to the provisions of the Company's Articles of Association. Directors of the Company stand for reelection at every annual meeting (Article 16.2) and not at staggered intervals.

(d) Redemption

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

(e) Capital Calls by the Company

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

(f) Discrimination

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

***4. Modification of Rights of Holders of Stock:***

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

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

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

***5. Annual General Meetings and Extraordinary General Meetings:***

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

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

One or more shareholders, holding at least 1% of the voting rights in the Company are entitled to request the Board of Directors to include a certain matter in the agenda of an upcoming general meeting, provided that such matter is appropriate for discussion at general meetings.

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

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

No discussions may be commenced at the general meeting unless a quorum is present at the time of the discussion's commencement. A quorum is the presence of at least two shareholders holding at least 33⅓% of the voting rights (including presence through a proxy or a voting instrument), within half an hour of the time fixed for the meeting's commencement (Article 13.1). If no quorum is present at a general meeting within half an hour of the time fixed for the commencement thereof, the meeting shall be adjourned for one week, to the same day, time and place, or to a later time if stated in the invitation to the meeting or in the notice of the meeting (Article 13.2). The quorum for the commencement of the adjourned meeting shall be any number of participants.



***6. Limitations on the rights to own securities:***

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

***7. Change of Control:***

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

The Israeli Companies Law also provides that an acquisition of shares in a public company must be made by means of a tender offer if, as a result of the acquisition, the purchaser would become a holder of 25% or more of the voting power at general meetings. This rule does not apply if there is already another holder of 25% or more of the voting power at general meetings. Similarly, the Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if, as a result of the acquisition, the purchaser would become a holder of more than 45% of the voting power of the company. This rule does not apply if someone else already holds 45% of the voting power of the company. An acquisition from a 25% or 45% holder, which turns the purchaser into a 25% or 45% holder respectively, does not require a tender offer. An exception to the tender offer requirement may also apply when the additional voting power is obtained by means of a private placement approved by the general meeting of shareholders.

Under the Israeli Companies Law, a person may not acquire shares in a public company if, after the acquisition, he will hold more than 90% of the shares or

more than 90% of any class of shares of that company, unless a tender offer is made to purchase all of the shares or all of the shares of the particular class. The Israeli Companies Law also provides that as long as a shareholder in a public company holds more than 90% of the company's shares or of a class of shares, that shareholder shall be precluded from purchasing any additional shares. If such tender offer is accepted and less than 5% of the shares of the company are not tendered, and a majority of the offeree shareholders not having a personal interest accepted the offer, all of the shares will transfer to the ownership of the acquirer. Similarly, all of the shares will transfer to the ownership of the acquirer in the event that less than 2% of the shares of the company are not tendered. The Companies Law provides for appraisal rights if any shareholder files a request in court within six months following the consummation of a full tender offer. However, the acquirer may stipulate in the tender offer that any shareholder tendering his shares will not be entitled to appraisal rights. If ownership in all of the shares is not transferred to the acquirer as described above, then the acquirer may not acquire shares in the tender offer that will cause his shareholding to exceed 90% of the outstanding shares.



Table of Contents

***8. Disclosing Share Ownership:***

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

**10C. Material Contracts**

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

**10D. Exchange Controls**

There are currently no Israeli currency control restrictions on payments of dividends or other distributions with respect to our Ordinary Shares or the proceeds from the sale of the shares, except for the obligation of Israeli residents to file reports with the Bank of Israel regarding certain transactions. However, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time.

**10E. Taxation**

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

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

**Israeli Tax Considerations**

The following is a general discussion only and is not exhaustive of all possible tax considerations. It is not intended, and should not be construed, as legal or professional tax advice and should not be relied upon for tax planning purposes. In addition, this discussion does not address all of the tax consequences that may be relevant to purchasers of our ordinary shares in light of their particular circumstances, or certain types of purchasers of our ordinary shares subject to special tax treatment. Examples of this kind of investor include residents of Israel and traders in securities who are subject to special tax regimes not covered in this discussion. Each individual/entity should consult its own tax or legal advisor as to the Israeli tax consequences of the purchase, ownership and disposition of our ordinary shares.

To the extent that part of the discussion is based on new tax legislation, which has not been subject to judicial or administrative interpretation, we cannot assure that the tax authorities or the courts will accept the views expressed in this section.

The following summary describes the current tax structure applicable to companies in Israel, with special reference to its effect on us. The following also contains a discussion of the material Israeli tax consequences to holders of our ordinary shares.

**Special Provisions Relating to Tax Reporting in United States Dollars**

The Company and its subsidiaries, respectively, have elected to measure their taxable income and file their tax return in United States Dollars, under the Israeli Income Tax Regulations (Principles Regarding the Management of Books of Account of Foreign Invested Companies and Certain Partnerships and the Determination of Their Taxable Income), 1986.



Table of Contents

**Capital Gains Tax on Sales of Our Ordinary Shares**

Israeli law generally imposes a capital gains tax on the sale of any capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of assets located in Israel, including shares in Israeli companies, by both residents and non-residents of Israel, unless a specific exemption is available or a tax treaty between Israel and the shareholder's country of residence provides otherwise. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is a portion of the total capital gain which is equivalent to the increase of the relevant asset's purchase price which is attributable to the increase in the Israeli consumer price index or, in certain circumstances, a foreign currency exchange rate, between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus.

As of January 1, 2012, the tax rate applicable to capital gains derived from the sale of shares, whether listed on a stock market or not, is 25% for Israeli individuals, unless such shareholder claims a deduction for financing expenses in connection with such shares, in which case the gain is generally taxed at a rate of 30%. Additionally, if such shareholder is considered a "substantial shareholder" at any time during the 12-month period preceding such sale, i.e., such shareholder holds directly or indirectly, including with others, at least 10% of any means of control in a company, the tax rate is 30%. However, the foregoing tax rates do not apply to: (i) dealers in securities; and (ii) shareholders who acquired their shares prior to an initial public offering (that may be subject to a different tax arrangement).

Israeli companies are subject to the corporate tax rate on capital gains derived from the sale of shares (24% in 2017 and 23% in 2018 and 2019).

In addition, shareholders that are individuals who have taxable income that exceeds threshold of NIS 640,000 in a tax year (linked to the Israeli consumer price index (or CPI)) each year, will be subject to an additional tax, referred to as High Income Tax, at the rate of 3% on their taxable income for such tax year which is in excess of such amount (NIS 641,880 for 2018 and NIS 649,560 for 2019). For this purpose taxable income will include, *inter alia*, taxable capital gains from the sale of our shares and taxable income from dividend distributions.

Non-Israeli residents are exempt from Israeli capital gains tax on any gains derived from the sale of shares of Israeli companies publicly traded on a recognized stock exchange or regulated market outside of Israel, provided that such capital gains are not derived from a permanent establishment in Israel, the shareholders are not subject to the Israeli Income Tax Law – Inflationary Adjustments, 1985, and the shareholders did not acquire their shares prior to an initial

public offering. However, non-Israeli corporations will not be entitled to such exemption if Israeli residents (i) have a controlling interest of more than 25% in such non-Israeli corporation, or (ii) are the beneficiaries or are entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

Pursuant to the treaty between the government of the United States and the government of Israel with respect to taxes on income, as amended (the "U.S.-Israel Tax Treaty"), the sale, exchange or disposition of ordinary shares by a person who (i) holds the ordinary shares as a capital asset, (ii) qualifies as a resident of the United States within the meaning of the U.S.-Israel Tax Treaty, and (iii) is entitled to claim the benefits afforded to such person by the U.S.-Israel Tax Treaty, generally, will not be subject to the Israeli capital gains tax. Such exemption will not apply if (i) such U.S. resident holds, directly or indirectly, shares representing 10% or more of our voting power during any part of the 12-month period preceding such sale, exchange or disposition, subject to certain conditions, or (ii) the capital gains from such sale, exchange or disposition can be allocated to a permanent establishment in Israel. In such case, the sale, exchange or disposition of ordinary shares would be subject to Israeli tax, to the extent applicable; however, under the U.S.-Israel Tax Treaty, such U.S. resident would be permitted to claim a credit for such taxes against the U.S. federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S.-Israel Tax Treaty does not relate to U.S. state or local taxes.

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



Table of Contents

**General Corporate Tax Structure in Israel**

The Israeli corporate tax rate was 25% and 24% in 2016 and 2017, respectively. Effective January 1, 2018 and thereafter, the corporate tax rate in Israel is 23%.

**Israeli Transfer Pricing Regulations**

Section 85A of the Tax Ordinance and the transfer pricing regulations require that all cross-border transactions carried out between related parties be conducted on an arm's length basis and be taxed accordingly.

**UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS**

Subject to the limitations described herein, this discussion summarizes certain material U.S. federal income tax consequences of the purchase, ownership and disposition of our Ordinary Shares to a U.S. holder. A U.S. holder is a beneficial owner of our Ordinary Shares who is:

- an individual who is a citizen or resident of the United States for U.S. federal income tax purposes;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States or any political subdivision thereof or the District of Columbia;
- an estate, the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust: (i) if a U.S. court is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions; or (ii) that is in existence on August 20, 1996 and that has in effect a valid election under applicable U.S. Treasury Regulations to be treated as a U.S. person.

A non-U.S. holder is a beneficial owner of our Ordinary Shares that is not a U.S. holder. Unless otherwise specifically indicated, this discussion does not consider the U.S. federal income tax consequences to a person that is a non-U.S. holder of our Ordinary Shares and considers only U.S. holders that will own the Ordinary Shares as capital assets (generally for investment).

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds our Ordinary Shares, the tax treatment of the partnership and a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its tax advisor as to its tax consequences.



Table of Contents

The discussion in this summary is based on current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), current and proposed Treasury Regulations promulgated under the Code and administrative and judicial interpretations of the Code, all as currently in effect and all of which are subject to differing interpretations or to change, possibly with retroactive effect. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to any particular U.S. holder based on the U.S. holder's particular circumstances (including the potential application of the alternative minimum tax). In particular, this discussion does not address the U.S. federal income tax consequences to U.S. holders who are a bank, broker-dealers or who own, directly, indirectly or constructively, 10% or more (by voting power) of our company, real estate investment trusts, regulated investment companies, grantor trusts, S corporations, U.S. holders holding the Ordinary Shares as part of a hedging, straddle or conversion transaction, U.S. holders whose functional currency is not the U.S. dollar, U.S. holders who have elected to-market accounting, insurance companies, tax-exempt organizations, financial institutions, persons that receive Ordinary Shares as compensation for the performance of services, certain former citizens or former long-term residents of the United States and persons subject to the alternative minimum tax, who may be subject to special rules not discussed below. Additionally, this discussion does not address the possible application of U.S. federal estate or gift taxes or any aspect of state, local or non-U.S. tax laws.

**This summary of certain material U.S. federal income tax considerations is for general information only and should not be considered tax advice or relied upon for tax planning purposes. Accordingly, each U.S. holder of our Ordinary Shares is advised to consult with its tax advisor with respect to the specific U.S. federal, state, local and foreign income tax consequences to which it is subject with respect to purchasing, holding or disposing of our Ordinary Shares.**

**U.S. Holders of Ordinary Shares**

**Taxation of distributions on Ordinary Shares**

Subject the discussion below under "Tax consequences if we are a passive foreign investment company," a distribution paid by us with respect to our Ordinary Shares, including the amount of any non-U.S. taxes withheld, to a U.S. holder will be treated as dividend income to the extent that the distribution does not exceed our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. Dividends that are received with respect to Ordinary Shares by U.S. holders that are individuals, estates or trusts generally will be taxed at preferential tax rates, provided that such dividends meet the requirements of "qualified dividend income." For this purpose, qualified dividend income generally includes dividends paid by a non-U.S. corporation if certain holding period and other requirements are met and either (i) the stock of the non-U.S. corporation with respect to which the dividends are paid is "readily tradable" on an established securities market in the U.S. (e.g., the NASDAQ Global Market); or (ii) the non-U.S. corporation is eligible for benefits of a comprehensive income tax treaty with the U.S. which includes an information exchange program and is determined to be satisfactory by the U.S. Secretary of the Treasury. The United States Internal Revenue

Service ("IRS") has determined that the U.S.-Israel income tax treaty is satisfactory for this purpose. Dividends that fail to meet such requirements, and dividends received by corporate U.S. holders, are taxed at ordinary income rates. No dividend received by a U.S. holder will be a qualified dividend (i) if the U.S. holder held the ordinary share with respect to which the dividend was paid for less than 61 days during the 121-day period beginning on the date that is 60 days before the ex-dividend date with respect to such dividend, excluding for this purpose, under the rules of Section 246(c) of the Code, any period during which the U.S. holder has an option to sell, is under a contractual obligation to sell, has made and not closed a short sale of, is the grantor of a deep-in-the-money or otherwise nonqualified option to buy, or has otherwise diminished its risk of loss by holding other positions with respect to, such ordinary share (or substantially identical securities); or (ii) to the extent that the U.S. holder is under an obligation (pursuant to a short sale or otherwise) to make related payments with respect to positions in property substantially similar or related to the ordinary share with respect to which the dividend is paid. If we were to be considered a "passive foreign investment company" or PFIC (as such term is defined in the Code) for any taxable year, dividends paid on our Ordinary Shares in such year or in the following taxable year would not be qualified dividends. See discussion below regarding our PFIC status at "Tax Consequences If We Are A Passive Foreign Investment Company." In addition, a non-corporate U.S. holder will be able to take a qualified dividend into account in determining its deductible investment interest (which is generally limited to its net investment income) only if it elects to do so. In such case the dividend will be taxed at ordinary income rates.



Table of Contents

The amount of any distribution which exceeds the amount treated as a dividend will be treated first as a non-taxable return of capital, reducing the U.S. holder's tax basis in its Ordinary Shares to the extent thereof, and then as capital gain from the deemed disposition of the Ordinary Shares (subject to the PFIC rules discussed below). Such distributions (treated as capital gain) would not give rise to income from sources outside the United States. Corporate holders will not be allowed a deduction for dividends received in respect of the Ordinary Shares.

There is no assurance that dividends received by a U.S. holder from the Company will be eligible for the preferential tax rates mentioned above. Dividends that are not eligible for the preferential tax rates will be taxed at ordinary income rates.

Dividends paid by us in NIS will be included in the gross income of U.S. holders at the U.S. dollar amount of the dividend (including any non-U.S. taxes withheld therefrom), based upon the exchange rate in effect on the date the distribution is included in income, regardless of whether the NIS is converted into U.S. dollars. If the NIS is not converted into U.S. dollars on the date of receipt, U.S. holders will have a tax basis in the NIS for U.S. federal income tax purposes equal to that dollar value. Any subsequent gain or loss in respect of the NIS arising from exchange rate fluctuations on a subsequent conversion or any other disposition of the NIS will be treated as ordinary income or loss, and generally will be income or loss from sources within the United States for U.S. foreign tax credit purposes.

Dividends received with respect to our Ordinary Shares will constitute "portfolio income" for purposes of the limitation on the deductibility of passive activity losses and, therefore, generally may not be offset by passive activity losses. Dividends received with respect to our Ordinary Shares also generally will be treated as "investment income" for purposes of the investment interest deduction limitation contained in Section 163(d) of the Code, and generally as foreign-source passive income for U.S. foreign tax credit purposes. Subject to certain limitations, U.S. holders may elect to claim as a foreign tax credit against their U.S. federal income tax liability for any Israeli income tax withheld from distributions with respect to our Ordinary Shares which constitute dividends under U.S. income tax law. A U.S. holder that does not elect to claim a foreign tax credit may instead claim a deduction for Israeli income tax withheld, but only if the U.S. holder elects to do so with respect to all foreign income taxes in such year. If a refund of the tax withheld is available under the applicable laws of Israel or under the Israel-U.S. income tax treaty, the amount of tax withheld that is refundable will not be eligible for such credit against your U.S. federal income tax liability (and will not be eligible for the deduction against your U.S. federal taxable income). In addition, special rules may apply to the computation of foreign tax credits relating to "qualified dividend income," as defined above. The calculation of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign income taxes, the availability of deductions involve the application of complex rules that depend on a U.S. holder's particular circumstances. U.S. holders are urged to consult their own tax advisors regarding the availability to them of foreign tax credits or deductions in respect of any Israeli tax withheld or paid with respect to any dividends which may be paid with respect to our Ordinary Shares, including limitations pursuant to the U.S.-Israel income tax treaty.

**Taxation of the disposition of Ordinary Shares**

Subject to the discussion below under "Tax consequences if we are a passive foreign investment company," upon the sale, exchange or other disposition of our Ordinary Shares (other than in certain non-recognition transactions), a U.S. holder will recognize capital gain or loss in an amount equal to the difference between the amount realized on the disposition and the U.S. holder's tax basis in the Ordinary Shares. The gain or loss recognized on the disposition of the Ordinary Shares will be considered a long-term capital gain or loss if the U.S. holder had held the Ordinary Shares for more than one year at the time of the disposition and otherwise will generally be short-term capital gain or loss. The deductibility of capital losses is subject to limitations. Long-term capital gains of certain non-corporate shareholders are generally taxed at preferential rates. Gain or loss recognized by a U.S. holder on a sale, exchange or other disposition of Ordinary Shares generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes.

A U.S. holder that uses the cash method of accounting calculates the U.S. dollar value of the proceeds received on the sale as of the date that the sale settles. However, a U.S. holder that uses the accrual method of accounting is required to calculate the value of the proceeds of the sale as of the trade date and may therefore realize foreign currency gain or loss. A U.S. holder may avoid realizing a foreign currency gain or loss by electing to use the settlement date to determine the proceeds of sale for purposes of calculating the foreign currency gain or loss. In addition, a U.S. holder that receives foreign currency upon disposition of Ordinary Shares and converts the foreign currency into U.S. dollars after the settlement date or trade date (whichever date the U.S. holder is required to use to calculate the value of the proceeds of sale) will have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the U.S. dollar, which will generally be U.S. source ordinary income of loss.



Table of Contents

**Net Investment Income Tax**

Non-corporate U.S. holders may be subject to an additional 3.8% surtax on all or a portion of their "net investment income", which may include dividends on, or capital gains recognized from, the disposition of, our Ordinary Shares. In each case, the 3.8% surtax applies only to the extent the U.S. holder's total adjusted income exceeds certain thresholds. U.S. holders are urged to consult their own tax advisors regarding the implications of the additional Net Investment Income tax on their investment in our Ordinary Shares.

**Tax consequences if we are a passive foreign investment company**

For U.S. federal income tax purposes, we will be considered a passive foreign investment company, or PFIC, if either (i) 75% or more of our gross income in a taxable year is passive income; or (ii) 50% or more of the value (determined on the basis of a quarterly average) of our assets in a taxable year produce or are held for the production of passive income. If we own (directly or indirectly) at least 25% by value of the stock of another corporation, we will be treated for purposes of the foregoing tests as owning our proportionate share of that other corporation's assets and as directly earning our proportionate share of that other corporation's income. If we are a PFIC, a U.S. holder must determine under which of three alternative taxing regimes it wishes to be taxed:

- The "QEF" regime applies if the U.S. holder elects to treat us as a "qualified electing fund" ("QEF") for the first taxable year in which the U.S. holder owns our Ordinary Shares or in which we are a PFIC, whichever is later, and if we comply with certain reporting requirements. A U.S. holder may not make a QEF election with respect to warrants. If the QEF regime applies, then, for each taxable year that we are a PFIC, such U.S. holder will include in its gross income a proportionate share of our ordinary earnings (which is taxed as ordinary income) and net capital gain (which is taxed as long-term capital gain), subject to a separate election to defer payment of taxes, which deferral is subject to an interest charge. These amounts would be included

in income by an electing U.S. holder, whether or not such amounts are actually distributed to the U.S. holder. A U.S. holder's basis in our Ordinary Shares for which a QEF election has been made would be increased to reflect the amount of any taxed but undistributed income. Generally, a QEF election allows an electing U.S. holder to treat any gain realized on the disposition of his Ordinary Shares as capital gain.

If a QEF election is made after the first taxable year in which a U.S. holder holds our Ordinary Shares and we are a PFIC, then special rules would apply.

Once made, the QEF election applies to all subsequent taxable years of the U.S. holder in which it holds our Ordinary Shares and for which we are a PFIC and can be revoked only with the consent of the IRS.

- The "mark-to-market" regime, may be elected so long as our Ordinary Shares are "marketable stock" (e.g., "regulatory traded" on the NASDAQ Global Market). Under current law, a mark-to-market election cannot be made with respect to warrants. Pursuant to this regime, in any taxable year that we are a PFIC, an electing U.S. holder's Ordinary Shares are marked-to-market each taxable year and the U.S. holder recognizes as ordinary income or loss an amount equal to the difference as of the close of the taxable year between the fair market value of our Ordinary Shares and the U.S. holder's adjusted tax basis in our Ordinary Shares. Losses are allowed only to the extent of net mark-to-market gain previously included by the U.S. holder under the election for prior taxable years. An electing U.S. holder's adjusted basis in our Ordinary Shares is increased by income recognized under the mark-to-market election and decreased by the deductions allowed under the election.

Under the mark-to-market election, in a taxable year in which we are a PFIC, any gain on the sale of our Ordinary Shares is treated as ordinary income, and any loss on the sale of our Ordinary Shares, to the extent the amount of loss does not exceed the net mark-to-market gain previously included, is treated as ordinary loss. The mark-to-market election applies to the taxable year for which the election is made and all later taxable years, unless the Ordinary Shares cease to be marketable stock or the IRS consents to the revocation of the election.



Table of Contents

If the mark-to-market election is made after the first taxable year in which a U.S. holder holds our Ordinary Shares and we are a PFIC, then special rules would apply.

- A U.S. holder making neither the QEF election nor the mark-to-market election is subject to the "excess distribution" regime. Under this regime, "excess distributions" are subject to special tax rules. An excess distribution includes (i) a distribution with respect to our Ordinary Shares that is greater than 125% of the average distributions received by the U.S. holder from us over the shorter of either the preceding three taxable years or such U.S. holder's holding period for our Ordinary Shares prior to the distribution year; and (ii) gain from the disposition of our Ordinary Shares.

Excess distributions must be allocated ratably to each day that a U.S. holder has held our Ordinary Shares. A U.S. holder must include amounts allocated to the current taxable year and any taxable year prior to the first taxable year in which we were a PFIC, in its gross income as ordinary income for that year. All amounts allocated to other taxable years of the U.S. holder would be taxed at the highest tax rate for each such year applicable to ordinary income and the U.S. holder also would be liable for interest on the deferred tax liability for each such year calculated as if such liability had been due with respect to each such year. The portions of gains and distributions that are not characterized as "excess distributions" are subject to tax in the current taxable year as ordinary income under the normal tax rules of the Code.

A U.S. person who inherits shares in a foreign corporation that was a PFIC in the hands of the decedent, is generally denied the otherwise available step-up in the tax basis of such shares to fair market value at the date of death. Instead, such U.S. holder's basis would generally be equal to the lesser of the decedent's basis or the fair market value of the Ordinary Shares on the date of death. Furthermore, if we are a PFIC, each U.S. holder will generally be required to file an annual report with the IRS.

Based on an analysis of our assets and income, we believe that we were not a PFIC for our taxable year ended December 31, 2018. We currently expect that we will not be a PFIC in 2019. However, PFIC status is determined as of the end of the taxable year and is dependent on a number of factors, including the relative value of our passive assets and our non-passive assets, our market capitalization and the amount and type of our gross income. There can be no assurance that we will not become a PFIC for the current taxable year ending December 31, 2019 or in a future taxable year.

If we were a PFIC, a U.S. holder could make certain elections that may alleviate certain tax consequences referred to above, and one of these elections may be made retroactively if certain conditions are satisfied. It is expected that the conditions necessary for making certain of such elections will apply in the case of our Ordinary Shares. Neither the Company nor its advisors have the duty to or will undertake to inform U.S. holders of changes in circumstances that would cause the Company to become a PFIC. The Company does not currently intend to take the action necessary for a U.S. holder to make a "qualified electing fund" election in the event the Company is determined to be a PFIC.

If we are determined to be a PFIC, the general tax treatment for U.S. holders described in this section would apply to indirect distributions and gains deemed to be realized by U.S. holders in respect of any of our subsidiaries that also may be determined to be PFICs.

If a U.S. holder owns ordinary shares during any year in which we are a PFIC and the U.S. holder recognized gain on a disposition of our ordinary shares or receives distributions with respect to our ordinary shares, the U.S. holder generally will be required to file an IRS Form 8621 (Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund) with respect to the Company, generally with the U.S. holder's federal income tax return for that year. If our Company were a PFIC for a given taxable year, then you should consult your tax advisor concerning your annual filing requirements.

**The U.S. federal income tax rules relating to PFICs are complex. U.S. holders are urged to consult their own tax advisors with respect to the acquisition, ownership and disposition of our Ordinary Shares, the consequences to them of an investment in a PFIC, any elections available with respect to our Ordinary Shares and the IRS information reporting obligations with respect to the acquisition, ownership and disposition of our Ordinary Shares.**



Table of Contents

**Tax return disclosure and backup withholding**

A U.S. holder generally is subject to information reporting and may be subject to backup withholding at a rate of 24% with respect to dividend payments made with respect to, and proceeds from the disposition of, the Ordinary Shares. Backup withholding will not apply with respect to payments made to exempt recipients, including corporations, or if a U.S. holder provides a correct taxpayer identification number, certifies that such holder is not subject to backup withholding or otherwise establishes an exemption. Backup withholding is not an additional tax. It may be claimed as a credit against the U.S. federal income tax liability of a U.S. holder or the U.S. holder may be eligible for a refund of any excess amounts withheld under the backup withholding rules, provided, in either case, that the required information is furnished to the Internal Revenue Service.

The Foreign Account Tax Compliance Act ("FATCA") generally subjects U.S. individuals that hold certain specified foreign financial assets (which include stock of a non-U.S. corporation) to U.S. return disclosure obligations (and related penalties for failure to disclose). The definition of specified foreign financial assets includes not only financial accounts maintained in foreign financial institutions, but also, unless held in accounts maintained by a financial institution, any stock or security issued by a non-U.S. person, any financial instrument or contract held for investment that has an issuer or counterparty other than a U.S. person and any interest in a foreign entity. Such U.S. individuals are required to file IRS Form 8938 with their U.S. Federal income tax returns, unless an exception applies. Generally,

U.S. holders may be subject to these reporting requirements unless their Ordinary Shares are held in an account at a domestic financial institution or certain other exceptions apply. Penalties for failure to file certain of these information returns may be substantial. In addition, in the event a holder that is required to file IRS Form 8938 does not file such form, the statute of limitations on the assessment and collection of U.S. federal income taxes of such holder for the related tax year may not close until three years after the date that the required return information is filed. Each U.S. holders should consult with its own tax advisors regarding its obligation to file an IRS Form 8938 in light of its own particular circumstances.

**Non-U.S. Holders of Ordinary Shares**

Except as provided below, a non-U.S. holder of Ordinary Shares will not be subject to U.S. federal income or withholding tax on the receipt of dividends on, and the proceeds from the disposition of, an Ordinary Share, unless that item is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States and, in the case of a resident of a country which has an income tax treaty with the United States, that item is attributable to a permanent establishment in the United States or, in the case of an individual, a fixed place of business in the United States. In addition, gain recognized by an individual non-U.S. holder on the disposition of the Ordinary Shares will be subject to tax in the United States, if such non-U.S. holder is present in the United States for 183 days or more during the taxable year of the sale and other conditions are met.

Non-U.S. holders are generally not subject to information reporting or backup withholding with respect to the payment of dividends on, or proceeds from the disposition of, Ordinary Shares, provided that the non-U.S. holder provides its taxpayer identification number, certifies to its foreign status or otherwise establishes an exemption.

A non-U.S. holder will be required to provide a certificate of non-U.S. status on an appropriate IRS Form W-8.

**10F. Dividends and Paying Agents**

Not applicable.

**10G. Statement by Experts**

Not applicable.



Table of Contents

**10H. Documents on Display**

You may read and copy this annual report on Form 20-F, including the related exhibits and schedules, and any document we file with the SEC through the SEC's website at http://www.sec.gov.

We maintain a corporate website at *www.boscorporate.com*. Information contained on, or that can be accessed through, our website does not constitute a part of this annual report on Form 20-F. We have included our website address in this annual report on Form 20-F solely as an inactive textual reference.

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

**10I. Subsidiary Information**

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

**Item 11: Quantitative and Qualitative Disclosure about Market Risk**

Market risk represents the risk of changes in the value of our financial instruments caused by fluctuations in interest rates, foreign exchange rates and equity prices. We do not engage in trading market-risk instruments or purchase hedging or "other than trading" instruments that are likely to expose us to market risk, whether interest rate, commodity price or equity price risk. We have purchased forward contracts but do not use derivative financial instruments for speculative trading purposes.

**Foreign Currency Exchange Rate Risk**

We are exposed to currency transaction risks because some of our expenses are incurred in a different currency from the currency in which our revenues are received. Our most significant currency exposures are to the NIS. In periods when the U.S. dollar is significantly devaluated against the NIS, our reported results of operations may be adversely affected. The Company enters into foreign currency contracts, with financial institutions to reduce the risk of exchange rate fluctuations. Such contracts are not designated as hedging instruments. From time to time, the Company recognizes derivative instruments as either assets or liabilities on the balance sheet at fair value.

"Derivatives and Hedging" ("ASC 815"), as amended, requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income (loss). If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

The Company entered into forward contracts to hedge against the risk of changes in future cash flow from payments of payroll and related expenses denominated in Israeli Shekels. These contracts are designated as cash flows hedges, as defined by ASC 815, and are considered highly effective as hedges of these expenses. As of December 31, 2018 and 2017, and during the periods then ended, the impact on the Company's financial statements of these forward contracts amounted to a loss of $37,000 and income of $148,000, respectively.

In addition, the Company has entered into forward contracts in order to hedge the exposure to variability in expected future cash flows resulting from changes in related foreign currency exchange rates. These contracts did not meet the requirement for hedge accounting. The amount recorded as financial loss related to these contracts in 2018, 2017 and 2016 was $(13,000), $(160,000) and $(6,000), respectively.

Although from time to time we enter into foreign currency contracts to reduce currency transaction risk, these transactions will not eliminate translation risk or all currency risk. For information concerning risk factors related to Foreign Currency Exchange see "Item 3D - Risk Factors."

**Credit Risk Management**

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

The trade receivables of the Company are derived from sales to customers located primarily in Israel, India and the Far East. The Company generally does not require collateral; however certain of the Company's customers outside of Israel are insured against customer nonpayment through the Israeli Credit Insurance Company Ltd. and, in certain circumstances, the Company may require letters of credit, advanced payments, or other collateral.

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

The table below presents the account receivables balance by geographical market as of December 31, 2018 and December 31, 2017:

| | 2018 | 2017 |
|---|---|---|
| Israel and others | $ 6,792,000 | $ 7,333,000 |
| India | $ 1,060,000 | $ 2,190,000 |
| Americas | $ 732,000 | $ 104,000 |
| Far East | $ 38,000 | $ 138,000 |
| Europe | $ 2,000 | $ 39,000 |
| | $ 8,624,000 | $ 9,804,000 |

**Interest Rate Risk**

The Company's exposure to market risk for changes in interest rates is due to loans that carry variable interest.

A material change in the interest rate payable on our loans may have a material adverse effect on the Company's financial results and cash flow. In the event that interest rates associated with the Company's variable rate borrowings were to increase 100 basis points, the after tax impact on future cash flows would be a decrease of $30,000.

**Bank Risk**

The Company manages its loans in Bank Beinleumi, which provides credit to the Company's Israeli subsidiaries. In case of the termination or expiration of our credit lines, deterioration in our relations with our bank or adverse changes in the financial position of the bank, our liquidity could be materially adversely affected.

**Item 12: Description of Securities Other than Equity Securities**

Not applicable.



**PART II**

**Item 13: Defaults, Dividend Arrearages and Delinquencies**

Not applicable.

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

Not applicable.

**Item 15: Controls and Procedures**

(a) Disclosure controls and procedures.

The Company's Co-Chief Executive Officers and its Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on that evaluation, such Co-Chief Executive Officers and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable level of assurance (see paragraph (e) below) as of the end of the period covered by this report.

(b) Management's Annual Report on Internal Control over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our management, including our Chief Executive Officer and our Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as of the end of the period covered by this report.

Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2018. Notwithstanding the foregoing, there can be no assurance that our internal control over financial reporting will detect or uncover all failures of persons within the Company to comply with our internal procedures, as all internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements.

(c) Attestation Report of the Registered Public Accounting Firm.

This Annual Report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this Annual Report.

(d) Change in Internal Control over Financial Reporting.

There were no changes in the Company's internal controls over financial reporting that occurred during the fiscal year ended December 31, 2018, that have materially affected or are reasonably likely to materially affect these controls.

(e) Other.

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

of the control system are met. Our disclosure controls and procedures are designed to provide such reasonable assurances of achieving our desired control objectives, and our Co-Chief Executive Officers and Chief Financial Officer have concluded, as of December 31, 2018, that our disclosure controls and procedures were effective in achieving that level of reasonable assurance.

**Item 16: [Reserved]**

**Item 16A: Audit Committee Financial Expert**

The Company's Board of Directors has determined that Mr. Ralph Sassun, the chairman of the audit committee, is an "audit committee financial expert", as defined by the applicable SEC regulations.

All the members of the audit committee are "independent" under the applicable SEC and Nasdaq regulations. The experience of each member is listed under "Item 6A: Directors and Senior Management."



Table of Contents

**Item 16B: Code of Ethics**

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

**Item 16C: Principal Accountant Fees and Services**

Fahn Kanne & Co. Grant Thornton Israel ("Grant Thornton"), serves as our principal independent registered public accounting firm for the years 2017-2018. Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global ("E&Y"), has served as our independent registered public accounting firm for the years 2015-2016.

The table below summarizes the audit and other fees paid and accrued by the Company and its consolidated subsidiaries to E&Y during 2017 and to Grant Thornton during 2017 and 2018. All of such fees were pre-approved by our audit committee.

| | Year Ended December 31, 2018 | | Year Ended December 31, 2017 | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| Audit Fees – Grant Thornton (1) | $ 64,000 | 91% | $ 52,000 | 63% |
| Audit Fees – E&Y (1) | $ - | -% | $ 8,000 | 10% |
| Tax Fees – Grant Thornton (2) | $ 3,500 | 5% | $ 10,000 | 12% |
| Tax Fees – E&Y (2) | $ - | -% | $ 5,000 | 6% |
| All Other Fees – Grant Thornton (3) | $ - | -% | $ 2,000 | 3% |
| All Other Fees – E&Y (3) | $ 3,000 | 4% | $ 5,000 | 6% |
| Total | $ 70,500 | 100% | $ 82,000 | 100% |

(1) Audit fees are fees for audit services for each of the years shown in this table, including fees associated with the annual audit and audit services provided in connection with other statutory or regulatory filings.
(2) Tax fees are fees for professional services rendered by our auditors for tax compliance, tax planning and tax advice on actual or contemplated transactions
(3) Other fees are fees for professional services other than audit or tax related fees.

**Audit Committee's pre-approval policies and procedures:**

The audit committee is responsible for the oversight of the independent auditors' work, including the approval of services provided by the independent auditors. These services may include audit, audit-related, tax or other services, as described above. On an annual basis the audit committee pre-approves audit and non-audit services to be provided to the Company by its auditors, listing the particular services or categories of services, and sets forth a specific budget for such services. Additional services not covered by the annual pre-approval may be approved by the audit committee on a case-by-case basis as the need for such services arises. Any services pre-approved by the audit committee must be permitted by applicable law. Once services have been pre-approved, the audit committee receives a report on a periodic basis regarding the extent of the services actually provided and the fees paid.

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

Not applicable.



Table of Contents

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

The Company (or anyone acting on its behalf) did not purchase any of the Company's securities in 2018.

**Item 16F: Change in Registrant's Certifying Accountant**

(a) Previous independent registered public accounting firm.

On December 12, 2017, our shareholders elected Grant Thornton as our independent registered public accounting firm, replacing E&Y. The Company's decision to terminate the engagement of E&Y as the Company's auditing accountants was approved by our shareholders following the recommendation of our Board of Directors and audit committee.

The reports of E&Y on the Company's consolidated financial statements for the fiscal year ended December 31, 2016 contained no adverse opinion or a disclaimer of opinion, nor were the reports qualified or modified as to uncertainty, audit scope or accounting principles.

During the Company's fiscal year ended December 31, 2016 and through December 12, 2017, there were no disagreements with E&Y on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of E&Y, would have caused it to make reference thereto in its reports on the Company's financial statements for such fiscal years.

During the Company's fiscal year ended December 31, 2016 and through December 12, 2017, there were no "reportable events", as described in Item 16F(a)(1)(V) of Form 20-F.

During the Company's two most recent fiscal years and prior to the date of their engagement, the Company did not consult with Grant Thornton regarding: (i) the application of accounting principles to a specified transaction, either completed or proposed, (ii) the type of audit opinion that might be rendered on the Company's financial statements, or (iii) any other matter that was either the subject of a disagreement or a reportable event as set forth in as described in Item 16F(a)(1)(V) of Form 20-F.

(b) New independent registered public accounting firm.

On December 12, 2017, Grant Thornton was engaged as the independent registered public accounting firm for the Company. The engagement of Grant Thornton was approved by our shareholders following the recommendation by the Board of Directors and the audit committee. During the Company's fiscal year ended December 31, 2016 and through December 12, 2017, the Company did not consult with Grant Thornton regarding any of the matters or events set forth in Item 16F(a)(1)(V) of Form 20-F.

**Item 16G: Corporate Governance**

The Company's shares are listed on the NASDAQ Capital Market. Under NASDAQ Marketplace Rule 5615(a)(3) or Rule 5615(a)(3), foreign private issuers, such as the Company, are permitted to follow certain home country corporate governance practices in lieu of the requirements of Listing Rule 5600 Series with the exception of those rules which are required to be followed pursuant to the provisions of Listing Rule 5615(a)(3).

In particular, we have elected to follow Israeli law and practice instead of the NASDAQ rules with respect to the requirement to obtain shareholder approval for the approval of certain private placements. Under Israeli law and practice, shareholder approval is not required for a private placement in a public company, whose shares are traded only outside of Israel.

**Item 16H: Mine Safety Disclosures**

Not applicable.



Table of Contents

**PART III**

**Item 17: Financial Statements**

Not applicable.

**Item 18: Financial Statements**

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



**Item 19: Exhibits**

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

| | |
|---|---|
| 1.1 | Memorandum of Association, as amended (incorporated by reference to the Company's Registration Statement on Form S-8 filed on November 13, 2018). |
| 1.2 | Articles of Association, as amended. (incorporated by reference to the Company's Registration Statement on Form S-8 filed on November 13, 2018). |
| 4.1 | Form of Indemnification Agreement between the Company and its officers and directors, as amended (incorporated by reference to Exhibit B of the Company's Proxy Statement on Form 6-K, filed on June 4, 2018). |
| 4.2* | The Company's Israeli 2003 Share Option Plan |
| 4.3 | Summary of Economic Terms: Request by BOS-Odem Ltd. for NIS Loan from the First International Bank of Israel, Overdraft Terms on the Current Account at the First International Bank of Israel, Request by BOS-Dimex Ltd. for NIS Loan from the First International Bank of Israel; Letter of Undertaking to First International Bank of Israel (translated from Hebrew) (incorporated by reference to the Company Annual Report on Form 20-F filed on March 29, 2018). |
| 4.4 | Standby Equity Distribution Agreement with YA II PN Ltd. dated May 8, 2017 (incorporated by reference to the Company's report on Form 6-K, filed on May 9, 2017). |
| 4.5 | Agreement for the Sale of Business Operations by and among B.O.S. Better Online Solutions Ltd., iDnext Ltd. and Next-Line Ltd., dated as of November 24, 2015 (incorporated by reference to the Company's report on Form 6-K filed on November 30, 2015). |
| 4.6 | Form of Subordination Letters of the Company of BOS-Dimex Ltd. and of BOS-Odem Ltd. dated January 14, 2016 (translated from Hebrew) (incorporated by reference to the Company's Annual Report on Form 20-F filed on April 21, 2016). |
| 4.7 | Compensation Policy for Directors and Officers (incorporated by reference to Exhibit A of the Company's Proxy Statement on Form 6-K, filed on June 4, 2018). |
| 4.8* | Asset Purchase Agreement by and between B.O.S Better Online Solutions Ltd. and Imdecol Ltd. dated March 19, 2019. |
| 4.9* | Bridge Loan Agreement by between B.O.S Better Online Solutions Ltd and Imdecol Ltd. dated March 19, 2019. |
| 4.10* | Pledge Agreement by and among Ben Zion Katz, Tirza Sima Katz and Ayelet Aya Hayak and B.O.S Better Online Solutions Ltd dated March 19, 2019. |
| 8.1 | List of subsidiaries. (incorporated by reference to the Company Annual Report on Form 20-F filed on March 29, 2018). |
| 11 | Code of Ethics (incorporated by reference to the Company's Annual Report on Form 20-F filed on April 14, 2014). |
| 12.1* | Certification by Co-Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934. |
| 12.2* | Certification by Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934. |
| 13.1* | Certification by Co-Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934. |
| 15.1 | Letter of Kost Forer Gabbay & Kasierer, a member of Ernst &Young Global, former independent registered public accounting firm (incorporated by reference to the Company Annual Report on Form 20-F filed on March 29, 2018). |
| 23.1* | Consent of Kost Forer Gabbay & Kasierer, a member of Ernst &Young Global. |
| 23.2* | Consent of Fahn Kanne & Co. Grant Thornton Israel. |
| 101* | The following financial information from the Company's Annual Report on Form 20-F for the year ended December 31, 2018, formatted in XBRL |

(eXtensible Business Reporting Language): (i) Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016; (ii) Consolidated Balance Sheets at December 31, 2018 and 2017; (iii) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2018, 2017 and 2016; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016; and (v) Notes to Consolidated Financial Statements, tagged as blocks of text.

* Filed herewith.



Table of Contents

**Signatures**

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

B.O.S. Better Online Solutions Ltd.

| | |
|---|---|
| /s/ Yuval Viner | /s/ Eyal Cohen |
| Yuval Viner | Eyal Cohen |
| Co-Chief Executive Officer | Co-Chief Executive Officer and Chief Financial Officer |

Date: April 1, 2019



Table of Contents

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

**AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2018**

**IN U.S. DOLLARS**

**INDEX**



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Table of Contents

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


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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Shareholders
B.O.S Better Online Solutions Ltd.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of B.O.S Better Online Solutions Ltd. and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

**/s/ FAHN KANNE & CO. GRANT THORNTON ISRAEL**

We have served as the Company's auditor since 2017.

Tel-Aviv, Israel
April 1, 2019



Table of Contents

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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 statements of operations, comprehensive profit, changes in shareholders' equity and cash flows of B.O.S Better Online Solutions Ltd. ("the Company") and subsidiaries for the year ended December 31, 2016. 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 conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of the Company and subsidiaries for year ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

Tel-Aviv, Israel
March 26, 2017

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



Table of Contents

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

**CONSOLIDATED BALANCE SHEETS**

**U.S. dollars in thousands**

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 1,410 | $ 1,533 |

| | | |
|---|---|---|
| Restricted bank deposits | 332 | 247 |
| Trade receivables (net of allowance for doubtful accounts of $31 and $75 at December 31, 2018 and 2017, respectively) | 8,624 | 9,804 |
| Other accounts receivable and prepaid expenses | 829 | 898 |
| Inventories | 2,874 | 3,240 |
| Total current assets | 14,069 | 15,722 |
| LONG-TERM ASSETS | 177 | 220 |
| PROPERTY AND EQUIPMENT, NET | 1,108 | 651 |
| OTHER INTANGIBLE ASSETS, NET | 81 | 138 |
| GOODWILL | 4,676 | 4,676 |
| Total assets | $ 20,111 | $ 21,407 |

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



Table of Contents

**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 | |
|---|---|---|
| | **2018** | **2017** |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Current maturities of long-term loans | $ 467 | $ 505 |
| Trade payables | 4,106 | 5,951 |
| Employees and payroll accruals | 778 | 822 |
| Deferred revenues | 768 | 798 |
| Accrued expenses and other liabilities | 313 | 304 |
| Total current liabilities | 6,432 | 8,380 |
| LONG-TERM LIABILITIES: | | |
| Long-term loans, net of current maturities | 1,867 | 2,523 |
| Accrued severance pay | 301 | 286 |
| Total long-term liabilities | 2,168 | 2,809 |
| COMMITMENTS AND CONTINGENT LIABILITIES | | |
| SHAREHOLDERS' EQUITY: | | |
| Share capital: | | |
| Ordinary Shares of NIS 80.00 nominal value: Authorized; 6,000,000 and 4,000,000 shares at December 31, 2018 and 2017, respectively; Issued and outstanding: 3,553,714 and 3,356,689 shares at December 31, 2018 and 2017, respectively | 75,317 | 70,855 |
| Additional paid-in capital | 5,369 | 9,415 |
| Accumulated other comprehensive loss | (333) | (220) |
| Accumulated deficit | (68,842) | (69,832) |
| Total shareholders' equity | 11,511 | 10,218 |
| Total liabilities and shareholders' equity | $ 20,111 | $ 21,407 |

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

April 1, 2019
Date of approval of the
financial statements



Table of Contents

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

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**U.S. dollars in thousands**

| | Year ended December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |

| | | | |
|---|---|---|---|
| Revenues | $ 32,650 | $ 28,932 | $ 27,427 |
| Cost of revenues | 25,907 | 22,587 | 22,112 |
| Gross profit | 6,743 | 6,345 | 5,315 |
| Operating costs and expenses: | | | |
| Sales and marketing | 3,705 | 3,389 | 3,111 |
| General and administrative | 1,834 | 1,870 | 1,498 |
| Total operating costs and expenses | 5,539 | 5,259 | 4,609 |
| Operating income | 1,204 | 1,086 | 706 |
| Financial expenses, net | (255) | (297) | (339) |
| Income before taxes on income | 949 | 789 | 367 |
| Taxes on income (tax benefit) | (41) | 16 | 7 |
| Net income | $ 990 | $ 773 | $ 360 |
| Basic and diluted net Income per share | $ 0.28 | $ 0.24 | $ 0.14 |
| Shares (in thousands) used in calculation of earnings per share: | | | |
| Basic | 3,500 | 3,171 | 2,587 |
| Diluted | 3,500 | 3,171 | 2,593 |

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



Table of Contents

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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

**U.S. dollars in thousands**

| | Year ended December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| Net income | $ 990 | $ 773 | $ 360 |
| Cash flow hedging instruments: | | | |
| Change in unrealized gains and losses | (76) | (93) | (15) |
| Gain (loss) in respect of derivative instruments designated for cash flow hedge, net of taxes | (37) | 148 | (1) |
| Other comprehensive gain (loss) | (113) | 55 | (16) |
| Comprehensive income | $ 877 | $ 828 | $ 344 |

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



Table of Contents

**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 and additional paid-in capital** | **Accumulated other comprehensive income (loss)** | **Accumulated deficit** | **Total shareholders' equity** |
|---|---|---|---|---|---|
| Balance at January 1, 2016 | 2,192,268 | $ 77,729 | $ (259) | $ (70,965) | $ 6,505 |
| Issuance of Ordinary Shares | 570,284 | 1,283 | - | - | 1,283 |
| Exercise of options | 10,000 | 30 | - | - | 30 |
| Issuance of ordinary shares related to acquisition | 162,734 | 298 | - | - | 298 |
| Other comprehensive loss | - | - | (16) | - | (16) |
| Share-based compensation expense | - | 124 | - | - | 124 |
| Net income | - | - | - | 360 | 360 |
| Balance at December 31, 2016 | 2,935,286 | $ 79,464 | $ (275) | $ (70,605) | $ 8,584 |
| Issuance of Ordinary Shares | 421,403 | 746 | - | - | 746 |
| Other comprehensive loss | - | - | 55 | - | 55 |
| Share-based compensation expense | - | 60 | - | - | 60 |
| Net income | - | - | - | 773 | 773 |

| | | | | | |
|---|---|---|---|---|---|
| Balance at December 31, 2017 | 3,356,689 | $ 80,270 | $ (220) | $ (69,832) | $ 10,218 |
| Issuance of Ordinary Shares | 197,025 | 349 | - | - | 349 |
| Other comprehensive income | - | - | (113) | - | (113) |
| Share-based compensation expense | - | 67 | - | - | 67 |
| Net income | - | - | - | 990 | 990 |
| Balance at December 31, 2018 | 3,553,714 | $ 80,686 | $ (333) | $ (68,842) | $ 11,511 |

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



Table of Contents

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**U.S. dollars in thousands**

| | Year ended December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| Cash flows from operating activities: | | | |
| Net income | $ 990 | $ 773 | $ 360 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 289 | 245 | 248 |
| Gain from sale and disposal of property and equipment | - | (10) | (14) |
| Currency fluctuation of deposits and loans | (225) | 264 | 71 |
| Severance pay, net | 15 | 92 | 39 |
| Share-based compensation expense | 67 | 60 | 124 |
| Issuance of shares to service provider | - | - | 23 |
| Change in fair value of contingent consideration related to acquisition | - | - | (178) |
| Decrease (Increase) in trade receivables, net | 1,180 | (1,876) | (857) |
| Decrease (Increase) in other accounts receivable and other assets | 84 | 58 | (274) |
| Decrease (Increase) in inventories | 366 | (926) | 189 |
| Increase (decrease) in trade payables | (1,845) | 1,350 | (70) |
| Increase (decrease) in employees and payroll accruals, deferred revenues, accrued expenses and other liabilities | (178) | 347 | (21) |
| Net cash provided by (used in) operating activities | 743 | 377 | (360) |
| Cash flows from investing activities: | | | |
| Purchase of property and equipment | (689) | (368) | (139) |
| Proceeds from sale of property and equipment | - | 53 | 15 |
| Change in long-term bank deposits | - | - | 10 |
| Acquisition of business | - | - | (154) |
| Net cash used in investing activities | (689) | (315) | (268) |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of shares, net | 377 | 606 | 1,260 |
| Proceeds from exercise of options | - | - | 30 |
| Proceeds from long-term loans | - | 2,976 | 3,680 |
| Repayment of long-term loans | (469) | (3,346) | - |
| Repayment of short and long-term loans | - | - | (4,474) |
| Net cash provided by (used in) financing activities | (92) | 236 | 496 |
| Increase (decrease) in cash, cash equivalents, and restricted cash | (38) | 298 | (132) |
| Cash, cash equivalents, and restricted cash at the beginning of the year | 1,780 | 1,482 | 1,614 |
| Cash, cash equivalents, and restricted cash at the end of the year | $ 1,742 | $ 1,780 | $ 1,482 |

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



Table of Contents

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**U.S. dollars in thousands**

| | Year ended December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |

Supplemental disclosure of cash flow activities:

(a) Net cash paid during the year for:

| | | | |
|---|---|---|---|
| Interest | $ 91 | $ 161 | $ 190 |
| Taxes | $ 15 | $ 7 | $ 12 |
| (b) Non-cash activities: | | | |
| Prepaid expenses related to 2017 SEDA (see Note 14a(2) | $ 28 | $ - | $ - |
| (a) Acquisition of iDnext Ltd. And Next-Line Ltd.: | | | |
| Fair value of net tangible assets acquired at acquisition date | $ - | $ - | $ 80 |
| Fair value of net intangible assets acquired at acquisition date | $ - | $ - | $ 806 |
| Less- amount acquired by converting loan into shares | $ - | $ - | $ (256) |
| Less-Contingent consideration on account of acquisition | $ - | $ - | $ (178) |
| Less- amount acquired by issuance of shares | $ - | $ - | $ (298) |
| Net cash used to pay for Acquisition of iDnext Ltd. and Next-Line Ltd. | $ - | $ - | $ 154 |

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



Table of Contents



**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.

The Company's shares are listed on NASDAQ under the ticker BOSC.

b. The Company has two operating segments: the RFID and Mobile Solutions segment, and the Supply Chain Solutions segment (see Note 17).

The Company's wholly-owned subsidiaries include:

1. BOS-Dimex Ltd., ("BOS-Dimex"),is an Israeli company that provides comprehensive turn-key solutions for Automatic Identification and Data Collection (AIDC), combining a mobile infrastructure with software application of manufacturers that we represent. In addition, following the acquisition in January 2016 by BOS-Dimex of the business operations of iDnext Ltd. and its subsidiary Next-Line Ltd., BOS-Dimex also offers on-site inventory count services in the fields of apparel, food, convenience and pharma, asset tagging and counting services for corporate and governmental entities. BOS-Dimex comprises the RFID and Mobile Solutions segment.

2. BOS-Odem Ltd. ("BOS-Odem"), an Israeli company, is a distributor of electronic components to customers in the defense high technology industry and a supply chain service provider for aviation customers that seek a comprehensive solution to their components-supply needs. BOS-Odem is part of the Supply Chain Solutions segment; and

3. Ruby-Tech Inc., a New York corporation, a wholly-owned subsidiary of BOS-Odem and a part of the Supply Chain Solutions segment.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements are prepared in accordance with the United States generally accepted accounting principles ("U.S. GAAP").

a. Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant assumptions are used in determining values of goodwill and identifiable intangible assets, revenues and the net realizable value of inventory. Actual results could differ from those estimates.

b. Financial statements in U.S. dollars:

A substantial portion of the Company's revenues is denominated in U.S. dollars ("dollars"). The Company's management believes that the dollar is the primary currency of the economic environment in which the Company operates. Thus, the functional and reporting currency of the Company is the dollar. Accordingly, monetary accounts maintained in currencies other than the dollar are re-measured into dollars in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 830, *Foreign Currency Matters*. All transactions gains and losses from the measurement of monetary balance sheet items are reflected in the statement of operations as financial income or expenses as appropriate.



Table of Contents

**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**

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

c. Principles of consolidation:

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

d. Cash equivalents:

Cash equivalents are short-term highly liquid investments with original maturities of less than three months from date of purchase.

e. Restricted bank deposits:

Restricted bank deposits are deposits related to forward contracts with banks. Restricted deposits are presented at their cost. For presentation of statement of cash flows purposes, restrict cash balances are included with cash and cash equivalents, when reconciling the reported period total amounts.

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Cash and cash equivalents | $ 1,410 | $ 1,533 |
| Restricted bank deposits | 332 | 247 |
| Total cash, cash equivalents, and restricted cash shown in the statement of cash flows | $ 1,742 | $ 1,780 |

f. Inventories:

The inventory is valued at the lower of cost or net realizable value. Cost is determined using the moving average cost method. In 2018 and 2017, inventory write-offs amounted to $52 and $75, respectively.

Inventory write-offs and write-downs are provided to cover risks arising from slow-moving items or technological obsolescence.

g. Property and equipment, net:

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

| | % | |
|---|---|---|
| Computers and software | 20 - 33 | (Mainly 33) |
| Office furniture and equipment | 6 - 15 | (Mainly 6) |
| Leasehold improvements | Over the shorter of the period of the lease or the life of the assets | |
| Motor vehicles | 15 | |

h. Business combination:

The consolidated financial statements include the operations of an acquired business from the date of the acquisition's consummation. Acquired businesses are accounted for using the acquisition method of accounting in accordance with ASC No. 805, "Business Combinations", which requires, among other things, that most assets acquired and liabilities assumed be recognized at their estimated fair values as of the acquisition date. Transaction costs are expensed as incurred. Any excess of the consideration transferred over the assigned values of the net assets acquired is recorded as goodwill. Contingent consideration incurred in a business combination is included as part of the acquisition price and recorded at a probability weighted assessment of its fair value as of the acquisition date. The fair value of the contingent consideration is re-measured at each reporting period, with any adjustments in fair value recognized in earnings.



Table of Contents



i. Impairment of long-lived assets and intangible assets subject to amortization:

The Company's long-lived assets are reviewed for impairment in accordance with ASC 360-10, *Accounting for the Impairment or Disposal of Long-Lived Asset*, whenever events or changes in circumstances indicate that the carrying amount of an asset (or asset group) may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset (or asset group) to the future undiscounted cash flows expected to be generated by the assets (or asset group). If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds their fair value.

Recoverability of intangible assets is measured by a comparison of the carrying amount of the asset to the undiscounted future cash flows expected to be generated by the asset. If intangible assets are considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired assets.

Intangible assets with finite lives are amortized using the straight-line basis over their useful lives, to reflect the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up. As of December 31, 2018 the remaining intangible assets were comprised of costumer relationship (see Note 7).

For each of the three years ended on December 31, 2018, 2017 and 2016, no impairment losses were identified.

j. Goodwill:

Goodwill represents excess of the costs over the net assets of businesses acquired. Under ASC 350, *Intangibles - Goodwill and Other* ("ASC

350"), goodwill is not amortized but instead is tested for impairment at least annually or between annual tests in certain circumstances, and written-down when impaired.

The Company performs its annual impairment analysis of goodwill as of December 31 of each year, or more often if indicators of impairment are present. The provisions of ASC 350 require that a two-step impairment test be performed on goodwill at the level of the reporting units. In the first step, or "Step 1", the Company compares the fair value of each reporting unit to its carrying value. If the fair value exceeds the carrying value of the net assets, goodwill is considered not impaired, and the Company is not required to perform further testing. If the carrying value of the net assets exceeds the fair value, then the Company must perform the second step, or "Step 2", of the impairment test in order to determine the implied fair value of goodwill. To determine the fair value used in Step 1, the Company uses discounted cash flows. If and when the Company is required to perform a Step 2 analysis, determining the fair value of its net assets and its off-balance sheet intangibles would require it to make judgments that involve the use of significant estimates and assumptions.

The Company operates in two operating-based segments: RFID and Mobile Solutions and Supply Chain Solutions. The Company's goodwill is related to the RFID and Mobile Solutions segment, which represents a reporting unit as a whole.



Table of Contents



**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The Company determined the fair value of such reporting unit using the Income Approach, which utilizes a discounted cash flow model, as it believes that this approach best approximates the reporting unit's fair value at this time. The impairment test was based on a valuation performed by management with the assistance of a third party appraiser. Judgments and assumptions related to revenue, operating income, future short-term and long-term growth rates, weighted average cost of capital, interest, capital expenditures, cash flows, and market conditions are inherent in developing the discounted cash flow model. The material assumptions used for the Income Approach for 2018 were five years of projected net cash flows, WACC of 15% and a long-term growth rate of 2%. The Company considered historical rates and current market conditions when determining the discount and growth rates to use in its analyses. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for its goodwill.

The aggregate fair value of the RFID and Mobile Solutions segment depends on various factors, some of which are qualitative and involve management judgment, including stable backlog coverage and experience in meeting operating cash flow targets.

During years 2018, 2017 and 2016 no impairment losses have been identified.

k. Severance pay:

The Company's liability for severance pay for its Israeli employees is calculated pursuant to the Israeli Severance Pay Law - 1963 (the "Israeli Severance Pay Law"), based on the most recent salary of the employees multiplied by the number of years of employment as of the balance sheet date. Employees employed for a period of more than one year are entitled to one month's salary for each year of employment or a portion thereof. The Company's liability for its Israeli employees is mostly covered by insurance or pension policies designed solely for distributing severance pay.

Most of the Company's employees are subject to Section 14 of the Israeli Severance Pay Law. The Company's contributions towards severance pay, for Israeli employees subject to this section, have replaced its severance obligation. Upon contribution of the full amount of the employee's monthly salary for each year of service, no additional calculations are conducted between the parties regarding the matter of severance pay and no additional payments are required to be made by the Company to the employee in respect of severance pay. Further, the related obligation and amounts deposited on behalf of the employee for such obligation are not stated on the balance sheet, as the Company is legally released from the obligation to employees once the deposit amounts have been paid.

Severance expenses for years 2018, 2017 and 2016 amounted to $210, $ 451 and $ 240, respectively.

l. Revenue recognition:

The Company derives its revenues mainly from the sale of products and supporting services.

In accordance with ASC Topic 605 "Revenue Recognition", until December 31, 2017 (prior to the adoption of ASC Topic 606) the Company recognized revenues from sale of products when the following fundamental criteria were met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the price to the customer is fixed or determinable and (iv) collection of the resulting receivable is reasonably assured.

Revenues from service contracts were recognized ratably over the service period.

The Company applied the provisions of ASC Topic 605-25, "Revenue Recognition - Multiple-Element Arrangements", as amended. ASC Topic 605-25 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products and services. For such arrangements, each element of the contract is accounted for as a separate unit when it provides the customer value on a stand-alone basis.



Table of Contents



**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The Company followed the guidance in ASC 605-35, "Revenue Recognition - Construction-Type and Production-Type Contracts" ("ASC 605-35"),

with respect to revenues from customized software solutions, whereby the Company applied the Completed contract method, since the Company was unable to obtain reasonable dependable estimates of the total effort required for completion. Under the completed contract method, all revenue and related costs of revenue were deferred and recognized upon completion. Provisions for estimated losses on contracts in process were recognized in the period such losses were determined.

Deferred revenues included unearned amounts received from customers (mostly for service contracts and advances from customers) but not yet recognized as revenues. Deferred revenues from service contracts were recognized over the period of the contract and advances were recognized once the delivery of the products is done.

Revenue recognition accounting policy applied from January 1, 2018 (following the adoption of ASC Topic 606):

On January 1, 2018, the Company adopted ASC Topic 606, Revenue from Contracts with Customers ("ASC 606") using the modified retrospective transition method to all contracts that were not completed on the effective date of ASC 606. Among others. The Company implemented internal controls and key system functionality to enable the preparation of financial information on adoption. The adoption of ASC 606 resulted in changes to the Company's accounting policies for revenue recognition previously recognized under ASC 605 as detailed below. However, there were no significant changes to the timing or pattern of revenue recognition to any of the revenue streams of the Company under ASC 606 and those that were previously reported under ASC 605. Accordingly, the adoption of ASC 606 did not have material effect on the consolidated statements of operations and balance sheets.

In accordance with ASC 606, The Company determines revenue recognition through the following five steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, the Company satisfies a performance obligation.

A contract with a customer exists when all of the following criteria are met: the parties to the contract have approved it (in writing, orally, or in accordance with other customary business practices) and are committed to perform their respective obligations, the Company can identify each party's rights regarding the distinct goods or services to be transferred ("performance obligations"), the Company can determine the transaction price for the goods or services to be transferred, the contract has commercial substance and it is probable that the Company will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

The transaction price represents the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer. The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. Variable consideration is included in the transaction price only if it is not considered constrained (i.e. it is considered probable that a significant reversal in the amount of cumulative revenue recognized will not occur).

Revenue is recognized when, or as, the Company satisfies a performance obligation by transferring a promised good or service to a customer. A product is transferred when, or as, the customer obtains control of that product, and a service is considered transferred as the services are received and used by the customers.

Revenues are recorded in the amount of consideration to which the Company expects to be entitled in exchange for performance obligations upon transfer of control to the customer. If a contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations such as different products or products and services the Company performs an allocation of the transaction price to each performance obligation based on a relative standalone selling price basis.

The Company records revenues net of any value added or sales tax.



Table of Contents



**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

In accordance with ASC 606, the Company's revenues are recognized as follows:

1. The Company generates its revenues primarily from the sale of products such as electro mechanical components and RFID and Automatic Identification Data Capture hardware manufactured by third parties, through a direct sales to its customers. Revenues from sales of products are recognized at the point of time when the control of the product is passed on to the customer, mostly upon delivery to the customer, either at the Company premises by delivery to the customer carrier or upon delivery to the customer premises, as applicable to each contract.

2. Revenues from service contracts are recognized over the contract's period (for time-based services) or based on the amount of work performed (for on-site inventory count and similar services). Renewals of service support contracts create new performance obligations that are satisfied over the term with the revenues recognized ratably over the period.

3. For arrangements that involve the delivery or performance of multiple products or products sold with service contracts, the Company analyzes whether the goods or services that were promised to the customer are distinct. A good or service promised to a customer is considered 'distinct' if both of the following criteria are met: 1. The customer can benefit from the goods or service, either on its own (i.e. without any professional services, updates or technical support) or together with other resources that are readily available to the customer; and, 2. The Company's promise to transfer the goods or service to the customer is separately identifiable from other promises in the contract.

   Revenues from service contracts sold to customers within a single contractually binding arrangement together with products, were determined to be distinct and therefore, are accounted for revenue recognition purposes, as a separate performance obligation. Accordingly, the amount attributed to the service contract is recognized over time, on a straight-line basis over the contract's period, as the services are mostly refer to time-based support services.

4. Deferred revenues include unearned amounts received from customers (mostly for service contracts and advances from customers) but not

yet recognized as revenues. Deferred revenues from service contracts are recognized over the period of the contract and advances are recognized once the delivery of the products is done. Deferred revenues include advanced payments from customers in the amount of $243 as of December 31, 2018. This amount is expected to be recognized during 2019, once the delivery of the products is done. In addition, deferred revenues include unearned amounts from service contracts, which are mostly for a period of three to five years, and the Company recognizes the revenues over the contract's period. As of December 31, 2018, the deferred revenues from service contracts amounted to $408. This amount will be recognized in the years 2019 until 2021, and immaterial amounts related to software.

m. Income taxes:

The Company and its subsidiaries account for income taxes in accordance with ASC 740, Income Taxes ("ASC 740"). ASC 740 prescribes the use of the liability method whereby deferred tax assets and liability account balances are determined based on the differences between the financial reporting and the tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company and its subsidiaries provide a valuation allowance, if necessary, to reduce deferred tax assets to the amounts that are more likely than not to be realized. Interest expense and potential penalties related to income taxes are included in the tax expense line of the Company's Consolidated Statements of Operations.

The Company implements a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with ASC 740. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement.

n. Concentrations of credit risk and allowance for doubtful accounts :

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, bank deposits, trade receivables, other accounts receivable and foreign currency derivative contracts.

The trade receivables of the Company are derived from sales to customers located primarily in Israel, the Far East, Europe and America. The Company generally does not require collateral;





**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

however a significant part of the Company's customers outside of Israel are insured against customer nonpayment, through the Israeli Credit Insurance Company Ltd. In certain circumstances, the Company may require letters of credit, other collateral, additional guarantees or advanced payments. An allowance for doubtful accounts is determined with respect to specific debts that are doubtful of collection. The expenses (income) related to the allowance for doubtful accounts for the years ended December 31, 2018, 2017 and 2016, is $17, $27 and $10, respectively.

o. Contingencies

The Company and its subsidiaries are involved in certain legal proceedings that arise from time to time in the ordinary course of their business and in connection with certain agreements with third parties. Except for income tax contingencies, the Company records accruals for contingencies to the extent that the management concludes that the occurrence is probable and that the related liabilities are estimable. Legal expenses associated with contingencies are expensed as incurred.

p. Derivative financial instruments:

ASC 815 requires the presentation of all derivatives as either assets or liabilities on the balance sheet and the measurement of those instruments at fair value. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income ("OCI") and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in current earnings during the period of change. See Note 10 for disclosure of the derivative financial instruments in accordance with such pronouncements.

For other derivatives which do not qualify for hedge accounting, or which have not been designated as hedging instruments, are recognized in the balance sheet at their fair value, with changes in the fair value carried to the statements of income as incurred in financing income (expenses), net.

q. Basic and diluted net income per share:

Basic net income per share is calculated based on the weighted average number of Ordinary Shares outstanding during each year. Diluted net income per share is calculated based on the weighted average number of Ordinary Shares outstanding during each year, plus the potential dilution to Ordinary Shares considered outstanding during the year, in accordance with ASC 260, *Earning per Share*.

The total number of Ordinary Shares related to outstanding options and warrants that was excluded from the calculations of diluted net earnings per share, since they would have an anti-dilutive effect, was 294,250, 314,125 and 283,670 for the years ended December 31, 2018, 2017, and December 31, 2016, respectively.

r. Accounting for share-based compensation:

The Company accounts for equity-based compensation in accordance with ASC 718, *Stock Compensation* ("ASC 718"), which requires the recognition of compensation expenses based on estimated fair values for all equity-based awards made to employees and directors.

ASC 718 requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated statements of operations.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The Company recognizes compensation expenses for the value of its awards granted based on the straight-line method over the requisite service period of each of the awards, net of estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Estimated forfeitures are based on actual historical pre-vesting forfeitures. The Company considers many factors when estimating forfeitures, including employee class and historical experience.

The Company estimates the fair value of stock options granted using the Black-Scholes option pricing model. The option-pricing model requires a number of assumptions, of which the most significant are expected stock price volatility and the expected option term. Expected volatility was calculated based upon actual historical stock price movements over the most recent periods ending on the date of grant, equal to the expected option terms. The expected option term represents the period that the Company's stock options are expected to be outstanding and was determined based on the simplified method permitted by the SEC's Staff Accounting Bulletin ("SAB") No.107 and extended by SAB 110 as the average of the vesting period and the contractual term. The Company currently uses the simplified method as adequate historical experience is not available to provide a reasonable estimate.

The risk-free interest rate is based on the yield from U.S. Treasury zero-coupon bonds with an equivalent term. The Company has historically not paid dividends and has no foreseeable plans to pay dividends.

The fair value for options granted in years 2018, 2017 and 2016 was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Risk-free interest | 2.73% | 2.05% | 1.09% |
| Dividend yields | 0 | 0 | 0 |
| Volatility | 55% | 57% | 85% |
| Expected option term | 3.5 years | 3.5 years | 3.5 years |
| Forfeiture rate | 0% | 0% | 0% |

The Company applies ASC 505-50, Equity-Based Payments to Non-Employees ("ASC 505") with respect to options and warrants issued to non-employees, which requires the use of option valuation models to measure the fair value of the options and warrants at the measurement date.

s. Fair value of measurements:

The Company measures fair value and discloses fair value measurements for financial and non-financial assets and liabilities.

The Company also measures certain non-financial assets, consisting mainly of goodwill and intangible assets at fair value on a nonrecurring basis. These assets are adjusted to fair value when they are considered to be impaired (see Note 7). As of December 31, 2018 the Company measured the fair value of goodwill with a total carrying amount of US$ 4.7 million that is allocated to one reporting unit. The evaluation provided that there is no need to recognize impairment. The fair value measurement of the non-financial assets is classified as level 3.

The Company applies ASC 820, Fair Value Measurements and Disclosures ("ASC 820"), pursuant to which fair value is defined as the price that would be received in consideration for the sale of an asset or paid for the transfer of a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company.

Unobservable inputs are inputs that the Company assumes market participants would use in pricing the asset or liability developed based on the best information available under the circumstances.

In accordance with ASC 820, derivative contracts are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.



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 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company's financial liabilities and assets measured at fair value on a recurring basis, consisted of derivatives (foreign currency forward contracts and hedging contracts) which were classified within Level 2 and amounted to $ 87 and $ 30 liability as of December 31, 2018 and 2017, respectively.

The fair value hierarchy is broken down into three levels based on the inputs as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.
Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The carrying amounts of cash and cash equivalents, restricted cash, restricted bank deposits, other accounts receivable, trade payables, and other

accounts payable and accrued expenses approximate their fair values due to the short-term maturities of such instruments.

t. New and recent accounting pronouncements:

**Accounting Standards Update 2014-09, "Revenue from Contracts with Customers"**

Commencing January 1, 2018 the Company adopted Accounting Standard Update 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09") using the modified retrospective transition method to all contracts that were not completed on the effective date of ASC 606.

ASU 2014-09 outlines a single comprehensive model to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 also requires entities to disclose sufficient information, both quantitative and qualitative, to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

An entity should apply the amendments in ASU 2014-09 using one of the following two methods: 1. Retrospectively to each prior reporting period presented with a possibility to elect certain practical expedients, or, 2. Retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application. If an entity elects the latter transition method, it also should provide certain additional disclosures.

During 2016, the FASB issued several Accounting Standards Updates ("ASUs") that focus on certain implementation issues of the new revenue recognition guidance including Narrow-Scope Improvements, Practical Expedients and technical corrections.

In accordance with an amendment to ASU 2014-09, introduced by Accounting Standard 2015-14, "Revenue from contracts with Customers – Deferral of the Effective Date", for a public entity, the amendments in ASU 2014-09 became effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period (fiscal year 2018 for the Company).

The Company evaluated the impact of ASU 2014-09 on its revenue streams and selling contracts, if any, and on its financial reporting and disclosures and on the business processes, controls and systems. Based on such evaluation, management has determined that the adoption of ASU 2014-09 did not have a significant impact on its consolidated financial statements.

See also NOTE 2l above.

**Accounting Standards Update 2016-02, "Leases (Topic 842): Section A – Leases: Amendments to the FASB Accounting Standards Codification; Section B – Conforming Amendments Related to Leases: Amendments to the FASB Accounting Standards Codification; Section C – Background Information and Basis for Conclusions"**

In February, 2016, the FASB issued its new lease accounting guidance in Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842).

Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: 1. A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and, 2. A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.



Table of Contents



**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing.

Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (i.e., January 1, 2019, for a calendar year Company). Early application is permitted for all public business entities upon issuance.

In July 2018, the FASB issued amendments in ASU 2018-11, which provide a transition election to not restate comparative periods for the effects of applying the new standard. This transition election permits entities to change the date of initial application to the beginning of the earliest comparative period presented, or retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment.

The Company expects to adopt the new standard on January 1, 2019 and to us the effective date as the date of initial application. Consequently, the effect of the adoption will be reflected through a cumulative-effect adjustment, financial information for comparative periods will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019.

The new standard provides a number of optional practical expedients in transition some of which, if elected, are required to be applied as a package (package of practical expedients) while other expedients can be applied on a stand-alone basis. Such package permits the Company not to reassess its prior conclusions regarding lease identification, lease classification and initial direct costs under the new standard. the company currently believes that the most significant impact will be reflected in: (i) the recognition of right-of-use assets and lease liabilities on the company's balance sheet for its operating leases of facilities and motor vehicles, and (ii) the requirement to provide significant new disclosures regarding leasing activities. The Company, however, does not expect a material impact to its consolidated statements of income and consolidated statements of cash flow.

Following adoption of the new standard, the Company expects to recognize additional operating liabilities in an estimated amount of $879, with corresponding right-of-use assets of approximately the same amount based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases.

The new standard also provides practical expedients for an entity's ongoing accounting. The company expects to elect the short-term lease recognition exemption for all leases that qualify. This means, for those leases, right-of-use assets or lease liabilities will not be recognized (including right-of-use assets or lease liabilities for existing short-term leases of those assets in transition).

Accounting Standards Update 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial

Instruments"

In June 2016, the FASB issued ASC Update 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments."

ASC Update 2016-13 revised the criteria for the measurement, recognition, and reporting of credit losses on financial instruments to be recognized when expected. This update is effective for fiscal years beginning after December 15, 2019, including the interim periods within those years, with early adoption permitted for fiscal years beginning after December 15, 2018, including interim periods within those years.

The Company is in the process of evaluating the effect that ASU 2016-13 will have on the results of operations and financial statements, if any.

**Accounting Standards Update 2017-04 "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment"**

In January 2017, the FASB issued ASC Update 2017-4, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment."



Table of Contents



**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

To simplify the subsequent measurement of goodwill, the amendments eliminate Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable.

The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary.

The amendments should be applied on a prospective basis. The nature of and reason for the change in accounting principle should be disclosed upon transition.

A public business entity that is a U.S. Securities and Exchange Commission (SEC) filer should adopt the amendments for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019.

Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

The Company is evaluating the impact of ASU 2017-4 on its goodwill impairment valuation.

**Accounting Standards Update 2017-12 "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities"**

In August 2017, the FASB issued ASC Update 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. (ASU 2017-12)"

ASU 2017-12, amends the hedge accounting recognition and presentation requirements in ASC 815 in order to (1) improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities by better aligning the entity's financial reporting for hedging relationships with those risk management activities and (2) reduce the complexity of and simplify the application of hedge accounting by preparers.

ASU 2017-12 eliminates the concept of separately recognizing periodic hedge ineffectiveness for cash flow and net investment hedges. Accordingly, the impact of both the effective and ineffective components of a hedging relationship will be recognized in the same financial reporting period and in the same income statement line item. Also, the guidance in ASU 2017-12 includes certain targeted improvements to existing guidance on quantitative and qualitative assessments of initial and ongoing hedge effectiveness.

The transition guidance in ASU 2017-12 requires an entity to apply the amendments using a modified retrospective approach to hedging relationships that exist as of the date of adoption by recording a cumulative-effect adjustment to the opening balance of retained earnings as of the most recent period presented. Entities must apply the new and modified disclosure requirements prospectively from the date of adoption.

For public business entities, the guidance in ASU 2017-12 is effective for fiscal years beginning after December 15, 2018 and for interim periods within those fiscal years. For all other entities, the guidance is effective for fiscal years beginning after December 15, 2019 and for interim periods within fiscal years beginning after December 15, 2020. Early application of the guidance is permitted, including in an interim reporting period. If adopting the guidance in an interim reporting period, an entity must reflect the effect of the adoption as of the beginning of the fiscal year that includes the interim reporting period in which the guidance is adopted.



Table of Contents



**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The Company is evaluating the impact of the amendments on its consolidated financial statements. Based on the current level of the hedging

activities of the company, it is expected that ASU 2017-12 will not have a significant impact on the results of operations and financial statements.

**Accounting Standards Update 2018-07 "Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting"**

In June 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-07, "Improvements to Nonemployee Share-Based Payment Accounting" (ASU 2018-07), which simplifies the accounting for share-based payments granted to nonemployees for goods and services. Under the ASU, most of the guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. The changes take effect for public companies for fiscal years starting after December 15, 2018, including interim periods within that fiscal year. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606.

The Company is currently evaluating the impact of adopting this standard on its financial statements and related disclosures, if any

In August 2018, the FASB issued **ASU 2018-13 "Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement".** This guidance removes certain disclosure requirements related to the fair value hierarchy, modifies existing disclosure requirements related to measurement uncertainty and adds new disclosure requirements. The new disclosure requirements include disclosing the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. Certain disclosures required by this guidance must be applied on a retrospective basis and others on a prospective basis. The guidance will be effective for fiscal years beginning after December 15, 2019, although early adoption is permitted. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

**NOTE 3:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES**

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Government authorities | $ 96 | $ 71 |
| Advances to suppliers | 268 | 193 |
| Prepaid expenses | 377 | 578 |
| Accrued income | 56 | 29 |
| Other | 32 | 27 |
| | $ 829 | $ 898 |



Table of Contents



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 4:- INVENTORIES**

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Raw materials | $ 83 | $ 135 |
| Finished goods | 2,791 | 3,105 |
| | $ 2,874 | $ 3,240 |

**NOTE 5:- LONG TERM ASSETS**

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Prepaid expenses related to SEDA (see Note 14a2) | $ 112 | $ 140 |
| Other | 65 | 80 |
| | $ 177 | $ 220 |

**NOTE 6:- PROPERTY AND EQUIPMENT, NET**

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Cost: | | |
| Computers and software | $ 1,302 | $ 1,173 |
| Office furniture and equipment | 733 | 721 |
| Leasehold improvements | 1,064 | 519 |
| Motor Vehicles | 302 | 299 |
| | $ 3,401 | $ 2,712 |
| Accumulated Depreciation: | | |
| Computers and software | $ 1,099 | $ 989 |
| Office furniture and equipment | 580 | 536 |

| | | |
|---|---|---|
| Leasehold improvements | 371 | 307 |
| Motor Vehicles | 243 | 229 |
| | $ 2,293 | $ 2,061 |
| Property and equipment, net | $ 1,108 | $ 651 |

Depreciation expenses amounted to $232, $188 and $ 184 for the years ended on December 31, 2018, 2017 and 2016, respectively.



Table of Contents



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 7:- GOODWILL AND OTHER INTANGIBLE ASSETS, NET**

**Other Intangible Assets:**

| | December 31, 2018 | December 31, 2017 | Weighted average amortization period |
|---|---|---|---|
| Cost: | | | |
| Brand name | 670 | 670 | 4.1 |
| Customer list | 2,450 | 2,450 | 2.5 |
| Software | 111 | 111 | 3 |
| Customer relationship | 141 | 141 | 7 |
| | 3,372 | 3,372 | |
| Accumulated amortization: | | | |
| Brand name | 670 | 670 | |
| Customer list | 2,450 | 2,450 | |
| Software | 111 | 74 | |
| Customer relationship | 60 | 40 | |
| | 3,291 | 3,234 | |
| Amortized cost | $ 81 | $ 138 | |

Intangible assets are amortized based on the straight-line method for their remaining useful life.

Amortization expenses amounted to $57, $ 57 and $ 64 for the years ended December 31, 2018, 2017 and 2016, respectively.

**NOTE 8:- CURRENT MATURITIES OF LONG TERM LOANS**

| Short term loans | Loan currency | Weighted interest rate as of December 31, 2018 % | December 31 2018 | December 31 2017 |
|---|---|---|---|---|
| Current maturities | NIS | 3.5 (Prime+1.75%) | 467 | 505 |
| | | | 467 | 505 |

As of December 31, 2018, the Company's subsidiary Bos Odem has an unutilized short term credit line in the amount of $293, bearing an annual interest of 3.1%.



Table of Contents



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 9:- ACCRUED EXPENSES AND OTHER LIABILITIES**

| | December 31 2018 | December 31 2017 |
|---|---|---|
| Derivatives (See Note 10) | $ 87 | $ 30 |
| Professional services | 97 | 149 |

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

| | | |
|---|---|---|
| Tax accruals | 10 | 69 |
| Other | 119 | 56 |
| | $ 313 | $ 304 |

**NOTE 10:- DERIVATIVES INSTRUMENTS**

The Company uses derivative instruments primarily to manage exposure to foreign currency exchange rates. The Company's primary objective in holding derivatives is to reduce the volatility of earnings and cash flows due to changes in foreign currency exchange rates related to forecasted monthly payroll payments of employees which are paid in NIS.

Losses (gains) on designated derivatives reclassified from OCI into Consolidated Statement of Operations for the years ended:

| | Line Item in Statement of Operations | Year ended December 31, 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Derivatives designated as cash flow hedging instruments : | | | | |
| Foreign currency derivatives | Cost of revenues | $ 18 | $ (63) | $ - |
| Foreign currency derivatives | Sales and marketing | $ 13 | $ (61) | $ 1 |
| Foreign currency derivatives | General and administrative | $ 6 | $ (24) | $ - |
| Total expenses (income) | | $ 37 | $ (148) | $ 1 |



Table of Contents



**NOTE 11:- FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following table presents liabilities measured at fair value on a recurring basis as of December 31, 2018 and 2017:

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Description | | | | |
| Derivative liabilities | $ 87 | - | $ 87 | - |
| | $ 87 | - | $ 87 | - |

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Description | | | | |
| Derivative liabilities | $ 30 | - | $ 30 | - |
| | $ 30 | - | $ 30 | - |

**NOTE 12:- LONG-TERM LOANS, NET OF CURRENT MATURITIES**

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

| Loan currency | Weighted interest rate as of December 31, 2018 % | December 31, 2018 | 2017 |
|---|---|---|---|
| NIS | 3.35 (Prime+1.75%) | $ 2,334 | $ 3,028 |
| Less - current maturities | | 467 | 505 |
| | | $ 1,867 | $ 2,523 |

In October 2017, the Company and its Israeli subsidiaries entered into an agreement with Bank Beinleumi for the provision of credit facilities, which were used to pay Bank Leumi loans amounting to $2,976. The balance of long term loans as of December 31, 2017 amounted to $3,028. The agreement includes covenants to maintain certain financial ratios related to shareholders' equity, EBITDA and operating results. The Bank Beinleumi credit facilities are secured by a first ranking fixed charge on any unpaid share capital of the Company, the goodwill of the Company, and any insurance entitlements in the Company's assets pledged thereunder, and a floating charges on all of the assets of the Company and our Israeli subsidiaries, owned now or in the future. As of December 31, 2018, the Company met the covenants set forth in the agreement. The loans will be paid in monthly equal installments for a period of 6 years.



Table of Contents

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 12:- LONG-TERM LOANS, NET OF CURRENT MATURITIES (Cont.)**

The total amount to be paid by the Company is as follows:

| Payment schedule | December 31, 2018 |
|---|---|
| 2019 | 467 |
| 2020 | 467 |
| 2021 | 467 |
| 2022 | 467 |
| 2023 | 466 |
| Total | $ 2,334 |

**NOTE 13:- COMMITMENTS AND CONTINGENT LIABILITIES**

a. Commitments:

1. Royalty commitments:

Under the Company's research and development agreements with the Office of the Chief Scientist ("OCS") and pursuant to applicable laws, the Company is required to pay royalties at the rate of 3.5% of sales of products developed with funds provided by the OCS, up to an amount equal to 100% of the research and development grants (dollar-linked) received from the OCS. The obligation to pay these royalties is contingent upon actual sales of the products. Royalties payable with respect to grants received under programs approved by the OCS after January 1, 1999, are subject to interest on the U.S. dollar-linked value of the total grants received at the annual rate of LIBOR applicable to dollar deposits at the time the grants are received. No grants were received since 2007.As of December 31, 2018, the Company has an outstanding contingent obligation to pay royalties to the OCS, including interest, in the amount of approximately $ 3,779, with respect to the grants. Since year 2012, the developed software for which the grant was received is no longer being sold and is not expected to be sold in the future, accordingly no royalty expenses were recorded during the respective years, and the Company anticipates that no royalties will be paid in the future.

2. The facilities of the Company are rented under operating lease agreements that expire on various dates ending in 2023, some with options until the year 2028. Minimum future rental payments are:

| | |
|---|---|
| 2019 | 177 |
| 2020 | 177 |
| 2021 | 119 |
| 2022 | 27 |
| 2023 | 27 |
| | $ 527 |

The Company's motor vehicles are leased under various operating lease agreements. The lease agreements for the motor vehicles expire on various dates ending in 2021. Minimum future lease payments are:

| | |
|---|---|
| 2019 | 220 |
| 2020 | 94 |
| 2021 | 23 |
| | $ 337 |



Table of Contents



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 13:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)**

The Company has pre-paid the last instalments in the amount of $82 for each of the motor vehicles as a deposit. These amounts are classified in the long term assets.

Lease expenses for the facilities occupied by the Company and the Company's motor vehicles in years 2018, 2017 and 2016 amounted to $550, $ 515 and $ 417, respectively.

3. Litigation:

The Company is not a party to any legal proceedings.

On December 4, 2018 the lessors of the Company's facilities in Rishon Lezion filed a claim against the Company in the amount of NIS 1,800,000 (approximately $500,000). The Company was the previous owner of these facilities and had sold them to the Lessor in May 2013. The plaintiffs claim the Company misrepresented the physical status of the sold premises. The Company rejects the claim and has filed a counterclaim of NIS 850,000 (approximately $222,000) alleging breaches by the lessors of the lease agreement.

On April 9, 2017 D.D. Goldstein Properties and Investments Ltd., a shareholder of the Company (the "Plaintiff") filed a claim against the Company's Chairman Yosi Lahad, the Company's Co-CEO, Yuval Viner, the Company's Co-CEO and CFO, Eyal Cohen and Ms. Gabriela Jacobs, an (indirect) shareholder of the Company.

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

On February 17, 2019 the parties reached a settlement agreement, which received court approval, pursuant to which the claim was dismissed against a certain payment to the Plaintiff. The payment was made by the Company's insurance company, and the Company contributed the deductible in the amount of $35,000.

**NOTE 14:- SHAREHOLDERS' EQUITY**

a. Ordinary Shares:

1. Issuance of Ordinary Shares to directors and service provides:

During the year ended December 31, 2016, the Company issued 4,882 Ordinary Shares to a service provider, in consideration for his services in the business acquisition of iDnext.

2. Issuance of Ordinary Shares in connection with Standby Equity Distribution Agreement:

On each of February 3, 2014, February 17, 2015 and May 8, 2017 the Company entered into a Standby Equity Distribution Agreement ("SEDA"), with YA Global Master SPV Ltd. ("YA Global") and for the 2017 SEDA with YA II PN Ltd. (together with YA Global, "YA"), for the sale of up to $2,000, $ 1,300 and $2,000, respectively, of its Ordinary Shares to YA. The Company may affect the sale, at its sole discretion, during a three-year period for the 2014 SEDA, a forty-month period for the 2015 SEDA and a four-year period for the 2017 SEDA, beginning on the date on which the Securities and Exchange Commission first declares effective a registration statement registering the resale of the Company's Ordinary Shares by YA. For each Ordinary Share purchased under the SEDA, YA will pay 95% for 2014 SEDA and 93% for 2015 and 2017 SEDA, of the lowest daily VWAP (as defined below) of the Ordinary Shares during the five consecutive trading days (or, for the 2015 and 2017 SEDA, commencing June 2016, three consecutive trading days), following the date of an advance notice from the Company (provided such VWAP is greater than or equal to 90% of the last closing price of the Ordinary shares at the time of delivery of the advance notice). Notwithstanding the forgoing, the notice shall not exceed $500 for the 2014, 2015 and 2017 SEDA. "VWAP" is defined as of any date, to be such date's daily dollar volume-weighted average price of the Ordinary Shares as reported by Bloomberg, LP. The Company may terminate the SEDA at any time upon prior notice to YA, as long as there are no advance notices outstanding and the company has paid to YA all amounts then due.



Table of Contents



**NOTE 14:- SHAREHOLDERS' EQUITY (Cont.)**

In connection with the 2014, 2015 and 2017 SEDA, the Company issued Ordinary shares to YA as a commitment fee of 13,711, 28,930 and 67,307, respectively. The commitment fee is recorded as prepaid expenses according to the consumption of the SEDA. As of December 31, 2018, the balance of those prepaid expenses was $112.

During the year 2016, the Company issued to YA 565,402 Ordinary Shares, for a total amount of $1,260, net of $24 issuance expenses.

During the year 2017, the Company issued to YA 354,096 Ordinary Shares, for a total amount of $606, net of $22 issuance expenses.

During the year 2018, the Company issued to YA 197,025 Ordinary Shares, for a total amount of $377, net of $23 issuance expenses.

3. On January 1, 2016 the Company issued 162,734 Ordinary Shares as part of the consideration for the iDnext business acquisition, representing a value of $298.

4. On July 18, 2018, the Company's Board of Directors approved an increase of 2,000,000 Ordinary Shares in the Company's authorized share capital, from 4,000,000 authorized shares to 6,000,000 authorized shares.



Table of Contents



**NOTE 14:- SHAREHOLDERS' EQUITY (Cont.)**

b. Stock option plans:

The term of Company's Israeli Stock Option Plan (the "Plan") is until May 31, 2023. On November 2016, December 2017 and July 2018, the Company's shareholders approved an increase in the number of options for Ordinary Shares available for issuance under the Plan by 125,000, 100,000 and 200,000, respectively, resulting in 700,000 options for Ordinary Shares available for issuance under the Plan. Any option which is canceled or forfeited before expiration will become available for future grants.

As of December 31, 2018 there are 310,433 options available for future grants under the Plan. Each option granted under the Plan expires between 4-10 years from the date of the grant. The options vest gradually over a period of up to four years.

A summary of the Company's employee and director stock option activity and related information for the year ended December 31, 2018, is as follows:

| | 2018 | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|
| | Number of | Weighted-average exercise | Number of | Weighted average exercise | Number of | Weighted-average exercise |

| | options | price | options | price | options | price |
|---|---|---|---|---|---|---|
| Outstanding - beginning of year | 314,125 | $ 3.39 | 252,670 | $ 6.21 | 238,894 | $ 6.65 |
| Changes during the year: | | | | | | |
| Granted | 108,000 | $ 2.39 | 75,000 | $ 2.13 | 30,000 | $ 2.13 |
| Exercised | - | $ - | - | $ - | (10,000) | $ 2.96 |
| Forfeited | (101,250) | $ 4.85 | (13,545) | $ 49.09 | (6,224) | $ 8.56 |
| Outstanding - year end | 320,875 | $ 2.59 | 314,125 | $ 3.39 | 252,670 | $ 6.21 |
| Vested and expected to vest | 167,874 | $ 2.90 | 192,584 | $ 4.10 | 154,333 | $ 8.44 |
| Exercisable at year end | 157,874 | $ 2.89 | 182,584 | $ 4.17 | 144,333 | $ 8.82 |

During the years 2018, 2017, and 2016, stock-based compensation expense related to employees and directors stock options amounted to $67, $60 and $124, respectively, and is included in general and administrative expenses within the statement of operations.

The weighted-average grant-date fair value of options granted during the years ended December 31, 2018, 2017 and 2016 was $1.15, $ 0.93 and $ 1.2, respectively. The weighted-average grant-date fair value of unvested options as of December 31, 2018 was $ 2.43. The aggregate intrinsic value of the outstanding options in each of the years ended December 31, 2018, 2017 and 2016 is $ 0. The aggregate intrinsic value represents the total intrinsic value (the difference between the fair market value of the Company's Ordinary Shares on December 31 of the respective year and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on such date.

No options were exercised during the years ended on December 31, 2018 and December 31, 2017. During the year ended December 31, 2016, 10,000 options were exercised. As of December 31, 2018 and 2017, there were a total of $163 and $107, respectively, of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's Plan. That cost is expected to be recognized through 2021.



Table of Contents



**NOTE 14:- SHAREHOLDERS' EQUITY (Cont.)**

Options granted to employees and directors that are outstanding as of December 31, 2018 broken into exercise prices, are as follows:

| Exercise Price | Options outstanding as of December 31, 2018 | Weighted average remaining contractual life (years) | Options exercisable as of December 31, 2018 | Weighted average Remaining Contractual life of options exercisable (years) |
|---|---|---|---|---|
| 2.126 | 30,000 | 2.86 | 20,001 | 2.86 |
| 2.131 | 67,500 | 3.93 | 22,498 | 3.93 |
| 2.237 | 26,625 | 1.81 | 26,625 | 1.81 |
| 2.388 | 108,000 | 4.25 | - | - |
| 2.96 | 73,000 | 1.45 | 73,000 | 1.45 |
| 3.88 | 375 | 0.88 | 375 | 0.88 |
| 4.02 | 5,000 | 0.54 | 5,000 | 0.54 |
| 6.67 | 10,000 | 0.28 | 10,000 | 0.28 |
| 6.67 | 375 | 0.28 | 375 | 0.28 |
| Grand Total | 320,875 | 3.02 | 157,874 | 1.93 |

**NOTE 15:- TAXES ON INCOME**

a. Corporate tax rates in Israel

Taxable income of Israeli companies is generally subject to corporate tax at the rate of 25% for the 2016 tax year and 24% for the 2017 tax year. On December 30, 2016, as part of the Economic Efficiency Law (Legislative Amendments for Accomplishment of Budgetary Targets for Budget Years 2017-2018), 5777-2016, the corporate tax rate was reduced to 24% for the 2017 tax year and to 23% in 2018 tax year and thereafter.

b. Loss carry forward:

The Company and its Israeli subsidiaries have accumulated losses for Israeli income tax purposes as of December 31, 2018, in the amount of approximately $ 32,205. These losses may be carried forward and offset against taxable income in the future for an indefinite period. In addition, the Company and its Israeli subsidiaries have accumulated capital loses in the amount of approximately $23,600.



Table of Contents

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

c. Deferred income taxes:

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

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Net operating loss carry forward (1) | $ 7,407 | $ 7,482 |
| Net capital loss carry forward (1) | $ 5,427 | $ 5,899 |
| Allowances and provisions | 120 | 131 |
| Intangible assets, net | (372) | (246) |
| | 12,582 | 13,266 |
| Valuation allowance (2) | $ (12,582) | $ (13,266) |
| Net deferred tax Liability | $ - | $ - |

(1) See Note 15b.

(2) In years 2018 and 2017, the Company has provided valuation allowances on deferred tax assets that results from tax loss carry forward and other reserves and allowances due to its history of operating and capital losses and current uncertainty about the ability to realize these deferred tax assets in the future. Net change in valuation allowance during 2018 was due to a decrease of net capital loss carry forward.

d. Taxes on income (tax benefit) are comprised as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Current | $ 19 | $ 16 | $ 7 |
| Other | (60) | - | - |
| | $ (41) | $ 16 | $ 7 |
| Domestic | $ (44) | $ 9 | $ - |
| Foreign | 3 | 7 | 7 |
| | $ (41) | $ 16 | $ 7 |



Table of Contents



e. Income before taxes on income is comprised as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Domestic | $ 877 | $ 750 | $ 366 |
| Foreign | 72 | 39 | 1 |
| | $ 949 | $ 789 | $ 367 |

f. Reconciliation of the theoretical tax expense to the actual tax expense:

The main reconciling items between the statutory tax rate of the Company and the effective tax rate are the non-recognition of tax benefits from accumulated net operating losses carry forward among the Company and various subsidiaries due to uncertainty of the realization of such tax benefits.

g. Tax assessments:

BOS-Odem, BOS-Dimex and BOS have final tax assessments through 2014.

Ruby-Tech Inc., a U.S. subsidiary, has final tax assessments through 2013 have all been assessed as final.

h. In accordance with the Company's accounting policy, interest expense and potential penalties related to income taxes are included in the tax expense line of the Company's Consolidated Statements of Operations.

The Company and its subsidiaries file income tax returns in Israel and in the United States. BOS, BOS-Dimex and BOS-Odem may be subject to auditing by the Israel tax authorities for fiscal years 2015 and thereafter. Ruby-Tech Inc., a U.S. subsidiary, may be subject to auditing by the U.S. Internal Revenue Service for fiscal years 2014 and thereafter.

The Company believes that it has adequately provided for any reasonably foreseeable outcome related to tax audits and settlement. The final tax outcome of the Company's tax audits could be different from that which is reflected in the Company's income tax provisions and accruals. Such differences could have a material effect on the Company's income tax provision and net loss in the period in which such determination is made.

i. Uncertain tax positions:

As of December 31, 2018 and 2017, the total balance of uncertain tax positions is $0 and $60, respectively.



Table of Contents



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 16:- SUPPLEMENTARY INFORMATION TO STATEMENTS OF OPERATIONS**

a. Financial expenses, net:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Financial income: | | | |
| Interest income | $ - | $ 1 | $ - |
| Change in fair value of forward contracts which are not designated as hedging | - | 12 | - |
| | - | 13 | - |
| Financial expenses: | | | |
| In respect of interest related to bank loans and bank fees | (192) | (259) | (307) |
| Change in fair value of forward contracts which are not designated as hedging | - | - | (5) |
| Other (mainly foreign currency transaction losses) | (63) | (51) | (27) |
| | (255) | (310) | (339) |
| | $ (255) | $ (297) | $ (339) |

The following table sets forth the computation of basic and diluted net income per share:

b. Net earnings per share:

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | | 2018 | 2017 | 2016 |
| 1. | Numerator: | | | |
| | Income | $ 990 | $ 773 | $ 360 |
| | Net income available to Ordinary shareholders | $ 990 | $ 773 | $ 360 |
| 2. | Denominator (in thousands): | | | |
| | Basic weighted average Ordinary shares outstanding (in thousands) | 3,500 | 3,171 | 2,587 |
| | Diluted weighted average Ordinary shares outstanding (in thousands) | 3,500 | 3,171 | 2,593 |
| | Basic and diluted income per share | $ 0.28 | $ 0.24 | $ 0.14 |



Table of Contents



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 17:- SEGMENTS AND GEOGRAPHICAL INFORMATION**

The Company manages its business in two reportable segments, consisting of the RFID and Mobile Solutions segment and the Supply Chain Solutions segment.

The Company's management makes financial decisions and allocates resources, based on the information it receives from its internal management system. The Company allocates resources and assesses performance for each operating segment using information about revenues and gross profit. The Company applies ASC 280, *Segment Reporting*.

a. Revenues, gross profit and assets for the operating segments for the years 2018, 2017 and 2016 were as follows:

| | RFID and Mobile Solutions | Supply Chain Solutions |
|---|---|---|

| | (BOS-Dimex) | (BOS-Odem) | Intercompany | Consolidated |
|---|---|---|---|---|
| **2018** | | | | |
| Revenues | $ 14,633 | $ 18,205 | $ (188) | $ 32,650 |
| Gross profit | $ 3,371 | $ 3,372 | $ - | $ 6,743 |
| Assets related to segment | $ 5,325 | $ 717 | $ - | $ 6,042 |
| **2017** | | | | |
| Revenues | $ 13,666 | $ 15,495 | $ (229) | $ 28,932 |
| Gross profit | $ 3,623 | $ 2,722 | $ - | $ 6,345 |
| Assets related to segment | $ 5,456 | $ 229 | $ - | $ 5,685 |
| **2016** | | | | |
| Revenues | $ 12,197 | $ 15,291 | $ (61) | $ 27,427 |
| Gross profit | $ 2,888 | $ 2,427 | $ - | $ 5,315 |
| Assets related to segment | $ 5,308 | $ 120 | $ - | $ 5,428 |

b. The following presents total revenues for the years 2018, 2017 and 2016 based on the location of customers and long- lived assets based on major geographic areas in which the Company operates:

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | 2017 | | 2016 | |
| | Total revenues | Long-lived assets * | Total revenues | Long-lived assets * | Total revenues | Long-lived assets * |
| Israel | $ 22,990 | $ 1,108 | $ 21,870 | $ 651 | $ 20,619 | $ 514 |
| India | 4,209 | - | 4,497 | - | 3,119 | - |
| Far East | 3,800 | - | 1,416 | - | 2,964 | - |
| America | 1,189 | - | 918 | - | 411 | - |
| Europe | 462 | - | 231 | - | 314 | - |
| | $ 32,650 | $ 1,108 | $ 28,932 | $ 651 | $ 27,427 | $ 514 |

(*) Long-lived assets are comprised of property and equipment (intangible assets and goodwill are not included).

c. There is no major customer.



Table of Contents



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

## NOTE 18:- RELATED PARTIES

a. Agreements with iDnext:

On January 1, 2016 the Company, through its wholly owned subsidiary BOS-Dimex, consummated the acquisition of the business operations of iDnext Ltd. ("iDnext") and its subsidiary Next-Line Ltd. ("Next-Line"). iDnext is controlled by Mr. Moti Harel, who was a member of the Company's Board of Directors until December 12, 2017.

Pursuant to a Management Services Agreement entered into as part of the acquisition agreement, iDnext was paid a monthly fee of NIS 33,000 (approximately $8.5) through December 31, 2017. The Management Services Agreement expired on December 31, 2017. On June 2018 a new agreement was signed with the following terms:

i. iDnext monthly fee of NIS increased from 33,000 to 53,000 and bonus of 15% from the net profit of certain product line, effective from January 1, 2018.

ii. Three employees of BOS Dimex turned to be employed by iDnext for a monthly consideration of 35,000 NIS.

iii. Mr. Harel was appointed as a director to BOS-Dimex's Board of Directors in June 2018.

On February 10, 2019 the Company terminated the agreement with iDnext.

Expenses incurred according to the agreement with iDnext are as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Monthly fees | $ 183 | $ 125 | $ 104 |
| Bonus | $ 49 | $ - | $ - |
| Payments for employees | $ 39 | $ - | $ - |
| Total | $ 271 | $ 125 | $ 104 |

## NOTE 19:- SUBSEQUENT EVENTS

a. On February 6, 2019, the Company received a letter from L.I.A. Pure Capital ("Pure Capital"), stating that Pure Capital is the owner or has voting rights with respect to shares of the Company representing more than 5% of the outstanding share capital of the Company, and requesting that the Company convene a shareholders meeting in order to replace the members of the board of directors of the Company. On March 7, 2019 the Company issued a notice of special General Meeting that is scheduled to be held on April 11, 2019.

b. On March 10, 2019, the Company issued 158,023 Ordinary shares to YA for a total amount of $500 pursuant to the 2017 SEDA (see Note 14(2) above).

c. From February 19, 2019 until March 15 2019, 125,195 options were exercised for the amount of $316.



Table of Contents



**NOTE 19:- SUBSEQUENT EVENTS (Cont.)**

d. On March 19, 2019 the Company signed a definitive agreement to purchase the assets of Imdecol Ltd., a global integrator and manufacturer of automatic and robotic systems that enhance the productivity of production lines. The transaction is expected to close by June 1, 2019.

The purchase price of Imdecol's business is based on a multiple of four times the average annual operating profit of Imdecol's business for the years 2017, 2018, 2019 and for the 12 months ended June 30, 2020.

The purchase price consists of a combination of cash and ordinary shares of BOS, payable as follows:

- NIS 1 million (approximately $280,000) was paid to Imdecol upon signing the definitive agreement. This amount was extended initially as a bridge loan, which bears interest at 10% per annum and is secured by a first degree fixed pledge and charge on the shares of the shareholders of Imdecol. At closing, the loan shall be applied towards the purchase price. The loan shall become due and payable if closing is not effected by August 31, 2019.

- An additional NIS 4.5 million (approximately $1.25 million) shall be paid to Imdecol at closing.

- NIS 1.5 million (approximately $417,000) shall be paid to Imdecol no later than August 2020, by way of issuance of BOS's ordinary shares. The value of the ordinary shares will be determined according to their market price prior to issuance and the shares will be subject to a lock-up period until June 2022.

- An additional amount in cash may be paid by August 2020, based on the performance of the Imdecol business through June 2020.

In addition, BOS will acquire Imdecol's inventory at its book value on the closing date, which is estimated at NIS 2.6 million (approximately $720,000). BOS will pay an advance of NIS 1.5 million (approximately $417,000) upon closing and the balance will be paid on an ongoing basis as the inventory is consumed. The cash portion of the acquisition price will be financed mainly through a combination of commercial bank loans and internal cash resources.



EX-4.2 2 f20f2018ex4-2_bosbetter.htm THE COMPANY'S ISRAELI 2003 SHARE OPTION PLAN

**Exhibit 4.2**

# B.O.S BETTER ON-LINE SOLUTION LTD.

# THE 2003 ISRAELI SHARE OPTION PLAN

**(*In compliance with Amendment No. 132 of the Israeli Tax Ordinance, 2002)**

**TABLE OF CONTENTS**

This plan, as amended from time to time, shall be known as B.O.S. Better On-Line Solution Ltd 2003 Israeli Share Option Plan (the "**ISOP**").

## 1. PURPOSE OF THE ISOP

The ISOP is intended to provide an incentive to retain, in the employ of the Company and its Affiliates (as defined below), persons of training, experience, and ability, to attract new employees, directors, consultants, service providers and any other entity which the Board shall decide their services are considered valuable to the Company, to encourage the sense of proprietorship of such persons, and to stimulate the active interest of such persons in the development and financial success of the Company by providing them with opportunities to purchase shares in the Company, pursuant to the ISOP.

## 2. DEFINITIONS

For purposes of the ISOP and related documents, including the Grant Agreement, the following definitions shall apply:

2.1 "**Affiliate**" means any "employing company" within the meaning of Section 102(a) of the Ordinance.

2.2 (a) "**Approved 102 Option**" means an Option granted pursuant to Section 102(b) of the Ordinance and held in trust by a Trustee for the benefit of the Grantee;

(b) "**Approved 102 Share**" means a Share which is issued pursuant to Section 102(b) of the Ordinance and held in trust by the Trustee for the benefit of the Grantee;

(c) "**Approved 102 Award**" means any of "Approved 102 Option" or "Approved 102 Share", as applicable.

2.3 "**Board**" means the Board of Directors of the Company.

2.4 "**Capital Gain Option (CGO)**" as defined in Section 5.4 below.

2.5 "**Cause**" means, (i) conviction of any felony involving moral turpitude or affecting the Company; (ii) any refusal to carry out a reasonable directive of the chief executive officer, the Board or the Grantee's direct supervisor, which involves the business of the Company or its Affiliates and was capable of being lawfully performed; (iii) embezzlement of funds of the Company or its Affiliates; (iv) any breach of the Grantee's fiduciary duties or duties of care of the Company; including without limitation disclosure of confidential information of the Company; and (v) any conduct (other than conduct in good faith) reasonably determined by the Board to be materially detrimental to the Company.

2.6 "**Chairman**" means the chairman of the Committee.

2.7 "**Code**" means the United States Internal Revenue Code of 1986, as now in effect or as hereafter amended.



2.8 "**Committee**" means a share option compensation committee of the Board, designated from time to time by the resolution of the Board, which shall consist of no fewer than two members of the Board. The Committee shall consist of directors who are "outside directors" as defined in Section 162(m) of the Code and "Non-Employee Directors" as defined in Rule 16b-3 promulgated by the Securities and Exchange Commission under the United States Securities Exchange Act of 1934. The Board will be able to delegate its authorities to the Committee subject to any applicable law.

2.9 "**Company**" means B.O.S Better On-line Solution Ltd., an Israeli company.

2.10 "**Companies Law**" means the Israeli Companies Law, 5759-1999.

2.11 "**Controlling Shareholder**" shall have the meaning ascribed to it in Section 32(9) of the Ordinance.

2.12 **"Date of Grant"** means, the date of grant of an Option, as determined by the Board and set forth in the Grantee's Grant Agreement.

2.13 **"Employee"** means a person who is employed by the Company or its Affiliates, including an individual who is serving as a director or an office holder, but excluding Controlling Shareholder.

2.14 "**Expiration Date"** means the date upon which an Option shall expire, as set forth in Section 10.2 of the ISOP.

2.15 **"Fair Market Value"** means as of any date, the value of a Share determined as follows:

(i) If the Shares are listed on any established stock exchange or a national market system, including without limitation the NASDAQ National Market system, or the NASDAQ SmallCap Market of the NASDAQ Stock Market, the Fair Market Value shall be the closing sales price for such Shares

(or the closing bid, if no sales were reported), as quoted on such exchange or system for the last market trading day prior to time of determination, as reported in the Wall Street Journal, or such other source as the Board deems reliable.

Without derogating from the above, solely for the purpose of determining the tax liability pursuant to Section 102(b)(3) of the Ordinance, if at the Date of Grant the Company's shares are listed on any established stock exchange or a national market system or if the Company's shares will be registered for trading within ninety (90) days following the Date of Grant, the Fair Market Value of a Share at the Date of Grant shall be determined in accordance with the average value of the Company's shares on the thirty (30) trading days preceding the Date of Grant or on the thirty (30) trading days following the date of registration for trading, as the case may be;

(ii) If the Shares are regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value shall be the mean between the high bid and low asked prices for the Shares on the last market trading day prior to the day of determination, or;



(iii) In the absence of an established market for the Shares, the Fair Market Value thereof shall be determined in good faith by the Board.

2.16 **"ISOP"** means this 2003 Israeli Share Option Plan.

2.17 "**ITA"** means the Israeli Tax Authorities.

2.18 **"Non-Employee"** means a consultant, adviser, service provider, Controlling Shareholder or any other person who is not an Employee.

2.19 "**Ordinary Income Option (OIO)**" as defined in Section 5.5 below.

2.20 **"Option"** means an option to purchase one or more Shares of the Company pursuant to the ISOP.

2.21 (a) **"102 Option"** means any Option granted to Employees pursuant to Section 102 of the Ordinance.

(b) "**102 Share**" means any Share granted to Employee pursuant to Section 102 of the Ordinance. 102 Options and 102 Shares are available for grant and issuance to Employees selected by the Board.

(c) "**102 Award**" means any of "102 Option" or "102 Share", as applicable.

2.22 **"3(i) Option"** means an Option granted pursuant to Section 3(i) of the Ordinance to any person who is Non- Employee.

2.23 **"Grantee"** means a person who receives or holds an Option or Share under the ISOP.

2.24 **"Grant Agreement"** means an agreement between the Company and a Grantee that sets out the terms and conditions of a grant of an Option or an issuance of Shares.

2.25 "**Ordinance"** means the Israeli Income Tax Ordinance [New Version]-1961 as now in effect or as hereafter amended.

2.26 **"Purchase Price"** means the price for each Share subject to an Option.

2.27 **"Retirement"** shall mean Grantee's retirement pursuant to applicable law or in accordance with the terms of any tax-qualified retirement plan maintained by the Company or any of its Affiliates in which the Grantee participates.

2.28 **"Section 102"** means Section 102 of the Ordinance as now in effect or as hereafter amended.

2.29 **"Share"** means the Ordinary Share, 80.00 NIS par value each, of the Company.

2.30 **"Successor Company"** means any entity the Company is merged to or is acquired by, in which the Company is not the surviving entity.



2.31 **"Transaction"** means (i) merger, acquisition or reorganization of the Company with one or more other entities in which the Company is not the surviving entity, (ii) a sale of all or substantially all of the assets of the Company.

2.32 **"Trustee"** means any individual appointed by the Company to serve as a trustee and approved by the ITA, all in accordance with the provisions of Section 102(a) of the Ordinance.

2.33 (a) "**Unapproved 102 Option**" means an Option granted pursuant to Section 102(c) of the Ordinance and not held in trust by a Trustee.

(b) "**Unapproved 102 Share**" means a Share issued pursuant to Section 102(c) of the Ordinance.

(c) "**Unapproved 102 Award**" means any of "Unapproved 102 Option" or "Unapproved 102 Share", as applicable.

2.34 **"Vested Option"** means any Option, which has already been vested according to the Vesting Dates.

2.35 **"Vesting Dates"** means, as determined by the Board, the date as of which the Grantee shall be entitled to exercise the Options or part of the Options, as set forth in section 11 of the ISOP.

**3. ADMINISTRATION OF THE ISOP**

3.1 The Board shall have the power to administer the ISOP, all as provided by applicable law and in the Company's Articles of Association.

3.2 The Committee shall select one of its members as its Chairman and shall hold its meetings at such times and places as the Chairman shall determine. The Committee shall keep records of its meetings and shall make such rules and regulations for the conduct of its business as it shall deem advisable.

3.3 The Board shall have the full power and authority to: (i) designate participants; (ii) determine the terms and provisions of the respective Grant Agreements, including, but not limited to, the number of Options or Shares to be granted or issued to each Grantee, the number of Shares to be covered by each Option, provisions concerning the time and the extent to which the Options or Shares may be exercised and the nature and duration of restrictions as to the transferability or restrictions constituting substantial risk of forfeiture and to cancel or suspend awards, as necessary; (iii)

determine the Fair Market Value of the Shares or of the Shares covered by each Option; (iv) make an election as to the type of the Approved 102 Award; and (v) designate the type of Options or Shares.



In Addition the Board shall have the full power and authority to (i) alter any restrictions and conditions of any Options, Shares or Shares subject to any Options; (ii) interpret the provisions and supervise the administration of the ISOP; (iii) accelerate the right of an Grantee to exercise in whole or in part, any previously granted Options or Shares; (iv) determine the Purchase Price of the Option; (v) prescribe, amend and rescind rules and regulations relating to the ISOP; and (vi) make all other determinations deemed necessary or advisable for the administration of the ISOP.

3.4 The Board shall have the authority to grant, at its discretion, to the holder of an outstanding Option or Shares, in exchange for the surrender and cancellation of such Options or Shares, new Options or Shares having a purchase price equal to, lower than or higher than the Purchase Price of the original Option or Share so surrendered and canceled and containing such other terms and conditions as the Board may prescribe in accordance with the provisions of the ISOP.

3.5 Subject to the Company's Articles of Association, all decisions and selections made by the Board pursuant to the provisions of the ISOP shall be made by a majority of its members except that no member of the Board shall vote on, or be counted for quorum purposes, with respect to any proposed action of the Board relating to any Option or Share to be granted to that member. Any decision reduced to writing shall be executed in accordance with the provisions of the Company's Articles of Association, as the same may be in effect from time to time.

3.6 The interpretation and construction by the Board of any provision of the ISOP or of any Grant Agreement thereunder shall be final and conclusive unless otherwise determined by the Board.

3.7 Subject to the Company's Articles of Association and the Company's decision, and to all approvals legally required, including, but not limited to the provisions of the Companies Law, each member of the Board or the Committee shall be indemnified and held harmless by the Company against any cost or expense (including counsel fees) reasonably incurred by him, or any liability (including any sum paid in settlement of a claim with the approval of the Company) arising out of any act or omission to act in connection with the ISOP unless arising out of such member's own fraud or bad faith, to the extent permitted by applicable law. Such indemnification shall be in addition to any rights of indemnification the member may have as a director or otherwise under the Company's Articles of Association, any agreement, any vote of shareholders or disinterested directors, insurance policy or otherwise.

**4. DESIGNATION OF PARTICIPANTS**

4.1 The Board shall have the authority to issue and grant to Grantees under this ISOP: (i) Shares; and (ii) Options.

4.2 The persons eligible for participation in the ISOP as Grantees shall include any Employees and/or Non-Employees of the Company or of any Affiliate; provided, however, that (i) Employees may only be granted 102 Awards; (ii) Non-Employees may only be granted 3(i) Options; and (iii) Controlling Shareholders may only be granted 3(i) Options.

4.2 The grant of Options or issuance of Shares hereunder shall neither entitle the Grantee to participate nor disqualify the Grantee from participating in, any other grant of Options or issuance of Shares pursuant to the ISOP or any other option or share plan of the Company or any of its Affiliates.



4.3 Anything in the ISOP to the contrary notwithstanding, all grants of Options or issuances of Shares to directors and office holders shall be authorized and implemented in accordance with the provisions of the Companies Law or any successor act or regulation, as in effect from time to time.

**5. DESIGNATION OF OPTIONS OR SHARES PURSUANT TO SECTION 102**

5.1 The Company may designate Options or Shares granted or issued to Employees pursuant to Section 102 as Unapproved 102 Awards or Approved 102 Awards.

5.2 The grant of Approved 102 Awards shall be made under this ISOP adopted by the Board as described in Section 15 below, and shall be conditioned upon the approval of this ISOP by the ITA as required by Section 102.

5.3 Approved 102 Awards may either be classified as Capital Gain Option ("**CGO**") or Ordinary Income Option ("**OIO**").

5.4 Approved 102 Awards elected and designated by the Company to qualify under the capital gain tax treatment in accordance with the provisions of Section 102(b)(2) shall be referred to herein as **CGO**.

5.5 Approved 102 Awards elected and designated by the Company to qualify under the ordinary income tax treatment in accordance with the provisions of Section 102(b)(1) shall be referred to herein as **OIO**.

5.6 The Company's election of the type of Approved 102 Awards as CGO or OIO granted to Employees (the "**Election**"), shall be appropriately filed with the ITA before the Date of Grant of an Approved 102 Award. Such Election shall become effective beginning the first Date of Grant of an Approved 102 Award under this ISOP and shall remain in effect until the end of the year following the year during which the Company first granted Approved 102 Award. The Election shall obligate the Company to grant *only* the type of Approved 102 Award it has elected, and shall apply to all Grantees who were granted Approved 102 Award during the period indicated herein, all in accordance with the provisions of Section 102(g) of the Ordinance. For the avoidance of doubt, such Election shall not prevent the Company from granting Unapproved 102 Awards simultaneously.

5.7 All Approved 102 Awards must be held in trust by a Trustee, as described in Section 6 below**.**

5.8 For the avoidance of doubt, the designation of Unapproved 102 Award and Approved 102 Award shall be subject to the terms and conditions set forth in Section 102 of the Ordinance and the regulations promulgated thereunder.

5.9 With regards to Approved 102 Awards, the provisions of the ISOP and/or the Grant Agreement shall be subject to the provisions of Section 102 and the Tax Assessing Officer's permit, and the said provisions and permit shall be deemed an integral part of the ISOP and of the Grant Agreement. Any provision of Section 102 and/or the said permit which is necessary in order to receive and/or to keep any tax benefit pursuant to Section 102, which is not expressly specified in the ISOP or the Grant Agreement, shall be considered binding upon the Company and the Grantees.

**6. TRUSTEE**

6.1 Approved 102 Options which shall be granted under the ISOP and/or any Shares allocated or issued upon exercise of such Approved 102 Awards and/or other shares received subsequently following any realization of rights, including without limitation bonus shares, shall be allocated or issued to the Trustee and held for the benefit of the Grantees for such period of time as required by Section 102 or any regulations, rules or orders or procedures promulgated thereunder (the "**Holding Period**"). In the case the requirements for Approved 102 Awards are not met, then the Approved 102 Awards may be treated as Unapproved 102 Awards, all in accordance with the provisions of Section 102 and regulations promulgated thereunder.

6.2 Notwithstanding anything to the contrary, the Trustee shall not release any Shares allocated or issued upon exercise of Approved 102 Awards prior to the full payment of the Grantee's tax liabilities arising from Approved 102 Awards which were granted or issued to him/her and/or any Shares allocated or issued upon exercise of the Options.

6.3 With respect to any Approved 102 Award, subject to the provisions of Section 102 and any rules or regulation or orders or procedures promulgated thereunder, an Grantee shall not sell or release from trust any Share received upon the exercise of an Approved 102 Award and/or any share received subsequently following any realization of rights, including without limitation, bonus shares, until the lapse of the Holding Period required under Section 102 of the Ordinance. Notwithstanding the above, if any such sale or release occurs during the Holding Period, the sanctions under Section 102 of the Ordinance and under any rules or regulation or orders or procedures promulgated thereunder shall apply to and shall be borne by such Grantee.

6.4 Upon receipt of Approved 102 Award, the Grantee will sign an undertaking to release the Trustee from any liability in respect of any action or decision duly taken and bona fide executed in relation with the ISOP, or any Approved 102 Award or Share granted or issued to him/her thereunder.

**7. SHARES RESERVED FOR THE ISOP; RESTRICTION THEREON**

7.1 The Company has reserved 700,000 (seven hundred thousand) authorized but unissued Shares, for the purposes of the ISOP and for the purposes of any other share option plans which may be adopted by the Company in the future, subject to adjustment as set forth in Section 9 below. Any Shares which remain unissued and which are not subject to the outstanding Options at the termination of the ISOP shall cease to be reserved for the purpose of the ISOP, but until termination of the ISOP the Company shall at all times reserve sufficient number of Shares to meet the requirements of the ISOP. Should any Option for any reason expire or be canceled prior to its exercise or relinquishment in full, the Shares subject to such Option may again be subjected to an Option under the ISOP or under the Company's other share option plans.



7.2 Each award granted pursuant to the ISOP, shall be evidenced by a written Grant Agreement between the Company and the Grantee, in such form as the Board shall from time to time approve. Each Grant Agreement shall state, among other matters, the number of Shares or Shares to which the Option relates, the type of the award granted thereunder (whether a CGO, OIO, Unapproved 102 Option or a 3(i) Option), the Vesting Dates, the Purchase Price per share, the Expiration Date and such other terms and conditions as the Board in its discretion may prescribe, provided that they are consistent with this ISOP.

**8. PURCHASE PRICE**

8.1 The Purchase Price of each Share subject to an Option shall be determined by the Board in its sole and absolute discretion in accordance with applicable law, subject to any guidelines as may be determined by the Board from time to time. Each Grant Agreement will contain the Purchase Price determined for each Grantee.

8.2 The Purchase Price shall be payable upon the exercise of the Option in a form satisfactory to the Board, including without limitation, by cash or check. The Board shall have the authority to postpone the date of payment on such terms as it may determine.

8.3 The Purchase Price shall be denominated in the currency of the primary economic environment of, either the Company or the Grantee (that is the functional currency of the Company or the currency in which the Grantee is paid) as determined by the Company.

8.4 With respect to 102 Shares issued pursuant to this ISOP, the Grantee shall be obligated to pay, in consideration for the issuance of the Shares, the price therefor which was fixed by the Board, if any. The method of, and due date for, payment of the consideration in connection with the issuance of 102 Shares, shall be determined by the Board.

**9. ADJUSTMENTS**

Upon the occurrence of any of the following described events, Grantee's rights to purchase Shares under the ISOP shall be adjusted as hereafter provided:

9.1 In the event of Transaction, the unexercised Options then outstanding under the ISOP shall be assumed or substituted for an appropriate number of shares of each class of shares or other securities of the Successor Company (or a parent or subsidiary of the Successor Company) as were distributed to the shareholders of the Company in connection and with respect to the Transaction. In the case of such assumption and/or substitution of Options, appropriate adjustments shall be made to the Purchase Price so as to reflect such action and all other terms and conditions of the Grant Agreements shall remain unchanged, including but not limited to the vesting schedule, all subject to the determination of the Board or the Board, which determination shall be in their sole discretion and final. The Company shall notify the Grantee of the Transaction in such form and method as it deems applicable at least ten (10) days prior to the effective date of such Transaction.



9.2 Notwithstanding the above and subject to any applicable law, the Board shall have full power and authority to determine that in certain Grant Agreements there shall be a clause instructing that, if in any such Transaction as described in section 9.1 above, the Successor Company (or parent or subsidiary of the Successor Company) does not agree to assume or substitute for the Options, the Vesting Dates shall be accelerated so that any unvested Option or any portion thereof shall be immediately vested as of the date which is ten (10) days prior to the effective date of the Transaction.

9.3 For the purposes of section 9.1 above, an Option shall be considered assumed or substituted if, following the Transaction, the Option confers the right to purchase or receive, for each Share underlying an Option immediately prior to the Transaction, the consideration (whether shares, options, cash, or other securities or property) received in the Transaction by holders of shares held on the effective date of the Transaction (and if such holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares); provided, however, that if such consideration received in the Transaction is not solely ordinary shares (or their equivalent) of the Successor Company or its parent or subsidiary, the Board may, with the consent of the Successor Company, provide for the consideration to be received upon the exercise of the Option to be solely ordinary shares (or their equivalent) of the Successor Company or its parent or subsidiary equal in Fair Market Value to the per Share consideration received by holders of a majority of the outstanding shares in the Transaction; and provided further that the Board may determine, in its discretion, that in lieu of such assumption or substitution of Options for options of the Successor Company or its parent or subsidiary, such Options will be substituted

for any other type of asset or property including cash which is fair under the circumstances.

9.4 If the Company is voluntarily liquidated or dissolved while unexercised Options remain outstanding under the ISOP, the Company shall immediately notify all unexercised Option holders of such liquidation, and the Option holders shall then have ten (10) days to exercise any unexercised Vested Option held by them at that time, in accordance with the exercise procedure set forth herein. Upon the expiration of such ten-days period, all remaining outstanding Options will terminate immediately.

9.5 If the outstanding shares of the Company shall at any time be changed or exchanged by declaration of a share dividend (bonus shares), share split, combination or exchange of shares, recapitalization, or any other like event by or of the Company, and as often as the same shall occur, then the number, class and kind of the Shares subject to the ISOP or subject to any Options therefore granted, and the Purchase Prices, shall be appropriately and equitably adjusted so as to maintain the proportionate number of Shares without changing the aggregate Purchase Price, provided, however, that no adjustment shall be made by reason of the distribution of subscription rights (rights offering) on outstanding shares. Upon happening of any of the foregoing, the class and aggregate number of Shares issued or issuable pursuant to the ISOP (as set forth in Section 7 hereof), in respect of which Options have not yet been exercised, shall be appropriately adjusted, all as will be determined by the Board whose determination shall be final.



**10. TERM AND EXERCISE OF OPTIONS**

10.1 Options or portion thereof shall be exercised by the Grantee by giving written notice to the Company and/or to any third party designated by the Company (the "**Representative**"), in such form and method as may be determined by the Company and when applicable, by the Trustee in accordance with the requirements of Section 102, which exercise shall be effective upon receipt of such notice by the Company and/or the Representative and the payment of the Purchase Price at the Company's or the Representative's principal office. The notice shall specify the number of Shares with respect to which the Option is being exercised.

10.2 Options, to the extent not previously exercised, shall terminate forthwith upon the earlier of: (i) the date set forth in the Grant Agreement; and (ii) the expiration of any extended period in any of the events set forth in section 10.5 below.

10.3 The Options may be exercised by the Grantee in whole at any time or in part from time to time, to the extent that the Options become vested and exercisable, prior to the Expiration Date, and provided that, subject to the provisions of section 10.5 below, the Grantee is employed by or providing services to the Company or any of its Affiliates, at all times during the period beginning with the granting of the Option and ending upon the date of exercise.

10.4 Subject to the provisions of section 10.5 below, in the event of termination of Grantee's employment or services, with the Company or any of its Affiliates, all Options granted to such Grantee will immediately expire. A notice of termination of employment or service shall be deemed to constitute termination of employment or service. For the avoidance of doubt, in case of such termination of employment or service, the unvested portion of the Grantee's Option shall not vest and shall not become exercisable.

10.5 Notwithstanding anything to the contrary hereinabove and unless otherwise determined in the Grantee's Grant Agreement, an Option may be exercised after the date of termination of Grantee's employment or service with the Company or any Affiliates during an additional period of time beyond the date of such termination, but only with respect to the number of Vested Options at the time of such termination according to the Vesting Dates, if**:**

(i) termination is without Cause, in which event any Vested Option still in force and unexpired may be exercised within a period of ninety (90) days after the date of such termination; or-

(ii) termination is the result of death or disability of the Grantee, in which event any Vested Option still in force and unexpired may be exercised subject to the period determined in section 15.

(iii) prior to the date of such termination, the Board shall authorize an extension of the terms of all or part of the Vested Options beyond the date of such termination for a period not to exceed the period during which the Options by their terms would otherwise have been exercisable.

(iv) termination is the result of Retirement of the Grantee, in which event any Vested Option still in force and unexpired may be exercised within a period of twelve (12) months after the date of such termination;

For avoidance of any doubt, if termination of employment or service is for Cause, any outstanding unexercised Option (whether vested or non-vested), will immediately expire and terminate, and the Grantee shall not have any right in connection to such outstanding Options.



10.6 To avoid doubt, the Grantees shall not have any of the rights or privileges of shareholders of the Company in respect of any Shares purchasable upon the exercise of any Option, nor shall they be deemed to be a class of shareholders or creditors of the Company for purpose of the operation of sections 350 and 351 of the Companies Law or any successor to such section, until registration of the Grantee as holder of such Shares in the Company's register of shareholders upon exercise of the Option in accordance with the provisions of the ISOP, but in case of Options and Shares held by the Trustee, subject to the provisions of Section 6 of the ISOP.

10.7 Any form of Grant Agreement authorized by the ISOP may contain such other provisions as the Board may, from time to time, deem advisable.

10.8 With respect to Unapproved 102 Option, if the Grantee ceases to be employed by the Company or any Affiliate, the Grantee shall extend to the Company and/or its Affiliate a security or guarantee for the payment of tax due at the time of sale of Shares, all in accordance with the provisions of Section 102 and the rules, regulation or orders promulgated thereunder.

**11. VESTING OF OPTIONS**

11.1 Subject to the provisions of the ISOP, each Option shall vest following the Vesting Dates and for the number of Shares as shall be provided in the Grant Agreement. However, no Option shall be exercisable after the Expiration Date.

11.2 An Option may be subject to such other terms and conditions on the time or times when it may be exercised, as the Board may deem appropriate. The vesting provisions of individual Options may vary.

**12. PURCHASE FOR INVESTMENT**

The Company's obligation to issue or allocate Shares, including upon exercise of an Option granted under the ISOP is expressly conditioned upon: (a) the Company's completion of any registration or other qualifications of such Shares under all applicable laws, rules and regulations or (b) representations and

undertakings by the Grantee (or his legal representative, heir or legatee, in the event of the Grantee's death) to assure that the sale of the Shares complies with any registration exemption requirements which the Company in its sole discretion shall deem necessary or advisable. Such required representations and undertakings may include representations and agreements that such Grantee (or his legal representative, heir, or legatee): (a) is purchasing such Shares for investment and not with any present intention of selling or otherwise disposing thereof; and (b) agrees to have placed upon the face and reverse of any certificates evidencing such Shares a legend setting forth (i) any representations and undertakings which such Grantee has given to the Company or a reference thereto and (ii) that, prior to effecting any sale or other disposition of any such Shares, the Grantee must furnish to the Company an opinion of counsel, satisfactory to the Company, that such sale or disposition will not violate the applicable laws, rules, and regulations, whether of the State of Israel or of the United States or any other State having jurisdiction over the Company and the Grantee.



**13. DIVIDENDS**

With respect to all Shares (but excluding, for avoidance of any doubt, any unexercised Options) allocated or issued hereunder, including *inter alia* upon the exercise of Options granted hereunder by the Grantee and held by the Grantee or by the Trustee, as the case may be, the Grantee shall be entitled to receive dividends in accordance with the quantity of such Shares, subject to the provisions of the Company's Articles of Association (and all amendments thereto) and subject to any applicable taxation on distribution of dividends, and when applicable subject to the provisions of Section 102 and the rules, regulations or orders promulgated thereunder.

**14. RESTRICTIONS ON ASSIGNABILITY AND SALE OF OPTIONS**

14.1 No Option or any right with respect thereto, purchasable hereunder, whether fully paid or not, shall be assignable, transferable or given as collateral or any right with respect to it given to any third party whatsoever, except as specifically allowed under the ISOP, and during the lifetime of the Grantee each and all of such Grantee's rights to purchase Shares hereunder shall be exercisable only by the Grantee.

Any such action made directly or indirectly, for an immediate validation or for a future one, shall be void.

14.2 As long as Options and/or Shares are held by the Trustee on behalf of the Grantee, all rights of the Grantee over the Shares are personal, can not be transferred, assigned, pledged or mortgaged, other than by will or pursuant to the laws of descent and distribution.

**15. EFFECTIVE DATE AND DURATION OF THE ISOP**

The ISOP shall be effective as of the day it was adopted by the Board and shall terminate at May 31, 2023.

**16. AMENDMENTS OR TERMINATION**

The Board may at any time, but when applicable, after consultation with the Trustee, amend, alter, suspend or terminate the ISOP. No amendment, alteration, suspension or termination of the ISOP shall impair the rights of any Grantee, unless mutually agreed otherwise between the Grantee and the Company, which agreement must be in writing and signed by the Grantee and the Company. Termination of the ISOP shall not affect the Board's ability to exercise the powers granted to it hereunder with respect to Options or Shares granted under the ISOP prior to the date of such termination.



**17. GOVERNMENT REGULATIONS**

The ISOP, and the granting and exercise of Options or issuance of Shares hereunder, and the obligation of the Company to sell and deliver Shares under such Options, shall be subject to all applicable laws, rules, and regulations, whether of the State of Israel or of the United States or any other State having jurisdiction over the Company and the Grantee, including the registration of the Shares under the United States Securities Act of 1933, and the Ordinance and to such approvals by any governmental agencies or national securities exchanges as may be required. Nothing herein shall be deemed to require the Company to register the Shares under the securities laws of any jurisdiction.

**18. CONTINUANCE OF EMPLOYMENT OR HIRED SERVICES**

Neither the ISOP nor the Grant Agreement with the Grantee shall impose any obligation on the Company or an Affiliate thereof, to continue any Grantee in its employ or service, and nothing in the ISOP or in any Option granted or Shares issued pursuant thereto shall confer upon any Grantee any right to continue in the employ or service of the Company or an Affiliate thereof or restrict the right of the Company or an Affiliate thereof to terminate such employment or service at any time.

**19. GOVERNING LAW & JURISDICTION**

The ISOP shall be governed by and construed and enforced in accordance with the laws of the State of Israel applicable to contracts made and to be performed therein, without giving effect to the principles of conflict of laws. The competent courts of Tel Aviv, Israel shall have sole jurisdiction in any matters pertaining to the ISOP.

**20. TAX CONSEQUENCES**

20.1 Any tax consequences arising from the grant or exercise of any Option, from the payment for Shares covered thereby or from any other event or act (of the Company and/or its Affiliates, the Trustee or the Grantee), hereunder, shall be borne solely by the Grantee. The Company and/or its Affiliates and/or the Trustee shall withhold taxes according to the requirements under the applicable laws, rules, and regulations, including withholding taxes at source. Furthermore, the Grantee shall agree to indemnify the Company and/or its Affiliates and/or the Trustee and hold them harmless against and from any and all liability for any such tax or interest or penalty thereon, including without limitation, liabilities relating to the necessity to withhold, or to have withheld, any such tax from any payment made to the Grantee.

20.2 The Company and/or, when applicable, the Trustee shall not be required to release any Share certificate to an Grantee until all required payments have been fully made.

**21. NON-EXCLUSIVITY OF THE ISOP**

The adoption of the ISOP by the Board shall not be construed as amending, modifying or rescinding any previously approved incentive arrangements or as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of Options or issuing Shares otherwise than under the ISOP, and such arrangements may be either applicable generally or only in specific cases.

For the avoidance of doubt, prior grant of options to Grantees or issuance of Shares of the Company under their employment agreements, and not in the

framework of any previous option plan, shall not be deemed an approved incentive arrangement for the purpose of this Section.

**22. MULTIPLE AGREEMENTS**

The terms of each award granted hereunder may differ from other awards granted under the ISOP at the same time, or at any other time. The Board may also grant more than one award to a given Grantee during the term of the ISOP, either in addition to, or in substitution for, one or more awards previously granted to that Grantee.

* * *



EX-4.8 3 f20f2018ex4-8_bosbetter.htm ASSET PURCHASE AGREEMENT BY AND BETWEEN B.O.S BETTER ONLINE SOLUTIONS LTD. AND IMDECOL LTD. DATED MARCH 19, 2019

**Exhibit 4.8**

Execution Copy

**ASSET PURCHASE AGREEMENT**

**BY AND AMONG**

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

**as Buyer**

**AND**

**IMDECOL LTD.**

**as Seller**

DATED MARCH 19TH, 2019

**TABLE OF CONTENTS**

**ASSET PURCHASE AGREEMENT**

This **ASSET PURCHASE AGREEMENT** (this "**Agreement**") is dated as of March 19th, 2019, by and between B.O.S. Better Online Solutions Ltd., an Israeli company, C.N. 52-004256-5, Israel (the "**Buyer**"), and Imdecol Ltd., an Israeli company, C.N. 51-268769-0 ("**Seller**", Buyer and Seller, each a "**Party**" and collectively the "**Parties**").

**WHEREAS**, Seller is engaged in the business of manufacturing and integrating automatic systems for production lines (the "**Business**"); and

**WHEREAS**, Buyer desires to purchase all of Seller's business (activity, assets, property and rights, tangible and intangible, subject to certain exceptions, as more fully detailed in **Section 1** below, all on the terms and conditions, and for the consideration, set forth herein.

**NOW, THEREFORE**, in consideration of the mutual promises and agreements set forth herein, Buyer and Seller agree as follows:

**1. PURCHASE AND SALE**

1.1. Acquired Assets. Upon the terms and subject to the conditions set forth in this Agreement, at the Closing, Seller shall sell, convey, assign, transfer and deliver to Buyer, and Buyer shall purchase and acquire from Seller, free and clear of any Encumbrances, all of Seller's right, title and interest in, to and under all of Seller's property, assets and rights, real, personal or mixed, tangible and intangible, of every kind and description, wherever located, including the following, but excluding the Excluded Assets (all of which (not including the Excluded Assets) are referred to collectively herein as the "**Acquired Assets**"):

(a) (i) All Contracts listed on **Schedule 4.14(2)** that have not been amended prior to the Closing, (ii) each Contract to which Seller is a party entered into or amended after the date hereof pursuant to **Section 7.2(m)**, and (ii) subject to Seller's acceptance of each such Contract under **Section 1.5** as an Assigned Contract (as defined below), each other Contract to which Seller is a party or by which it or any of its assets are bound, (each Contract described in clauses (i), (ii) and (iii) above, an "**Assigned Contract**"), all of which are in force and effect as of the Closing Date.

(b) All Tangible Property (excluding Inventory (as defined below), including those items listed on **Schedule 4.11**;

(c) all of the intangible rights and property of Seller, including Intellectual Property Rights, going concern value, goodwill, telephone, telecopy and e-mail addresses and listings, including those items listed on **Schedule 4.16**;

(d) all Governmental Authorizations and all pending applications therefor or renewals thereof, in each case to the extent transferable to Buyer, including those listed on **Schedule 4.4(2)**;



(e) all data and records related to the operations of Seller, including, customer and supplier lists and records, referral sources, research and development reports and records, production reports and records, service and warranty records, equipment logs, operating guides and manuals, financial and accounting records, creative materials, advertising materials, promotional materials, studies, reports, correspondence and other similar documents and records and, subject to applicable Law, copies of all personnel records and other records;

(f) all claims of Seller against third parties relating to the Acquired Assets, whether choate or inchoate, known or unknown, contingent or non-contingent, including all such claims listed on **Schedule 4.7**; and

(g) all insurance benefits, including rights and proceeds, arising from or relating to the Acquired Assets or the Assumed Liabilities prior to the Closing Date, unless expended in accordance with this Agreement.

Notwithstanding the foregoing, the transfer of the Acquired Assets pursuant to this Agreement shall not include the assumption of any Liability related to the Acquired Assets unless Buyer expressly assumes that Liability pursuant to **Section 1.3**.

1.2. Excluded Assets. The following assets of Seller (collectively, the "**Excluded Assets**") are not part of the sale and purchase contemplated hereunder, are excluded from the Acquired Assets and shall remain the property of Seller after the Closing:

(a) all Seller's cash, cash equivalents and short-term investments;

(b) all Seller's accounts receivable;

(c) all Inventory (as defined below);

(d) all rights of Seller relating to deposits and prepaid expenses, claims for refunds and rights to offset, except for such rights that arise in respect of any Acquired Asset;

(e) the shares of Seller held by Seller in treasury and all minute books and shareholder registers;

(f) the consideration received by Seller pursuant to this Agreement and the rights of Seller under this Agreement;

(g) copies of all personnel records and other records that Seller is required by applicable Law to retain.

1.3. Assumed Liabilities. Upon the terms and subject to the conditions set forth in this Agreement, but subject to **Section 1.4**, at the Closing, Buyer shall assume and agree to discharge only the following Liabilities of Seller, which for clarity, exclude, notwithstanding anything else in this Agreement to the contrary the Retained Liabilities specified in **Sections 1.4(a)** through **Section 1.4(n)** (such Liabilities, the "**Assumed Liabilities**"):

(a) any Liability arising under or relating to the Assigned Contracts (other than any Liability, that results from, or is related to, a breach of an Assigned Contract prior to the Closing, whether arising before or after the Closing, or that is an amount that was due and payable as of the Closing or in respect of a period prior to Closing); and



(b) all of Seller's standard warranty obligations with respect to the warranties listed on **Schedule 4.14(2)(a)** which are in the form attached as **Schedule 4.14(2)(b)** (each, a "**Warranty Obligation**").

1.4. Retained Liabilities. The Retained Liabilities shall remain the sole responsibility of and shall be retained, paid, performed and discharged solely by Seller. "**Retained Liabilities**" shall mean every Liability of Seller other than the Assumed Liabilities, including:

(a) any Liability arising under or relating to an Assigned Contract that results from, or is related to, a breach of an Assigned Contract prior to the Closing, whether arising before or after the Closing, or that is an amount that was due and payable as of the Closing or in respect of a period prior to Closing;

(b) any Liability arising under or relating to any Contract that is not an Assigned Contract;

(c) any Liability to any current, former or future employee or consultant of Seller arising due to, or related to, such employee or consultant's engagement by Seller;

(d) all Liabilities for Indebtedness of Seller;

(e) any Liability arising out of or relating to products of Seller manufactured or sold by Seller;

(f) any Liability to any Shareholder or Related Person of Seller or any Shareholder;

(g) any Liability to indemnify, reimburse or advance amounts to any officer, director, employee, consultant or agent of Seller;

(h) any Liability arising out of any Proceeding pending as of the Closing or any Proceeding commenced after the Closing of any kind or nature and arising out of or relating to any occurrence, action, omission or event happening prior to the Closing;

(i) any Liability for taxes;

(j) any Liability arising out of or resulting from Seller's compliance or noncompliance with any Law or order of any Governmental Body, including any Law or order of a Governmental Body relating to the environment;

(k) any Liability of Seller under this Agreement or any other document executed in connection with the transactions contemplated by this Agreement (the "**Contemplated Transactions**");

(l) any Liability of Seller based upon Seller's acts or omissions occurring after the Closing.

(m) any Transaction Expenses of Seller.



1.5. Contract Approval. If after the execution of this Agreement it is disclosed that (i) there are any Contracts to which Seller is a party or by which it or any of its assets are bound that are not listed on **Schedule 4.14(2)** or (ii) that Seller entered into or amended any Contract in violation of **Section 7.2(m)**, Buyer shall have the right to notify Seller that Buyer (i) accepts such Contract as an Assigned Contract and such Contract shall be assigned to the Buyer or (ii) rejects such Contract as an Assigned Contract and such Contract shall not be assigned to Buyer and shall be deemed part of the Excluded Assets.

1.6. Wrong Pockets.

(a) From and after the Closing, if either Party receives any (i) funds intended for or otherwise the property of the other Party pursuant to the terms of this Agreement, the receiving Party shall promptly (A) notify and (B) forward such funds or property to, the other Party (and, for the avoidance of doubt, the Parties acknowledge and agree that there is no right of offset with respect to such funds or property, whether in connection with a dispute under this Agreement or otherwise).

(b) From and after the Closing, if either Party pays any amount to any third party in satisfaction of any Liability of the other Party pursuant to the terms of this Agreement, (i) the paying Party shall promptly notify the other Party of such payment and (ii) the other Party shall promptly reimburse the paying Party for the amount so paid by the paying Party to such third party (and, for the avoidance of doubt, the Parties acknowledge and agree that there is no right of offset with respect to such amount, whether in connection with a dispute under this Agreement

1.7. Purchase Orders. Notwithstanding any other provision of this Agreement to the contrary, with respect to the Assigned Contracts that are open purchase orders specified and identified as such on **Schedule 1.7** it has been agreed as follows:

(a) **Schedule 1.7(a)** lists Assigned Contracts that are open customer purchase orders for goods or services, which have not been fully supplied to customers as of the Closing. Any deposit or advance payments received by Seller for such goods or services as set forth on **Schedule 1.7(a)** shall be deducted from Deferred Payment Amount or from any Make-Up Payment at Buyer's election.

(b) **Schedule 1.7(b)** lists Assigned Contracts that are open supplier purchase orders for goods or services, which have not been fully supplied to Seller as of the Closing. Any deposit or advance payments paid by Seller for such goods or services as set forth on **Schedule 1.7(b)** shall be added to the Deferred Payment Amount or Make-Up Payment at Buyer's election. Notwithstanding any other provision herein to the contrary, Buyer will not take assignment of any supplier purchase order that is not listed on **Schedule 1.7(b)**

It hereby agreed that in the event that there is a delay in suppling a certain purchase order for goods and/or services by Seller and the relevant customer shall have provided Seller with a confirmation letter in which the customer acknowledges a delayed delivery date and waives all claims regarding the delay, the customer's purchase order shall be assigned in full to Buyer and shall be deemed part of the Acquired Assets (the "**Waiver Letter**"). Schedule 1.7(c) lists Waiver Letters that were received prior to Closing and which have been provided to Buyer. Any Waiver Letters received after the date hereof shall be provided to Buyer promptly.

1.8. Warranty Obligations. In return for the Buyer fulfilling the Warranty Obligations Seller shall pay Buyer, the cost of the materials paid to third parties and hours utilized by Buyer in fulfilling the Warranty Obligations plus fifteen percent (15%) as invoiced by Buyer on a monthly basis (each such invoiced payment, a "**Warranty Obligations Payment**") within thirty (30) days of receipt of Buyer's invoice.



1.9. Inventory. The Seller shall conduct an inventory count as of the Closing Date. Seven (7) days after the Closing Date Seller shall provide Buyer with a list of each item of Seller's inventory (the "**Inventory**") together with, for items that are not parts, the cost of the materials as paid to third parties and the cost of the work hours utilized for the such item and for items that are parts, the cost of the materials as paid to third parties, which, if accepted by Buyer shall be attached as **Schedule 1.9**. A good faith draft of **Schedule 1.9** shall be provided to the Buyer no later than two business days before the Closing. The Inventory shall be held in Buyer's possession, but shall be the property of the Seller. The Buyer may utilize items of Inventory, and upon such utilization, such items of Inventory shall become property of the Buyer in return for the payment set forth in this Agreement.

**2. PURCHASE PRICE**

2.1. In consideration for the sale, assignment, transfer and delivery of all of the Acquired Assets, at the Closing referred to in **Section 3** hereof, Buyer will pay to Seller the "**Purchase Price**" which shall be the Business Purchase Price (as defined below) plus the Inventory Purchase Price (as defined below).

2.2. The Business Purchase Price. The "**Business Purchase Price**" shall be the average Operating Profit (as defined below) for the following twelve (12) calendar month periods: (i) the 2017 calendar year; (ii) the 2018 calendar year; (iii) the 2019 calendar year; and (iv) the twelve (12) calendar month period ending on June 30, 2020, multiplied by four (4).

2.3. Operating Profit Calculation. The "**Operating Profit**" (i) for the 2017 calendar year shall be as set forth on Seller's audited financial statements for 2017, prepared in accordance with Israeli GAAP, (ii) for the 2018 calendar year shall be as set forth on Seller's audited financial statements for 2018, prepared in accordance with Israeli GAAP, (iii) for the 2019 calendar year shall be as set forth on a pro forma income statement for the Business for 2019, prepared in accordance with Israeli GAAP by Buyer, and (iv) for the twelve (12) calendar month period ending on June 30, 2020 shall be as set forth on a pro forma income statement for the Business for such period, prepared in accordance with Israeli GAAP by Buyer, in each case of clauses (i)-(iv) above, as adjusted under the Adjustment Rules

2.4. Adjustment Rules. Calculation of the annual operating profit for each of the twelve (12) calendar month periods set forth in **Section 2.2** shall be adjusted in accordance with the following rules (the "**Adjustment Rules**") to exclude:

(a) Transaction Expenses of Seller or Buyer (other than such expenses of Seller paid by Buyer);

(b) Expenses of Seller or Buyer related to preparing financial reports in accordance with US GAAP (other than such expenses of Seller paid by Buyer); and

(c) Any increase in expenses (e.g. administrative, operational, accounting or management expenses) as a result of the Acquired Assets being operated by Buyer, as compared to the cost-structure of Seller pre-Closing. For the avoidance of doubt, expenses of the type that existed pre-Closing such as insurance, bookkeeping, secretarial services, office rent and maintenance, payroll process, external auditor, legal and similar expenses at a similar level to that which existed pre-Closing shall be included in the calculation of Operating Expenses even if paid for by Buyer as allocated by Buyer to the Business.



2.5. Inventory Purchase Price. The aggregate purchase prices of each item of Inventory actually utilized by Seller as set forth for such item on **Schedule 1.9** shall be:

(i) for each item of Inventory that is not a part, the book value of such item of Inventory as set forth for such item on **Schedule 1.9**; and

(ii) for each item of Inventory that is a part and is over one year old , the lower of: (a) the market value of such item of Inventory on the date it is utilized and (b) the book value of such item of Inventory as set forth on **Schedule 1.9**. The aggregate purchase prices of the items of Inventory that are utilized by Buyer shall be referred to as the "**Inventory Purchase Price**".

2.6. Payment Schedule.

(a) Business Purchase Price Payment Schedule.

(i) On the Closing Date, Buyer shall pay Seller NIS 5,500,000 less any amounts outstanding under the Loan Agreement (the "**Loan Agreement**") by and between Seller and Buyer dated as of the date hereof and attached as **Schedule 2.6(a)(i)** (the "**Closing Business Purchase Price Payment**") as set forth in **Section 3.2(c)**.

(ii) The "**Deferred Payment Amount**" shall mean NIS 1,500,000 as adjusted pursuant to this Agreement. On or before August 31, 2020, Buyer shall pay the Deferred Payment Amount, by way of issuance of Buyer's ordinary shares, nominal value NIS 80 each (such ordinary shares issued, the "**Consideration Shares**"). The value of the Consideration Shares shall be determined in accordance with the volume weighted average closing price on the Nasdaq Capital Market during the 30-day period ending two (2) business days prior to issuance.

(iii) The Consideration Shares are restricted shares and therefore may not be sold, transferred, assigned, offered for sale, pledged, hypothecated or otherwise disposed of until the lapse of two years from their issuance date but not before June 30, 2022 (such period, the "**Lock-up Period**") and Seller agrees to abide by such restrictions. Upon issuance, the Consideration Shares shall be pledged by the Seller by way of a first degree fixed pledge in favor of Buyer and shall secure all of Seller's obligations to Buyer related to, arising out of and/or connected with this Agreement. When applicable, Seller shall cooperate with Buyer in the sale of the Consideration Shares for proceeds that shall be used to satisfy Seller's indemnification liability to Buyer hereunder. If the pledge is not foreclosed upon prior to such date, the pledge shall be released at the end of the Lock-up Period. Thereafter, subject to applicable Law, the Consideration Shares may be sold in compliance with Rule 144 or pursuant to another applicable exemption under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"). Thereafter, the Consideration Shares will be available for sale on the Nasdaq Stock Exchange subject to applicable Law and the Company's then trading windows policy. At any time following expiration of the Lock-up Period, Seller may provide Buyer with a written request to file a registration statement in respect of the Consideration Shares, which cannot be resold by Seller or the Shareholders without limitation pursuant to Rule 144, if any. Subject to standard exclusions, Buyer shall file with the Securities and Exchange Commission a registration statement in respect of such Consideration Shares within 120 days after receiving Seller's written request. All expenses in connection with the filing of the registration statement shall be borne by Buyer. The Consideration Shares shall be voted by way of a proxy granted by the Seller (or if transferred to the Shareholders, the Shareholders) which shall grant the Board of Directors of the Buyer the right to vote the Consideration Shares. Upon the issuance of the Consideration Shares, the Buyer shall provide the Seller with a cash amount sufficient to pay all withholding obligations of the Seller with respect to such issuance.



(iv) In the event that the Business Purchase Price shall be finally determined and is in excess of NIS 7,000,000, then on or before August 31, 2020, Buyer shall pay Seller such excess (the "**Make-Up Payment**") in cash, within 30 business days against a valid VAT invoice in accordance with applicable Law. In the event the Business Purchase Price is finally determined and is lower that NIS 7,000,000 (such difference, the "**Overpayment**"), then Seller shall repay Buyer, within 30 business days following Buyer's first demand, the Overpayment in cash. The Major Shareholder of Seller by his signature on this Agreement have personally guaranteed the repayment by Seller of any Overpayment amount.

(b) Inventory Purchase Price Payment Schedule. On the Closing Date Buyer shall pay Seller a down payment in cash on account of Inventory Purchase Price in an amount corresponding to the cost value of outstanding purchase orders presented by Seller to Buyer, and approved by Buyer at least two (2) days prior to the Closing Date, and no more than NIS 1,500,000 (the "**Closing Inventory Purchase Price Payment**"). The balance of the Inventory Purchase Price shall be paid by Buyer on an ongoing basis (after consumption of Inventory with an aggregate price of greater than NIS 1,500,000), in accordance with Buyer's actual consumption of the Inventory against valid VAT invoices in accordance with applicable Law.

2.7. Withholding. Buyer shall be entitled to deduct and withhold from any consideration payable or otherwise deliverable pursuant to this Agreement such amounts as may be required to be deducted or withheld therefrom under any provision of any applicable Law, unless Seller provides to Buyer a valid and applicable

certificate or ruling issued by the Israel Tax Authority ("**ITA**") which is sufficient to enable the Purchaser to conclude that no withholding (or reduced withholding) of tax is required with respect to such payment. To the extent amounts are so deducted or withheld with respect to any payments to be made hereunder, Buyer shall provide to Seller documentation evidencing that such amounts have been transferred to the applicable tax authority, and thereafter such amounts shall be treated for all purposes under this Agreement as having been paid to the party entitled to receive such payment.

2.8. VAT. Each payment of a portion of the Purchase hereunder shall be paid plus the applicable value-added tax ("**VAT**").

**3. CLOSING**

3.1. Closing Date. The Closing shall take place no later than the second (2nd) Business Day after all the closing conditions set forth in **Section 9** and **Section 10** have been duly satisfied (or, to the extent permitted, waived by the Party entitled to waive such condition), or at such other time as the Parties may mutually agree upon in writing. The Closing shall take place remotely by the exchange of duly executed signature pages delivered by each party via facsimile or electronic mail. The date on which the Closing occurs shall be referred to herein as the "**Closing Date**". The parties shall use commercially reasonable efforts to close by or before June 1, 2019.



3.2. Closing. At the Closing, the following transactions shall occur and documents shall be delivered (the "**Closing**"), which transactions and deliveries shall be deemed to take place simultaneously and no transaction shall be deemed to have been completed or any document delivered until all such transactions have been completed and all required documents delivered:

(a) Seller shall deliver, or procure the delivery, to Buyer of the following documents (unless any such delivery is waived by Buyer in a writing executed by Buyer):

(i) A certificate, duly executed by the Chairman of the Board of Seller, dated as of the date of the Closing, confirming that the representations and warranties made in **Section 5** were true and correct in all respects when made and are true and correct in all material respects on the Closing Date as though made on the Closing Date (except those representations and warranties which are made as of a specified date, which shall be true and correct in all respect as of such date), and that Seller has performed in all material respects all obligations required under this Agreement to be performed by it on or before the Closing in the form attached as **Schedule 3.2(a)(i)**;

(ii) (1) an Assignment and Assumption of Lease in the form of **Schedule 3.2(a)(ii)(1)** effecting the assignment of the Lease Agreement to Buyer [and amending the Lease Agreement to ensure that its remaining term is no more than two (2) years from the Closing Date] (the "**Assumption of Lease**") executed by Seller and the lessor; (2) assignments of all Intellectual Property Rights and separate assignments of all registered Patents, Trademarks and Copyrights in the form of **Schedule 3.2(a)(ii)(2)** ("**Intellectual Property Assignment Agreement**") executed by Seller; and (3) such other certificates of title or other instruments of assignment and transfer with respect to the Acquired Assets as Buyer may reasonably request and as may be necessary to vest in Buyer good and marketable title to all and ownership of all of the Acquired Assets executed by Seller to the extent applicable;

(iii) Each third-party consent and assignment listed on **Schedule 4.9(a)**, executed by all parties thereto other than Buyer and each Governmental Authorization set forth on **Schedule 4.4(1)** in form and substance satisfactory to Buyer and Buyer's counsel;

(iv) An original form signed by the an officer of Seller to the Registrar of Companies informing the registrar that Seller has changed its name to a different name which does not include the word "Imdecol" in a form to be agreed by the Parties;

(v) A confirmation from the ITA specifying the withholding tax rate, or the exemption from same, applicable to Seller with respect to the Purchase Price to be paid by Buyer under this Agreement, a copy of which attached as **Schedule 3.2(a)(v)**; and

Employment agreements with Buyer in the forms attached as **Schedule 3.2(a)(vi)** signed by the employees listed on **Schedule 8.8** and Employee Certificates and Employee Documentation for the Hired Employees.

(vi) a payoff letter issued by each of Bank Leumi L'Yisrael B.M. and Bank Mizrahi Tephahot B.M., in forms reasonably satisfactory to the Buyer, issued not earlier than five (5) Business Days prior to the Closing Date, each of which (i) sets forth the amounts required to repay in full all Indebtedness owed to the applicable issuer on the Closing Date (which shall be less than the Closing Payment), (ii) sets forth the wire transfer instructions for the repayment of such Indebtedness to the applicable issuer, and (iii) provides for a release of all Encumbrances granted by Seller to such holders or otherwise arising with respect to such Indebtedness, effective upon repayment of such Indebtedness and the termination of all loan and collateral documentation evidencing such Indebtedness (each, a "**Payoff Letter**").



(b) Buyer shall deliver, or procure the delivery, to Seller of the following documents (unless any such delivery is waived by Seller in a writing executed by Seller):

(i) The Non-Competition Agreement executed by Buyer, the Assumption of Lease executed by Buyer, [the Intellectual Property Assignment Agreement executed by Buyer] and such other certificates of title or other instruments of assignment and transfer with respect to the Acquired Assets as reasonably requested by Buyer and as may be necessary to vest in Buyer good and marketable title to all and ownership on all of the Acquired Assets executed by Buyer to the extent applicable.

(c) Closing Payment.

(i) Buyer shall pay the Closing Business Purchase Price Payment and Closing Inventory Purchase Price Payment (collectively, the "**Closing Payment**") less the Indebtedness owed to Bank Leumi L'Yisrael B.M. and Bank Mizrahi Tephahot B.M. as set forth in the Payoff Letters to Seller in immediately available funds via wire transfer to a bank account agreed to by Buyer and Seller in writing whose signatory rights shall require the signatures of (1) Eyal Cohen, Co-CEO and CFO of the Buyer and (2) (a) Ben Zion Katz, the Chairman of the Board of the Seller or (b) Ayelet Aya Hayak, CEO of the Seller, for withdrawals, transfers or other removals of funds from such bank account and whose signatory rights may only be changed with the written consent of the Buyer and the Seller (the "**Closing Payment Bank Account**"). The Closing Payment is to be used to pay liabilities of the Seller to banks, suppliers, employees, and the Innovation Authority (as defined below), and once such liabilities have been paid in full the Buyer shall consent to the removal of Eyal Cohen, Co-CEO and CFO of the Buyer as a signature from the Closing Payment Bank Account.

(ii) Buyer shall pay, on behalf of Seller, the Indebtedness owed by Seller to Bank Leumi L'Yisrael B.M. and Bank Mizrahi Tephahot B.M. as set forth in the applicable Payoff Letter issued by them directly to them in accordance with the instructions set forth in each Payoff Letter and such payment shall be deemed payment to the Seller by Buyer.

**4. REPRESENTATIONS AND WARRANTIES OF SELLER**

Acknowledging that Buyer is relying on the representations and warranties set forth in this **Section 4**, except as set forth in the **Schedule 4** (the "**Seller Disclosure Schedule**") Seller hereby represents and warrants to Buyer as of the date of this Agreement and as of the Closing Date as follows:

4.1. Organization of Seller; Authority. Seller is a corporation duly organized and validly existing under the laws of Israel, and has all requisite power and authority to own and hold the Acquired Assets, to carry on the Business, and to execute and deliver this Agreement and the other Transaction Documents to which it is a party and to carry out all actions required of it pursuant to the terms of the Transaction Documents.



4.2. Corporate Approval; Binding Effect. With respect to this Agreement, Seller has obtained, and with respect to the other Transaction Documents to which it will be a party, Seller will obtain prior to Closing, all necessary authorizations and approvals from its Board of Directors for the consummation of the transactions contemplated hereby and thereby. This Agreement has been duly executed and delivered by Seller, and at Closing each of the Transaction Documents to which Seller will be a party will be duly executed and delivered by Seller and this Agreement constitutes, and at the Closing the other Transaction Agreements to which Seller will be a party will constitute, the legal, valid and binding obligation of Seller, enforceable against Seller in accordance with each such Transaction Agreement's terms, except as enforceability thereof may be limited by any applicable bankruptcy, reorganization, insolvency or other laws affecting creditors' rights generally or by general principles of equity. A true and correct copy of a unanimous written resolution of Seller's Board of Directors, approving this Agreement and the transactions contemplated hereby in the form attached as **Schedule 4.2**;

4.3. Non-Contravention. The execution and delivery by Seller of the Transaction Documents to which it is a party and the consummation by Seller of the transactions contemplated hereby and thereby will not (a) violate or conflict with any provision of its Memorandum and Articles of Association, as amended to date; or (b) constitute a violation of, or be in conflict with, or constitute or cause a default under, or result in the creation or imposition of, any Encumbrance upon any of the Acquired Assets pursuant to (i) any agreement or instrument to which Seller is a party or by which Seller or any of its properties (including any of the Acquired Assets) is bound or to which Seller or any of such properties (including any of the Acquired Assets) is subject, or (ii) any statute, Law, judgment, decree, order, regulation, ruling or rule of any court or Governmental Body.

4.4. Governmental Authorizations. Except as set forth on **Schedule 4.4(1)**, no Governmental Authorization or consent, approval or authorization of, or registration, qualification or filing with, any Governmental Body is required for the execution and delivery by Seller of the Transaction Documents to which it is a party or for the consummation of the transactions contemplated thereby. Seller has and maintains, the Governmental Authorizations listed on **Schedule 4.4(2)** hereto which include all material licenses, permits and other material authorizations from each Governmental Body which is necessary for the conduct of the Business and the ownership or use of the Acquired Assets.

4.5. Financial Statements. Seller (a) has delivered audited financial statements for the fiscal year 2017 and fiscal year 2018, in both cases, prepared in accordance with Israeli GAAP (b) will deliver in accordance with this Agreement its audited financial statements for the fiscal year 2017 and fiscal year 2018, in both cases, prepared in accordance with US GAAP and (c) will deliver in accordance with this Agreement it unaudited interim financial reports for the first quarters of 2019, and 2018 prepared in accordance with US GAAP (the "**Financial Statements**") to Buyer, and they are attached as **Schedule 4.5** hereto. The Financial Statements stated to have been prepared in conformity with the Israeli generally accepted accounting principles have been so prepared and the Financial Statements stated to have been prepared in conformity with the U.S. generally accepted accounting principles have been so prepared, and such principles have been applied on a consistent basis throughout the periods indicated therein. The Financial Statements are consistent in all material respects with the books and records of Seller and fairly present the financial position of Seller as of the dates thereof and the results of operations and cash flows of Seller for the periods shown therein, all as required under the principles under which they were prepared, subject, in the case of the unaudited financial statements only, to normal and recurring year-end adjustments. No information has come to the attention of the Seller since the respective dates of the Financial Statements that would indicate that the Financial Statements are not true and correct in all material respects as of the dates thereof. The business plan for the calendar years 2019 and 2020 attached as **Schedule 4.5(2)** has been prepared in good faith and approved by the Board of Directors of Seller.



4.6. Absence of Certain Changes. Except as set forth on **Schedule 4.6**, since December 31, 2018, Seller has carried on their business only in the ordinary course, and there has not been (a) any adverse change in the assets, liabilities, sales, income or business of Seller or in its relationships with suppliers, customers or lessors, other than changes which were both in the ordinary course of business and have not been, either in any case or in the aggregate, adverse; (b) any acquisition or disposition by Seller of any asset or property other than sales of inventory in the ordinary course of business; (c) any damage, destruction or loss, whether or not covered by insurance, adversely affecting, either in any case or in the aggregate, the Business or any of the Acquired Assets; (d) any Encumbrance imposed on any of the Acquired Assets; (e) any write-off of any right related to, or, in connection with the Business (f) any entry by Seller into any material transaction in connection with the Business, (g) any discharge or satisfaction of any Encumbrance related to or in connection with the Business or the Acquired Assets, except in the ordinary course of business.

4.7. Litigation. No Proceeding is pending or threatened in writing, relating to, connected with, or affecting any of the Acquired Assets, the Business, or Seller or which challenges the validity of the Transaction Documents or challenges any of the transactions contemplated hereby or thereby, nor, to the best knowledge of Seller, is there any basis for any such Proceeding. Seller has claims against third parties described on **Schedule 4.7**. For the avoidance of any doubt, **Schedule 4.7.1** lists the claims brought against the Seller (the "**Existing Claims**")and shall not be deemed as part of the Acquired Assets.

4.8. Compliance with Law. Seller has complied with, and is in compliance with all Laws, statutes and governmental regulations applicable to Seller, the Business and the Acquired Assets and all judicial or administrative tribunal orders, judgments, writs, injunctions, decrees or similar requirements applicable to Seller, the Business and the Acquired Assets (including any labor, environmental, occupational health, zoning or other law, regulation or ordinance) and Seller has not received any notice that any party or Governmental Body claims Seller is not in compliance with any of the above. Seller has not committed, been charged with, or, to its knowledge, been under investigation with respect to, nor does there exist, any violation of any provision of any applicable Law or administrative regulation in respect of Seller, the Business or any of the Acquired Assets.

4.9. Title to Acquired Assets. Seller is the lawful sole owner of and possesses all other rights in, and has good and valid record and marketable title to, all of the Acquired Assets. Seller has the full right to sell, convey, transfer, assign and deliver the Acquired Assets, without the need to obtain the consent or approval of any other party, other than the consents and approvals listed on **Schedule 4.9(a)**. Except for Encumbrances described on **Schedule 4.9(b)** hereto which secure Indebtedness, and which shall be released at or prior to the Closing, all of the Acquired Assets (provided however that with respect to Assigned Contracts – only Seller's rights pursuant to such contracts) are free and clear of any Encumbrances. All of the Tangible Property and Inventory are in good condition and repair (reasonable wear and tear excepted) and are adequate and sufficient to carry on the Business as presently conducted. At Closing, Seller will convey the Acquired Assets to Buyer and Buyer will have, good and valid record and marketable title to all of the Acquired Assets (provided however that with respect to Assigned Contracts – only Seller's rights pursuant to such contracts), free and clear of all Encumbrances.



4.10. Real Property; Safety, Zoning and Environmental Matters.

(a) Seller owns no real property. Seller leases its premises at 11th Amal Street, Rosh Ha'ayin, Israel 4809239 (the "**Real Property**") from De-Groot - Laboratory Equipment Ltd. (company No. 51-056752-2) respectively (the "**Lessor**") pursuant to a lease agreement dated February 22, 2016 a true and correct copy of which has been provided to Buyer (the "**Lease Agreement**"). The Lease Agreements constitute the full and entire agreements relating to Seller's lease of the Real Property. Seller has complied with all of its obligations, covenants and undertakings set forth in the Lease Agreement, and the Lessor has complied with all of its obligations, covenants and undertakings set forth in the Lease Agreement. Seller has not received any notice that either the whole or any portion of the Real Property is to be condemned, requisitioned or otherwise taken by public authority. Buyer shall be entitled to use the Real Property until the termination of each of the Lease Agreements, all subject to the terms and conditions of such Agreements, and further subject to the receipt of the consents set forth on **Schedule 3.2(a) (iv)**.

(b) Except as set forth on **Schedule 4.10** Seller is not in violation, or alleged violation of, and has no Liability under, any judgment, decree, order, Law, license, rule, regulation or ordinance pertaining to health, safety or the environment (a "**Health and Environmental Law**") whether or not or relating to, or in connection with, any of the Acquired Assets.

4.11. Tangible Property. **Schedule 4.11** hereto sets forth a complete and accurate list of all of the Tangible Property excluding items having a book or market value individually of less than $250, and includes all equipment and property owned by Seller used in the Business, with the exception of such excluded items.

4.12. Inventory. The Inventory is fairly reflected on the books of account of Seller, stating items of Inventory at the lower of cost or market value in accordance with GAAP, consistently applied, with adequate allowance for excessive or obsolete inventories. All items included in the Inventory consist of a quality and quantity usable and, with respect to finished goods, saleable, in the ordinary course of business of Seller. Seller is not in possession of any inventory not owned by Seller, including goods already sold. The quantities of each item of Inventories (whether raw materials, work-in-process or finished goods) are not excessive but are reasonable in the present circumstances of Seller. Each item of Inventory is listed, along with its book value, on **Schedule 1.9**.

4.13. RESERVED



4.14. Contracts. **Schedule 4.14(1)** sets forth a complete and accurate list of all Contracts to which Seller is a party or by which it or any of its assets are bound and which are intended to be assigned to Buyer at the Closing, including: (i) the Lease Agreement, (ii) all of the Seller's agreements with sales agents, (iii) all of Seller's agreements with suppliers; (vi) Contracts and other agreements for the provision of services by Seller; (vii) bonds or other security agreements provided by any party to Seller; (viii) Contracts and other agreements for the sale of any assets other than in the ordinary course of business or granting to any person of any preferential rights to purchase any asset; (ix) joint venture agreements; or (xi) any other Contract or other agreement whether or not made in the ordinary course of business. Seller has delivered to Buyer true, correct and complete copies of all Contracts listed, or required to be listed, on **Schedule 4.14(1)**. The Seller has not provided any guarantees to any party. Unless specifically stated otherwise on **Schedule 4.14(1)**, each of the Contracts listed, or required to be listed, on **Schedule 4.14(1)** or any of the other Schedules hereto (a "**Schedule Contract**") is in full force and effect, and to Seller's knowledge no party to any such Schedule Contract has raised a claim that such Schedule Contract is not in full force and effect, no party to any such Schedule Contract indicated to Seller a desire or a right to terminate such Schedule Contract. Seller is not in breach of any of the provisions of any such Schedule Contract, nor, to the knowledge of Seller, is any other party to any such Schedule Contract in breach under such Schedule Contract, nor to Seller's knowledge does any event or condition exist which with notice or the passage of time or both would constitute a default under such Schedule Contract. Seller has in all respects performed all obligations required to be performed by it to date under each such Schedule Contract. Subject to obtaining any necessary consents by the other party or parties to any such Schedule Contract (the requirement of any such consent being reflected on **Schedule 4.14(1)**), no Schedule Contract includes any provision the effect of which may be to change or make exercisable any rights or obligations of any party thereto due to the assignment of such Schedule Contract to Buyer or will in any other way be affected by, or terminate or lapse by reason of, the Contemplated Transaction. **Schedule 4.14(2)(a)** lists all of Seller's warranties which are all in the form attached as **Schedule 4.14(2)(b)**. The Seller has no agreement to provide services for products sold by Seller except for the warranties set forth on **Schedule 4.14(2)(a)** and no such warranties have a term requiring them to remain in effect for more than one (1) year after they were entered into.

4.15. Employment Matters.

(a) **Schedule 4.15** hereto sets forth a full and accurate description, as of the date hereof, of the names, positions, dates of commencement of employment, monthly salaries, whether the such employee is subject to Section 14 arrangement under the Severance Pay Law, 5723 – 1963, advance notice periods, and other terms and conditions of employment, of all employees of Seller, as well as terms of engagement of independent contractors that supply services to Seller. Except for the persons designated as employees **Schedule 4.15** hereto, there is no other person or entity that provides services to the Seller and may be deemed an employee of Seller.

(b) Seller has complied in all material respects with the terms and conditions of the employment agreements of each of its employees and all applicable Laws that apply to such employment. Seller has withheld all amounts required under applicable Law to withhold from its employees' salaries and has paid such amounts, together with all such additional amount that Seller is obligated to pay and transfer with respect to its employees, to the applicable Governmental Bodies under applicable Law. With respect to the employees listed on **Schedule 4.15** hereto, individually and in the aggregate, no event has occurred and no condition or set of circumstances exists in connection with which Seller could be subject to any liability that could have an adverse effect on the Business or Acquired Assets.

(c) There is no labor strike, slowdown or stoppage pending (or any labor strike or stoppage threatened or contemplated) against or affecting Seller, and there have been no disputes between Seller and any number or category of employees listed on **Schedule 4.15** hereto and there are no present circumstances to which Seller is aware which are reasonably likely to give rise to any such dispute.



4.16. Intellectual Property.

(a) **Schedule 4.16** hereto sets forth a complete and accurate list of all of Seller's Intellectual Property Rights ("**Seller IP**") noting which items of Seller's IP are owned or licensed. Seller owns or has the sole, exclusive, unlimited and perpetual right to use for all purposes all Seller IP, and the consummation of the transactions contemplated hereby will not alter or impair any such right. Seller has not infringed any Intellectual Property Rights of any third party and no claim has been made that Seller has infringed any Intellectual Property Rights of any third party. No claims have been asserted, and no claims are pending, by any Person regarding the use of any Seller IP or challenging or questioning the validity or effectiveness of Seller IP or any part thereof, and there is no basis for such claim. The use of Seller IP by Seller and, after the Closing by Buyer, does not, and will not, infringe on the rights of any person or third party. Seller IP is sufficient to conduct the Business as presently conducted. With respect to each item of Seller IP that Seller uses pursuant to a license, sublicense, franchise, agreement, or permission: (i) the license, sublicense, agreement, or permission covering the item is legal, valid, binding, enforceable, and in full force and effect; (ii) the license, sublicense, agreement, or permission will continue to be legal, valid, binding, enforceable, and in full force and effect on identical terms following the Closing and to assignment to Buyer pursuant to the provisions of this Agreement; (iii) to Seller's knowledge, no party to the license, sublicense, agreement, or permission is in breach or default thereunder, and no event has occurred which with notice or lapse of time would constitute a breach or default thereunder or permit termination, modification, or acceleration thereunder; (iv) no party to the license, sublicense, agreement, or permission has repudiated any provision thereof; (v) the underlying item of Seller IP is not subject to any outstanding injunction, judgment, order, decree, ruling, or charge affecting Seller; and (vi) no action, suit, Proceeding, hearing, investigation, charge, complaint, claim, or demand is pending or, is threatened which challenges the legality, validity, or enforceability of the underlying item of Seller IP Seller did not grant any sublicense or similar right with respect to any such license, sublicense, agreement, or permission. Seller has not granted any license to the Seller IP

other than end user licenses in the ordinary course of business. None of the Seller IP is subject to any obligation to pay royalties or to compensate any person for the use of any such Seller IP No software owned or used by Seller or included in the Seller IP contains or is derived from open source, shareware, freeware, "copyleft" or similar software. All rights to any Intellectual Property Rights created by any current or former employee or independent contractor of the Seller relating to the business of Seller during the term of its engagement by Seller are owned by the Seller and no employee has any rights or claims in, to or under such Intellectual Property Rights, including claims to royalties.

4.17. Suppliers and Customers. **Schedule 4.17(1)** hereto sets forth the ten top suppliers, by NIS volume, of the business activity during the last twelve (12) months and the customers of the Seller whose purchases exceeded 5.0% (five percent) of the aggregate net sales of the Business during the last twelve (12) months. During the last twelve (12) months no supplier or customer has cancelled or otherwise terminated, or threatened to cancel, decrease or otherwise to terminate, its relationship with Seller.

4.18. Sufficiency of Assets. The Acquired Assets are adequate and sufficient to conduct the Business as currently conducted by Seller. The Acquired Assets, constitute, collectively, in all material respects, all of the assets and rights used by Seller in the conduct of the Business, as well as all of the rights and assets needed in order to conduct the Business in the manner conducted to date.

4.19. No Undisclosed Liabilities. Except to the extent incurred in the ordinary course of business, or disclosed in the Financial Statements, Seller has no material Liabilities or obligations of any nature, whether accrued, absolute, contingent or otherwise (including as guarantor or otherwise with respect to obligations of others).



4.20. Taxes. Seller has duly filed with the appropriate Governmental Bodies all of the income, sales, use, employment and other tax returns and reports required to be filed by them. No waiver of any statute of limitations relating to taxes has been executed or given by Seller. All taxes, assessments, fees and other governmental charges due and payable by Seller have been paid, other than those currently payable without penalty or interest. Seller has withheld and paid all taxes required to be withheld or paid by Seller. Neither the ITA nor any other taxing authority is now asserting or threatening to assert against Seller any deficiency or claim for additional taxes or interest thereon or penalties in relation thereto, or in connection therewith, or any adjustment.

There is no income of Seller that will be required under applicable tax laws to be reported by Buyer for a tax period beginning after the Closing Date which taxable income was realized (and reflects economic income) arising prior to the Closing Date. There are no Encumbrances for taxes on the Acquired Assets due to tax payments relating to the period until the Closing. Seller has not undertaken since December 31, 2018 any transaction that has required or would require special reporting in accordance with the Israeli Income Tax Regulations (Tax Planning Requiring Reporting), 2006, regarding reportable tax planning.

4.21. Broker. Seller has not retained, utilized or been represented by any broker, agent, finder or intermediary in relation to, or connection with, this Agreement or the negotiation or consummation of the Contemplated Transaction other than Shmuel Mansberg and Seller shall pay Shmuel Mansberg's fees due from Seller at Seller's sole responsibility and expense.

4.22. Potential Conflicts of Interest. To Seller's knowledge, no officer, director or shareholder of Seller or Related Person of Seller or any Shareholder (a) engage, anywhere in the world, in any business organization that is engaged in activities which are directly competitive with the Business or is an officer, director, employee or consultant of any Person which is a competitor, lessor, lessee, customer or supplier of Seller; (b) owns, directly or indirectly, in whole or in part, any tangible or intangible property which Seller is using; (c) has any cause of action or other claim whatsoever against, or owes any amount to, Seller; and any financial interest in any Contract or transaction with Seller.

4.23. Government Grants. **Schedule 4.23(a)** identifies each Governmental Grant that has been provided to the Seller, and the Seller's obligations pursuant thereto, if any. As of the date hereof, the Seller does not have, and the Acquired Assets do not include, any Intellectual Property Rights or "knowledge" (*yeda*, ידע) (as such term is used in the Encouragement of Technological Research, Development and Innovation in the Industry Law, 5744-1984 (the "**Innovation Law**")) that was created in connection with any Government Grant or is included in any program administered by the National Authority for Technological Innovation (previously the Office of the Chief Scientist) (the "**Innovation Authority**"). As of the date hereof, the Seller has no obligations to the National Authority for Technological Innovation (the "**Innovation Authority**"), any other Government Body or any Person under any applicable Law (including the Innovation Law) or otherwise for or in connection with any Government Grant, including, without limitation, in respect of the use or right to transfer of any of the Acquired Assets.



4.24. Disclosure. Neither this Agreement nor any exhibit, schedule, written statement, certificate or other document delivered or to be delivered to Buyer pursuant to this Agreement or in connection with the consummation of the transactions contemplated hereby contains or will contain any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements contained therein, not misleading, or necessary in order to provide Buyer with proper and complete information with respect to the Seller, the Business and the Acquired Assets. Seller has provided Buyer with all material information requested by Buyer and true and complete answers to those questions and inquiries posed by Buyer in the material provided at https://www.dropbox.com/home/DDBOS%20IMDECOL as of the date of this Agreement (the "**VDR**"). To the best of the Seller's knowledge, there is no fact, condition or circumstance that is material to the assets, liabilities, business, prospects, condition or results of operations of Seller, the Business or the Acquired Assets that has not been previously disclosed to the Buyer in writing.

## 5. REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Seller as of the date of this Agreement as of the Closing Date as follows:

5.1. Organization of Buyer; Authority. Buyer is a corporation duly incorporated and validly existing under the laws of the State of Israel. Buyer has all requisite power and authority to execute and deliver the Transaction Documents to which it is a party and to carry out all of the actions required of it pursuant to the terms of such Transaction Documents.

5.2. Corporate Approval; Binding Effect. With respect to this Agreement, Buyer has obtained, and with respect to the other Transaction Documents to which it will be a party, Buyer will obtain prior to Closing, all necessary authorizations and approvals from its Board of Directors for the consummation of the transactions contemplated hereby and thereby. This Agreement has been duly executed and delivered by Buyer, and at Closing each of the Transaction Documents to which Buyer will be a party will be duly executed and delivered by Buyer, and this Agreement constitutes, and at the Closing the other Transaction Agreements to which Buyer will be a party will constitute, the legal, valid and binding obligation of Buyer, enforceable against Buyer in accordance with each such Transaction Agreement's terms, except as enforceability thereof may be limited by any applicable bankruptcy, reorganization, insolvency or other laws affecting creditors' rights generally or by general principles of equity.

5.3. Non-Contravention. The execution and delivery by Buyer of the Transaction Documents to which it is a party and the consummation by Buyer of the transactions contemplated hereby and thereby will not (a) violate or conflict with any provisions of the Memorandum and Articles of Association of Buyer, each as amended to date; or to Buyer's knowledge (b) constitute a material violation of, or be in conflict with, constitute or cause a default under, or result in the creation or imposition of any lien upon any property of Buyer pursuant to (i) any material agreement or instrument to which Buyer is a party or by which Buyer or any of its properties is bound or to which Buyer or any of its properties is subject, or (ii) to its knowledge, any statute, Law, judgment, decree, order, regulation or rule of any court or governmental authority to which Buyer is subject.

5.4. Available Funds. Buyer has or will have access to, and at Closing will have sufficient funds in its possession to permit Buyer to pay the Closing Payment and to perform its obligations under this Agreement.

5.5. Investigation. Without limiting Buyer's right to rely on the accuracy of the representations and warranties of the Seller provided in **Section 4**, Buyer acknowledges and agrees that in making its decision to enter into this Agreement and to consummate the transactions contemplated hereby, Buyer has been given the opportunity to ask questions of and receive responses from Seller, and Buyer has relied upon its own investigation, the express representations and warranties of Seller and the materials provided by Seller in the VDR.



5.6. Broker. Buyer has not retained, utilized or been represented by any broker, agent, finder or intermediary in relation to, or connection with, this Agreement or the negotiation or consummation of the Contemplated Transaction other than Shmuel Mansberg and Buyer shall pay Shmuel Mansberg's fees due from Buyer at Buyer's sole responsibility and expense.

**6. REPRESENTATIONS AND UNDERTAKINGS REGARDING THE ORDINARY SHARES**

Seller represents and warrants to Buyer as of the Closing Date and as of the date of issuance of the Consideration Shares as follows:

6.1. Information and Advice. Seller confirms that it has received or has had access to the information it considers necessary or appropriate to make an informed decision with respect to this Agreement and the Consideration Shares to be received by it hereunder.

6.2. Availability of Exemptions. Buyer hereby represents to Seller that the Consideration Shares are being offered pursuant to an exemption or exemptions from registration requirements of Israeli and U.S. Federal and state securities laws. Seller understands that Buyer is relying upon the truth and accuracy of Seller's representations, warranties, agreements, acknowledgments and understandings set forth herein in order to determine the applicability of such exemptions and the suitability of Seller to receive the Shares.

6.3. Legends. Seller acknowledges and agrees that certificates representing the Consideration Shares will contain one or more legends to the effect that transfer of such securities is prohibited except pursuant to registration under the Securities Act or pursuant to an available exemption from registration such as the following:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. THE SHARES HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THESE SHARES UNDER THE SECURITIES ACT OF 1933 OR PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM SUCH REGISTRATION UNDER SAID ACT. IN ADDITION, THESE SHARES ARE SUBJECT TO A NO SALE COMMITMENT AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE DISPOSED OF, BEFORE [24 months following the Closing Date but no earlier than June 30, 2022] WITHOUT THE PRIOR WRITTEN CONSENT OF B.O.S. BETTER ONLINE SOLUTIONS LTD. ANY PURPORTED SALE OR DISPOSITION IN CONTRAVENTION OF THE ABOVE SHALL BE DEEMED VOID AND HAVE NO EFFECT "

6.4. Restrictions on Transferability and Hedging.

(a) Seller understands that (i) the Consideration Shares have not been registered under the Securities Act, or under the laws of any other jurisdiction; (ii) such Consideration Shares are deemed to be "restricted securities" as defined in Rule 144 promulgated under the Securities Act, and cannot be sold, transferred or otherwise disposed of unless they are registered under the Securities Act and, where required, under the laws of other jurisdictions or unless an exemption from registration is then available; (iii) there is no registration statement on file with the SEC with respect to the Consideration Shares to be received by such Seller.



(b) Seller acknowledges that Buyer will not register any transfer of Consideration Shares not made pursuant to registration under the Securities Act, or pursuant to an available exemption from registration.

(c) Seller acknowledges, agrees and covenants not to engage in hedging transactions with regard to the Consideration Shares offered pursuant to this Agreement.

6.5. Offshore Transaction. Seller is not a "U.S. Person", as such term is defined in Regulation S under the Securities Act, its principal address is outside the United States and it has no present intention of becoming a resident of (or moving its principal place of business to) the United States. Seller was located outside the United States at the time any offer to sell and any other action in connection with such offer and sale was made to it and at the time that the buy order was originated by Seller. The Consideration Shares are being acquired solely for Seller's own account, and in no event and without derogating from the foregoing, for the account or the benefit of a U.S. person.

6.6. Investment Purposes. The Consideration Shares are being acquired for investment purposes. The Consideration Shares are not being purchased with a view to, or for sale in connection with, any distribution or other disposition thereof. Seller has no present plans to enter into any contract, undertaking, agreement or arrangement for any such resale, distribution or other disposition and it will not divide its interest in the Consideration Shares with others, resell or otherwise distribute the Consideration Shares in violation of U.S. federal or state securities laws or the Israeli securities Laws.

6.7. No Solicitation. At no time was Seller presented with or solicited by any leaflet, public promotional meeting, newspaper or magazine article, radio or television advertisement or any other form of general advertising or general solicitation in connection with the Consideration Shares and the transaction contemplated hereby.

6.8. Broker-Dealer. Seller is not a broker-dealer, nor is it an affiliate of any broker-dealer.

6.9. Disclosure. The representations and warranties of Seller contained in this **Section 6** as of the date hereof and as of the Closing, do not contain any untrue statement of a material fact or omit to state a material fact required to be stated herein or necessary to make the statements herein, not misleading. Seller understands and confirms that Buyer will rely on the foregoing representations in effecting the issuance of the Consideration Shares hereunder.

**7. COVENANTS OF SELLER PRIOR TO CLOSING**

7.1. Full Access. Between the date of this Agreement and the Closing Date (the "**Interim Period**"), and upon reasonable advance notice received from Buyer, Seller shall (a) afford Buyer and its executive officers (collectively, "**Buyer Group**") full and free access (and permit them to copy), during regular business hours, to Seller's directors, officers, personnel, properties (including subsurface testing), Tangible Property, Contracts, Governmental Authorizations, inventory, books and records and other documents and data and suppliers and customers, such rights of access to be exercised in a manner that does not unreasonably interfere with the operations of Seller; and (b) otherwise cooperate and assist, to the extent reasonably requested by Buyer, with Buyer's investigation of the

properties, assets and financial condition of Seller. In the event environmental testing is recommended by any of Buyer Group, Buyer shall be permitted to have the same performed.



7.2. Operation of Seller. During the Interim Period, Seller shall: (a) conduct its business only in the ordinary course of business; (b) except as set forth in this Agreement or as otherwise directed by Buyer in writing, and without making any commitment on Buyer's behalf, use its best efforts to preserve intact its current business organization, keep available the services of its officers, employees and agents and maintain its relations and good will with suppliers, customers, landlords, creditors, employees, agents and others having business relationships with it; (c) confer with Buyer prior to implementing operational decisions of a material nature; (d) otherwise report periodically to Buyer concerning the status of its business, operations and finances; (e) make no material changes in management personnel without prior consultation with Buyer; (f) maintain the Acquired Assets in a state of repair and condition that complies with Law and is consistent with the requirements and normal conduct of Seller's business; (g) keep in full force and effect, without amendment, all material rights relating to Seller's business; (h) comply with all Laws and contractual obligations applicable to the operations of Seller's business; (i) contribute that amount of cash to each employee plan necessary to fully fund all of the benefit liabilities of such employee plan on a plan-termination basis as of the Closing Date; (j) cooperate with Buyer and assist Buyer in identifying the Governmental Authorizations required by Buyer to operate the business from and after the Closing Date and either transferring existing Governmental Authorizations of Seller to Buyer, where permissible, or obtaining new Governmental Authorizations for Buyer; (k) upon request from time to time, execute and deliver all documents, and do all other acts that may be reasonably necessary or desirable in the opinion of Buyer to consummate the Contemplated Transactions, all without further consideration; (l) maintain all books and Records of Seller relating to Seller's business in the Ordinary Course of Business; and (m) not, without prior notice to Buyer enterinto or amend any Contract, obtain or amend any Governmental Authorization, or settle any Proceeding and without first providing such Contract, Governmental Authorization (or terms thereof if the Governmental Authorization is not available) amendment, or settlement to the Buyer and obtaining the written consent of Buyer executed by Buyer to such Contract, Governmental Authorization (or terms thereof if the Governmental Authorization is not available) amendment, or settlement.

7.3. Employees.

(a) Following the signing of this Agreement, and in coordination with the Buyer, Seller shall deliver written notices of termination of employment to each of its employees that specifies that each of the employees has the option to either sign an employment agreement with the Buyer and waive his or her right to a hearing prior to termination or choose to participate in a hearing prior to termination (employees that will consent to be employed by the Buyer, excluding each "**Seller's Officers**" as defined in Section 7.3(e) hereinafter, shall be referred to as "**Hired Employees**"). The Seller's Officers have informed the Buyer that they will sign an employment agreement with the Buyer and have waived their rights to a hearing prior to termination. Hired Employees and Seller's Officers will receive from Seller termination letters according to which, their employment with Seller is terminated on the Closing Date and following Hired Employee's or Seller's Officers prior notice period.



(b) Buyer will enter into employment agreements (in a form determined by the Buyer in its sole and absolute discretion), with each of the Hired Employees that wishes to be employed by Buyer and signs an Employee Certificate (as defined below), pursuant to which, their employment shall commence on the Closing Date and following the end of the prior notice period provided to them by Seller.

(c) Seller shall take all other actions required by applicable Law to terminate the Hired Employees' and Seller's Officers' employment or engagement with the Seller as of the Closing Date and shall pay all amounts due to the Hired Employees and Seller's Officers upon termination, as applicable, including, *inter alia*, all wages earned prior to termination, payment of severance in accordance with applicable legal requirements, payment of vacation days (including any accrued vacation days), recreation pay, bonuses, commissions, pay for other compensated absences and other remuneration (including mandatory or discretionary benefits) due to such employee with respect to his or her employment with the Seller through the termination thereof, including any related payroll deductions and deposits to funds and insurance policies (such as employee benefit plan contributions and employment taxes which shall be paid when due) with respect thereto. Following signing, Buyer and Seller shall consult in good faith whether there is a legal requirement to supplement the severance amount currently deposited in the insurance funds of the Hired Employees and Seller's Officers. In the event an agreement is not reached amicably between the parties in this respect by May 1, 2019, the matter shall be referred to the binding decision of Chen Somech, Adv. (the "**Expert**" and his decision the "**Expert Decision**") and the parties shall act accordingly. The fees, costs and expenses of the Expert shall be borne by the Buyer and Seller in equal parts.

(d) Seller will use its best efforts to have the Hired Employees and Seller's Officers sign a release and waiver of claims document, according to which they (i) have received all amounts due to them upon termination by Seller, (ii) waive any and all claims against Seller with respect to their employment term and its termination and (iii) undertake that they have no claims against Buyer and Seller for said employment term in a form attached as **Schedule 7.3(d)** (each such release and waiver, an "**Employee Certificate**"). Nothing in this Section shall be interpreted as a contractual obligation on part of Seller to procure that the Hired Employees sign Employee Certificates and Buyer acknowledges that Seller cannot compel Hired Employees to sign Employee Certificates. The Seller's Officers shall sign Employee Certificates. The Buyer may elect not to engage any Hired Employee that does not sign an Employee Certificate and the Seller shall have no claims against Buyer in such respect. At the Closing, Seller shall also provide Buyer with termination letters and final accounting documents with respect to the Hired Employees and the Seller's Officers and 161 forms (the "**Employee Documentation**").

(e) In addition to the Hired Employees, Buyer shall also hire Ayelet Aya Hayak, the Seller's Chief Executive Officer and Ben Zion Katz, Seller's Chairman of the Board and Chief Technology Officer (each, a "**Seller's Officer**" and together the "**Seller's Officers**"). Buyer undertakes not to terminate the employment of Seller's Officers for a period of at least 1 year following the commencement of their employment with Buyer, unless under the occurrence of circumstances, which constitute "Cause". "**Cause**" shall mean any of: (a) a conviction in any crime (whether any right to appeal has been or may be exercised) involving moral turpitude; (b) an action taken by the employee to intentionally harm the Company; (c) an embezzlement of funds of the Company or its subsidiaries; (d) a falsification of records or reports; (e) a material breach of confidentiality; (f) a breach of the fiduciary duties or duties of care to the Company or any subsidiary (except for conduct taken in good faith) which, to the extent such breach is curable, has not been cured within fifteen (15) days after its receipt of notice thereof from Company containing a description of the breach or breaches alleged to have occurred; and (g) any act or omission that justify the termination of an employee with no severance pay under sections 16 and 17 to Severance Pay Law 5723 – 1963. **Schedule 3.2(a)(vi)** shall consist of the Seller's Officers' employment agreements.



(f) Buyer undertakes that the financial employment terms extended to the Hired Employees and the Seller's Officers by the Buyer, after the Closing Date shall not be less than the employment terms extended to them by the Seller as of the date hereof. Buyer may (i) use a different employment agreement with different legal terms for the employment agreements of the Hired Employees and the Seller's Officers; (ii) apply Section 14 of the Severance Pay Law, 5723-1963 to the Hired Employees and the Seller's Officers; and (iii)bonuses and options shall not be granted to the Hired Employees and the Seller's Officers unless separately agreed by Buyer. The employment terms extended to the Hired Employees and the Seller's Officers by the Buyer after the Closing Date shall take into account Hired Employees and Seller's Officers cumulative term of employment with the Seller for the purpose of calculating their entitlement to vacation days, sick days and other fringe benefits that vary due to seniority.

(g) Seller and Buyer shall use commercially reasonable efforts to procure, and take all action necessary for the purpose of transferring the pension and severance funds of Hired Employees and Seller's Officers to Buyer, inter alia, in accordance with the ITA Income Tax Circular 6/2011 and obtaining a ruling under the ITA Income Tax Circular 6/2011 such that the engagement of the Hired Employees and Seller's Officers by the Buyer and the transfer of their employment-related funds to Buyer shall not be considered as a "tax event" that causes the Buyer or the Hired Employees or Seller's Officers to be liable for tax payment (the "**Employment Tax Ruling**").

(h) Seller shall have the sole responsibility for all claims, liabilities, and costs, which may arise from: (i) termination of employment of any of the Hired Employees and Seller's Officers; and (ii) any legal or contractual obligations owed to the Seller's employees, including, inter alia, all wages, prior notice period (or payment in lieu of), vacation days (including any accrued vacation days), recreation pay, bonuses, commissions, pay for other compensated absences and other remuneration (including mandatory or discretionary benefits) due to such employees with respect to their employment or engagement with the Seller through the termination thereof, including any related payroll deductions (such as employee benefit plan contributions and employment taxes which shall be paid when due) with respect thereto.

(i) Buyer is not, and shall not be deemed to be, a successor employer to the Seller, and Buyer does not and shall not assume any such benefit plan, including but not limited to severance plans, of the Seller.

(j) Seller shall reasonably cooperate with Buyer in all respects relating to any actions to be taken pursuant to this **Section 7.3** and in achieving an orderly transition. Seller will not take any action that is intended to interfere with Buyer's efforts to retain any of the Seller's employees.

(k) Seller hereby agrees to indemnify the Buyer, within 30 days following the Buyer's first demand, for any and all claims, liabilities, losses, damages, or costs and expenses (including reasonable legal expenses), actually incurred by Buyer and which are related to, arise out of or are connected with the employment and/or termination by the Seller of the Hired Employees and Seller's Officers.



(l) Notwithstanding any other provision in this Agreement to the contrary, including without limitation **Section 12**, the indemnification under this **Section 7.3(k)** shall not be limited in amount and indemnification will not be required for claims that expired due to the lapse of the applicable terms under the Statute of Limitations.

(m) Buyer shall inform the Seller, promptly following receipt of any demand and/or claim that is subject to indemnification as described in this Section 7.3 (k). The Seller shall be entitled to notify the Buyer within seven (7) business days that it wishes to assume the defense against the demand and/or claim at its own expense, including by appointing an attorney on its behalf.

(n) It is hereby agreed that Buyer shall look first to the set-off on any cash consideration due to the Seller hereunder and second to the Consideration Shares (as defined in Section 2.6 (a) (ii) hereof), as the sole source for indemnifying Buyer for liabilities pursuant to this Section 7.3.

(o) Buyer shall have the right to take any and all action it deems appropriate under Section 30 of the Salary Protection Law, 5718-1958, and the Seller shall have no claim against Buyer for taking such action.

7.4. No Default. The Parties shall not do any act or omit to do any act, or permit any act or omission to act, which will cause a material breach of any contract, commitment or obligation of Seller or Buyer with respect to the Acquired Assets, or otherwise related to, or in connection with, the Business and Seller shall use their best commercial efforts to assist Buyer with the assignment of all the Assigned Contracts from Seller to Buyer, in accordance with the provisions of **Section 1**.

7.5. Consents of Third Parties. Seller will use its best efforts to obtain all consents and Governmental Authorizations, in form and substance reasonably satisfactory to Buyer, necessary for the consummation of the Contemplated Transaction, including, without limitation, (i) those consents listed on **Schedule 3.2(a)(iv)**, (ii) to the extent necessary, from each party to each Contract listed on **Schedule 4.14(2)** and (iii) any Governmental Authorization listed on **Schedule 4.4(1)**. Seller shall cooperate with Buyer in its attempts to obtain all Governmental Authorizations, in form and substance reasonably satisfactory to Buyer, necessary for the consummation of the Contemplated Transaction.

7.6. Name. Without derogating from the generality of the above, Seller undertake that following the consummation of the Closing and pursuant to the request of Buyer, within 14 days Seller shall change its name such its name will not contain the word "Imdecol" and not use in its name, or in any other business, the name "Imdecol" and shall have no right to the name "Imdecol". Notwithstanding the above, Seller shall be granted at the Closing, free of any charge, license to continue use the name "Imdecol" for the exclusive purpose of fulfilling its obligations under this Agreement and assisting Buyer, in each case with Buyer's advance written approval. Such license shall lapse upon written notice of Buyer, following which Seller shall cease to use such name.



7.7. Efforts to Satisfy Closing Conditions. Seller shall use its best efforts to cause the conditions in **Section 9** to be satisfied.

7.8. Financial Statements. By June 1, 2019, Seller shall deliver to Buyer (i) audited financial statements of Seller prepared in accordance with US GAAP for the calendar years 2017 and 2018, and (ii) unaudited interim financial reports for the first quarters of 2019, and 2018 prepared in accordance with US GAAP.

## 8. CONDITIONS PRECEDENT TO BUYER'S OBLIGATIONS

The obligation of Buyer to consummate the Closing shall be subject to the satisfaction prior to or at (with respect to such conditions which by their nature may only be satisfied at the Closing) the Closing of each of the following conditions (or waiver in a writing executed by Buyer):

8.1. Accuracy of Representations and Warranties. The representations and warranties made by Seller in or pursuant to this Agreement shall have been true and correct on the date hereof and true and correct on the Closing Date.

8.2. Seller's Performance. Seller shall have performed and complied with all of its obligations and covenants under this Agreement to be performed or complied with by Seller on or prior to the Closing Date.

8.3. No Proceedings. There shall not have been commenced or threatened any Proceeding (a) involving any challenge to, or seeking damages or other relief in connection with, any of the Contemplated Transactions or (b) that may have the effect of preventing, delaying, making illegal, imposing limitations or conditions on or otherwise interfering with any of the Contemplated Transactions.

8.4. No Conflict. Neither the consummation nor the performance of any of the Contemplated Transactions will, directly or indirectly (with or without notice or lapse of time), contravene or conflict with or result in a violation of or cause Buyer or any Related Person of Buyer to suffer any adverse consequence under (a) any applicable Law or order or (b) any Law or order that has been published, introduced or otherwise proposed by or before any Governmental Body.

8.5. Attachments Satisfactory. (i) All Schedules to be provided by the Seller at the Closing shall have been provided by Seller and shall be reasonably

accepted as such Schedules by the Buyer in accordance with **Section 13.18**; and (ii) the purchase orders listed on **Schedule 4.14(2)(i)** as of the Closing Date shall amount to no less than NIS 6 million in future revenue.

8.6. Approvals. Buyer's Board of Directors shall have approved the issuance of the Consideration Shares as contemplated hereunder.

8.7. Material Adverse Change. No Material Adverse Effect has occurred to the Seller or the Seller's business since the date of this Agreement.



8.8. Employees. All those persons set forth on **Schedule 8.8** shall have entered into employment agreements with the Buyer effective following the termination of their employment with the Buyer.

8.9. Employment Tax Ruling. The ITA shall have issued, and Buyer shall have received, the Employment Tax Ruling in form and substance satisfactory to Buyer.

8.10. Expert Decision. The Seller shall have fulfilled the Expert Decision, should the parties act in accordance with the provisions of **Section 7.3(c)**.

8.11. OCS. The OCS (Innovation Authority) shall have approved (i) the transfer of the Acquired Assets to the Buyer; and (ii) that the Seller does not have any open liabilities to the Innovation Authority. The transfer of the Acquired Assets shall be free and clear and without any restrictions or obligations, monetary or otherwise to the Innovation Authority imposed on such assets and/or the Buyer. It is hereby agreed that in case any of the aforementioned Innovation Authority approvals are not received on or prior to the Closing, the Seller shall be given an additional 30 business days to receive such approvals and deliver them to the Buyer.

## 9. CONDITIONS PRECEDENT TO SELLER'S OBLIGATIONS

The obligation of Seller to consummate the Closing shall be subject to the satisfaction, prior to or at (with respect to such conditions which by their nature may only be satisfied at the Closing) the Closing, of each of the following conditions (or waiver in a writing executed by Seller):

9.1. Accuracy of Representations and Warranties. The representations and warranties made by Buyer in or pursuant to this Agreement shall have been true and correct on the date hereof and true and correct in all material respects on Closing Date.

9.2. No Proceedings. There shall not have been commenced or threatened any Proceeding (a) involving any challenge to, or seeking damages or other relief in connection with, any of the Contemplated Transactions or (b) that may have the effect of preventing, delaying, making illegal, imposing limitations or conditions on or otherwise interfering with any of the Contemplated Transactions.

## 10. CERTAIN COVENANTS AND ARRANGEMENTS

10.1. Confidentiality; Access to Information. The parties acknowledge that Seller and Buyer have previously executed a Non-Disclosure Agreement, dated as of February 13th, 2019 (the "**Confidentiality Agreement**"), which Confidentiality Agreement will continue in full force and effect in accordance with its terms until the Closing Date. At all times following the Closing Date, Seller shall, and shall cause its shareholders, Affiliates and its and their respective directors, officers, employees, agents and representatives to, (i) maintain in confidence any and all proprietary or confidential information, in any form whatsoever, related to or connection with the Business and any of the Acquired Assets, including business, financial and technical information, customers, suppliers, sales representatives and Intellectual Property Rights (the "**Confidential Information**"); and (ii) not disclose to any third party, nor use, whether in whole or in part, any Confidential Information for any purpose (other than for and as authorized in writing by Buyer). Without derogating from Seller's obligation under **Section 10.2** below, the obligation of non-disclosure imposed on Seller hereunder shall not apply to disclosures required by applicable Law, provided that: (i) prior notice of such contemplated disclosure (including reasonable details relating thereto) is provided to Buyer as early as practicably possible and the Person subject to the disclosure requirement attempts to obtain a protective order permitting the non-disclosure of such Confidential Information; and (ii) such disclosure is effected only to the minimum extent required.



10.2. Non-Competition; Non-Solicitation.

(a) In exchange for Buyer's agreements herein, including Buyer's acquisition of the Business and the Acquired Assets for good and valuable consideration, Seller shall not, and shall cause its shareholders and Affiliates not to, directly or indirectly, become engaged or involved, directly or indirectly as an interest holder, officer, employee, consultant or in any other capacity, anywhere in the world, in (i) any business activity or organization that is engaged or becomes engaged in activities which are competitive with the Business or the Acquired Assets or (ii) the design, development, manufacture, production, marketing, support, sale or consulting or advisory services for a Person that manufactures, markets, designs, develops, supports or sells any product that is substantially similar to any product of the Business offered by Buyer, or competes, directly or indirectly, with the Business as currently conducted;, except for any holding by Seller of no more than 1% of the issued and outstanding share capital of a publicly traded company otherwise prohibited.

(b) In exchange for Buyer's agreements herein, including Buyer's acquisition of the Business and the Acquired Assets for good and valuable consideration, Seller shall not, and shall cause its shareholders and Affiliates not to, directly or indirectly, (i) solicit or attempt to solicit the services, hire or attempt to hire, or retain or attempt to retain, any person employed or engaged in by Buyer or any of its Affiliates as employees or consultants, or otherwise knowingly encourage or solicit any such persons to terminate their employment or engagement with Buyer or its Affiliates; and (ii) without limiting the generality of the foregoing, file any patent application that may, in the reasonable opinion of counsel to Buyer, restrict any Intellectual Property Right included in the Acquired Assets, or register or challenge any Intellectual Property Right included in the Acquired Assets or owned, used or otherwise licensed by Buyer or any of its Affiliates.

(c) Seller acknowledges that the consideration received by Seller under this Agreement is paid in consideration, in part, for the obligations and undertakings under this **Section 10** and that the covenants of Seller in this **Section 10** are reasonably necessary for the protection of Buyer's interests under this Agreement and to enable it to enjoy the full benefit of the Business, including the Acquired Assets, and are not unduly restrictive upon Seller.

10.3. Enforceability. If at any time the provisions of **Section 10.1** or **Section 10.2** shall be determined to be invalid or unenforceable, by reason of being vague, unreasonable as to area, duration or scope of activity or similar reasons, the applicable Section shall be considered divisible and shall become and be immediately amended to only such area, duration and scope of activity as shall be determined to be reasonable and enforceable by the court or other body having jurisdiction over the matter; and it is hereby agreed that such Section as so amended shall be valid and binding as though any invalid or unenforceable provision had not been included therein.

10.4. Transfer Taxes. Other than VAT applicable to the Purchase Price which shall be borne by Buyer, Seller shall pay in a timely manner all taxes resulting from or payable in connection with the transfer of the Acquired Assets pursuant to this Agreement, regardless of the Person on whom such taxes are imposed by applicable Law.

**11. INDEMNIFICATION AND SET OFF RIGHTS**

11.1. Representations and Covenants Survive Closing. All representations, warranties, covenants and obligations in this Agreement and the other Transaction Documents shall survive the Closing and the consummation of the Contemplated Transactions, subject to **Section 11.5**.

11.2. Indemnity by Seller. Without derogating from any section herein imposing upon Seller a specific duty to indemnify Buyer which indemnity shall not be subject to the provisions of this **Section 11**, Seller hereby agrees to indemnify and hold Buyer harmless from and with respect to any and all claims, liabilities, losses, damages, costs and expenses, (including the costs of investigation and defense and reasonable fees and disbursements of counsel) (collectively, the "**Losses**"), resulting from or arising out of any of the following:

(a) any breach by Seller of this Agreement (including the Schedules and Exhibits hereto) or any Transaction Document;

(b) any breach of any of the representations and warranties of Seller contained in this Agreement (including the Schedules and Exhibits hereto) or in any Transaction Document;

(c) the Excluded Assets or Retained Liabilities;

(d) any Liability arising out of the ownership or operation of the Acquired Assets prior to the Effective Time other than the Assumed Liabilities;

(e) any claim by a former employee or contractor of Seller related to its engagement by Seller; and

(f) any Existing Claims.

11.3. Indemnity by Buyer. Without derogating from any section herein imposing upon Buyer a specific duty to indemnify Seller which indemnity shall not be subject to the provisions of this **Section 11**, Buyer hereby agrees to indemnify and hold Seller harmless from and with respect to any and all Losses, resulting from or arising out of any of the following: (a) any breach by Buyer of this Agreement (including the Schedules and Exhibits hereto) or any Transaction Document; (b) any Third Party Claim resulting from any breach of any of the representations and warranties of Buyer contained in this Agreement (including the Schedules and Exhibits hereto) and/or in any Transaction Document; and (c) any Assumed Liabilities.

11.4. Claims.

(a) Notice. If a Party (the "**Indemnified Party**") seeks indemnification from the other Party (the "**Indemnifying Party**") under this **Section 11** it shall notify the Indemnifying Party in writing of any Losses which are indemnifiable with respect to which the Indemnified Party claims indemnification hereunder (a "**Claim**"). In the event that the Indemnifying Party shall object to the indemnification of an Indemnified Party in respect of any Claim (other than a Third Party Claim (as defined below)), the Indemnifying Party shall, within fifteen (15) days after receipt by the Indemnifying Party of such Claim, deliver to the Indemnified Party a notice to such effect, specifying in reasonable detail the basis for such objection, and the Indemnified Party shall be permitted to submit such dispute to the court. The Party that receives a final judgment in such dispute shall reimburse the other party for all reasonable attorney and consultant fees or expenses incurred by the other Party.



(b) Third Party Claims. If such Claim relates to, or is in connection with, any civil action, suit, proceeding or demand instituted against the Indemnified Party by a third party (a "**Third Party Claim**"), the Indemnified Party shall deliver a Claim with respect to the Third Party Claim to the Indemnified Party within fifteen (15) days of its being notified of such Third Party Claim; provided, that the failure of the Indemnified Party to give such notice shall not relieve the Indemnifying Party of its obligations under this **Section 11** except to the extent, if at all, that such Indemnifying Party shall have been actually prejudiced by such failure. Within seven (7) days after receipt of notice of such a Claim from the Indemnified Party, the Indemnifying Party may elect to assume the defense of such Third Party Claim if and only if the following conditions are satisfied: (i) there exists no conflict of interest which makes separate representation by the Indemnified Party's own counsel advisable; (ii) such Third Party Claim seeks only monetary relief; (iii) the Indemnifying Party engages counsel reasonably acceptable to the Indemnified Party to defend the Third Party Claim and (iv) the Indemnified Party has not informed the Indemnifying Party that such Third Party Claim may affect if with respect to non-monetary matters. The assumption of the defense of a Third Party Claim by the Indemnifying Party constitutes an agreement by the Indemnifying Party that all Losses with respect to such Third Party Claim are indemnifiable under this **Section 11**.

(c) The Indemnified Party shall retain the right to employ its own counsel and to participate in the defense of any Third Party Claim, the defense of which has been assumed by the Indemnifying Party pursuant hereto, but the Indemnified Party shall bear and shall be solely responsible for its own costs and expenses relating to, or in connection with, such participation unless, in the opinion of counsel to the Indemnified Party, the Indemnifying Party fails or ceases to diligently defend such Third Party Claim.

(d) Where the Indemnifying Party has assumed the defense of the claim in accordance with the above, the Indemnified Party shall not be entitled to settle or compromise such claim without the consent of the Indemnifying Party.

(e) No Third Party Claim shall be settled or compromised by the Indemnifying Party without the written consent of the Indemnified Party (which consent shall not be unreasonably withheld), if such settlement or compromise is other than an agreement to make a payment (which the Indemnifying Party undertakes to pay in full) in return for a release of all claims of the third party against the Indemnified Party.

(f) Notwithstanding anything else in this Agreement to the contrary, any Losses suffered by an Indemnified Party due to or in connection with a Third Party Claim shall be paid by the Indemnifying Party when actually incurred and within 30 days following the first demand to be paid by the Indemnified Party.

11.5. Limitation of Liability.

(a) Notwithstanding anything to the contrary herein and except for fraud or intentional misrepresentation: (i) the representations and warranties of Seller in **Sections 4.1, 4.2, 4.3, 4.4, 4.9, 4.16, 4.18, 4.21 and 4.20** of this Agreement (the "**Seller Fundamental Representations**") shall remain in full force and effect until the expiration of the applicable statute of limitation and (ii) the representations and warranties of Seller hereunder and under any Transaction Document other than Seller Fundamental Representations shall remain in full force and effect for a period of thirty-six (36) months from the Closing Date; in each case, following the applicable period, such representations and warranties and Seller's liabilities with respect thereto, under this Agreement, any Transaction Document and any law, whether in contracts, torts, restitution or otherwise, shall expire and be of no further force and effect. Notwithstanding anything to the contrary herein and except for fraud or intentional misrepresentation Seller shall be obligated to indemnify Buyer under this **Section 11** for Claims under **Section 11.2(b)** for breaches of representations that are not Seller Fundamental Representations: (x) only when the aggregate amount of such Claims are for an amount which exceeds US$ 15,000, at which point Seller shall indemnify Buyer from the first dollar of Losses; and (y) only for an aggregate amount not exceeding the Purchase Price.

(b) Notwithstanding anything to the contrary herein and except for fraud or intentional misrepresentation: (i) the representations and warranties of Buyer in this Agreement shall remain in full force and effect for a period of thirty-six (36) months from the Closing Date; following the applicable period, such representations and warranties and Buyer's liabilities with respect thereto, under this Agreement, any Transaction Document and any law, whether in contracts, torts, restitution or otherwise, shall expire and be of no further force and effect. Notwithstanding anything to the contrary herein and except for fraud or intentional misrepresentation Buyer shall be obligated to indemnify Seller under this **Section 11** for Claims under **Section 11.3(b)** for breaches of representations: (x) only when the aggregate amount of such Claims are for an amount which exceeds US $15,000, at which point Seller shall indemnify Buyer from the first dollar of Losses; and (y) only for an aggregate amount equal to NIS 1,000,000. For clarity, the indemnification provided in Section 7.3(k) shall not be limited by this Section 11.

(c) Notwithstanding anything to the contrary herein and except for fraud or intentional misrepresentation in no event shall Seller or Buyer be obligated to provide indemnification under this **Section 11** for any punitive, indirect or consequential damages.

(d) To the extent applicable, the provisions of this **Section 11.5** shall also be deemed to constitute a separate written legally binding agreement among the parties for the purpose of Section 19 of the Israeli Statute of Limitations Law, 5718-1958.

11.6. Set Off; Sole Remedy.

(a) Without derogating from the aforesaid, if Buyer is entitled to claim Losses or is otherwise entitled to any amounts from Seller under any provision of this Agreement, it shall be entitled to reduce such amounts and Losses from the Deferred Payment Amount or Make-Up Payment, at Buyer's election, provided that such amount reduced shall in no event be more than the aggregate amounts for which indemnification may be sought hereunder. The aforementioned set-off limitation shall not be deemed to limit Buyer's right to indemnity hereunder. Without derogating from the aforesaid, if Buyer has a Claim or other claim under this Agreement against Seller that is outstanding at the end of the Lock-up Period, the Lock-up Period shall be extended until such Claim or other outstanding claim is resolved. If the Buyer is due any payment under this Agreement the Buyer may transfer any Consideration Shares in fulfillment of such payment.

Notwithstanding anything to the contrary hereunder, all claims whatsoever brought by an Indemnified Party against an Indemnifying Party under this Agreement (whether under this Section 11 or under any other section herein), any Transaction Document and under any law, whether in contracts, torts, restitution or otherwise, shall be subject to the limitations in this Agreement from and after the Closing, provided however that the Indemnified Party shall be entitled (i) to seek injunctive relief to enjoin the breach, or threatened breach, of any provision of this Agreement and (ii) to seek specific performance of the provisions of this Agreement.



## 12. TERMINATION

Unless otherwise agreed in writing by the parties, this Agreement may be terminated by a Party by notice to the other Party if (i) the other Party is in material breach of this Agreement, (ii) a condition to the terminating Party's obligations has become incapable of satisfaction and the terminating party has not waived such condition or (iii) the Closing as not occurred by August 31, 2019, or any other later date agreed by the Parties in a writing executed by the Parties; provided, that a Party that (i) is in material breach of this Agreement or (ii) has caused one or more of the conditions to the other Party's obligations under this Agreement not to be satisfied as a result of the first Party's failure to comply with its obligations under this Agreement shall not be entitled to terminate this Agreement under this **Section 12**. If this Agreement is terminated because of a breach of this Agreement by the nonterminating Party or because one or more of the conditions to the terminating Party's obligations under this Agreement is not satisfied as a result of the other Party's failure to comply with its obligations under this Agreement, the terminating Party's right to pursue all legal remedies will survive such termination unimpaired.

## 13. GENERAL

13.6. Expenses. Each Party shall bear its legal fees and any other fees or costs incurred by it in connection with this Agreement and the Contemplated Transaction, including in connection with due diligence and the negotiation and preparation of this Agreement; provided, that Buyer shall reimburse Seller for half of its expenses incurred in preparing financial statements for 2017 and 2018 under U.S. GAAP and up to US $10,000.

13.7. Notices. All notices, demands and other communications hereunder shall be in writing or by written telecommunication, and shall be deemed to have been duly given if delivered personally or if mailed by certified or registered mail, return receipt requested, postage prepaid, or if sent by overnight courier, or sent by written telecommunication, to the following addresses (or another address notified by a Party to the other Party):

If to Buyer, to:

B.O.S. Better Online Solutions Ltd.
20 Freiman Street
Rishon Lezion POB 198 75101, Israel
Attention: Chief Financial Officer
Facsimile: (972) 3-954-1000

with a copy (which shall not constitute notice) to:
Gornitzky & Co.
45 Rothschild Blvd.
Tel Aviv 6578403
Israel
P.O.B. 29141
Attention: Shlomo Landress, Adv.
Facsimile: +972-3-710-9191

If to Seller, to:

Imdecol Ltd.11 Amal Street
Rosh Ha'ayin, Israel 4809239
Attention: Chief Executive Officer
Facsimile: (972) 3-901-6623

with a copy (which shall not constitute notice) to:
Shnitzer, Gotlieb, Samet & Co.
Gibor Sport Building - 27th Floor
7 Menachem Begin Street
Ramat-Gan 5268102
Israel
Attention: David Gotlieb, Adv.
Facsimile: +972-3-611-3000



Any such notice shall be effective (a) if delivered personally, when received, (b) if sent by reputable courier, the date of delivery by such courier, and (c) if sent by facsimile, when transmitted with written confirmation of transmission having been received.

13.8. Entire Agreement. This Agreement together with its Schedules and the Loan Agreement together with its Schedules, Exhibits and other attachments contain the entire understanding of the parties, supersedes all prior agreements and understandings relating to the subject matter hereof and shall not be amended except by a written instrument hereafter signed by both of the Parties.

13.9. Governing Law. The validity and construction of this Agreement shall be governed by and construed in accordance with the laws of the State of Israel. Any dispute arising under or in relation to this Agreement shall be resolved in the competent court of Tel Aviv-Jaffa district only, and each of the Parties

hereby submits irrevocably to the exclusive jurisdiction of such court.

13.10. Sections and Section Headings. The headings of sections and subsections are for reference only and shall not limit or control the meaning thereof.

13.11. Assigns. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective heirs, successors and permitted assigns. Neither this Agreement nor the rights or obligations of any Party hereunder shall be assignable or transferable by such Party without the prior written consent of the other party hereto; provided, however, that nothing contained in this **Section 13.11** shall prevent Buyer, without the consent of Seller from: (i) transferring any of the Acquired Assets held by it, or by any of its subsidiaries, to an Affiliate of Buyer; and (ii) assigning all of its rights and liabilities hereunder in a merger or a transaction for the sale of all or substantially all of Buyer's shares or assets, provided that the surviving or purchasing entity assumes in writing all of Buyer's obligations hereunder and provides Seller with reasonably sufficient assurances for the payment of the outstanding Purchase Price to Seller.

13.12. Severability. In the event that any covenant, condition, or other provision herein contained is held to be invalid, void, or illegal by any court of competent jurisdiction, the same shall be deemed to be severable from the remainder of this Agreement and shall in no way affect, impair, or invalidate any other covenant, condition, or other provision contained herein.

13.13. Further Assurances. The Parties agree, without any additional consideration, to take such reasonable steps and execute such other and further documents as may be necessary or appropriate to cause the terms and conditions contained herein to be carried into effect and the transfer of the Acquired Assets to Buyer.

13.14. Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. The delivery of a copy of a counterpart electronically shall have the same effect as the delivery of an original counterpart.



13.15. Publicity. Except as is necessary for governmental notification purposes or to comply with applicable Law or to enforce its rights under this Agreement, and except as otherwise agreed to by the Parties in writing, Seller shall (a) keep the existence and terms of this Agreement confidential and (b) the Parties will coordinate together any public announcement relating to the Contemplated Transaction, including the text and the exact timing of any such announcement and not make any public announcement with respect to the Contemplated Transaction until authorized in writing by Buyer. Seller acknowledges that Buyer is a public company traded on NASDAQ and is subject to strict reporting requirements. On request, Seller shall fully and timely provide Buyer (in addition to the financial statements required to be provided under this Agreement) with all information in its possession or control required by Buyer to meet all reporting requirements, including without limitation any and all financial information and financial statements.

13.16. Taxes. Any tax liability, payment or demand sustained or incurred by Seller as a result of or in connection with the payment of the Purchase Price in accordance with this Agreement shall be the sole responsibility of Seller.

13.17. Exercise of Remedies by Third Parties. No Person who is not a party to this Agreement (but excluding any successor thereto or assign thereof) shall be permitted to assert any indemnification claim or exercise any other remedy under this Agreement

13.18. Schedules and Exhibits. The Schedules which are to be delivered as the Closing as listed on **Schedule 13.18**, shall be delivered by Seller at Closing; provided, that **Schedule 3.2(a)(vi)** (Buyer's employment agreements) shall be drafted by Buyer and approved by Buyer in its sole and absolute discretion but shall contain financial employment terms in accordance with **Section 7.3(f).** A draft of such Schedules shall be provided to Buyer no less than 7 business days before Closing together with all documents referred to therein that were not previously provided to Buyer in the VDR and a draft of **Schedule 3.2(a)(vi)** shall be provided to Seller no less than 7 business days before Closing.

13.19. Interpretation. Words such as "herein", "hereinafter", "hereof" and "hereunder" refer to this Agreement as a whole and not merely to a section or paragraph in which such words appear, unless the context otherwise requires. The singular shall include the plural, unless the context otherwise requires. Whenever the word "include", "includes" or "including" appears in this Agreement, it shall be deemed in each instance to be followed by the words "without limitation." The word "or" shall be deemed to mean "and/or." A legal entity (including any of the Parties as applicable) shall be deemed to have "knowledge" of a particular fact if any of the directors, executive officers or other executives or officers of the legal entity has knowledge or should reasonably have knowledge of that fact.

13.20. Rules of Construction. The parties agree that they have participated equally in the drafting of this Agreement and that the language and terms of this Agreement shall not be construed against any party by reason of the extent to which such party or its professional advisors participated in the preparation of this Agreement.

*Signature Page Follows*



IN WITNESS WHEREOF, and intending to be legally bound hereby, the parties hereto have caused this Agreement to be duly executed and delivered as of the date and year first above written.

B.O.S BETTER ONLINE SOLUTIONS LTD.

By: /s/ Yuval Viner /s/ Eyal Cohen
Name: Yuval Viner Eyal Cohen
Title: CO-CEO

IMDECOL LTD.

By: /s/ Ben Zion Katz
Name: Ben Zion Katz
Title: CTO & Major Shareholder

By: /s/ Ayelet Hayak
Name: Ayelet Hayak
Title: CEO

The undersigned Major Shareholder hereby agrees to (i) abide by the provisions of **Section 2.6(iii)** and guarantee Seller's obligation to pay the Overpayment and (ii) without derogating from any undertaking and obligation under the Loan Agreement to guarantee Seller's obligations under the Loan Agreement.

/s/ Ben Zion Katz
Name:

**EXHIBIT A**

**DEFINITIONS**

"**Affiliate**" in relation to any Person, means any other Person which, directly or indirectly, Controls such Person, is Controlled by such Person or is under common Control with such Person.

"**Contract**" means any agreement, contract, purchase order, lease, consensual obligation, promise or undertaking (whether written or oral and whether express or implied), whether or not legally binding.

"**Control**" means the possession, directly or indirectly, of the power to direct or cause the direction of the affairs or management of an entity, including, without limitation, through the ownership of voting securities, having the power to elect a majority of the board of directors or other governing body of such entity, by contract or otherwise.

"**Encumbrance**" means any lien, pledge, mortgage, security interest, license, attachment, claim (including any claim of the Israeli government or any agency thereof), charge, option, debt, lease (or sublease), conditional sales agreement, title retention agreement, encumbrance of any kind, defect as to title or restriction against transfer or assignment.

"**Governmental Authorization**" means any consent, license, registration or permit issued, granted, given or otherwise made available by or under the authority of any Governmental Body or pursuant to any Law.

"**Governmental Body**" means any foreign, federal, state, provincial, county, local or other court, governmental body, authority, tribunal, commission or regulatory body or self-regulatory body (including any securities exchange) or any political or other subdivision, department, agency or branch of any of the foregoing or arbitrator authorized under applicable Law.

"**Government Grant**" means any grant, incentive, subsidy, award, loan, participation, exemption, status, cost sharing arrangement, reimbursement arrangement or other benefit, relief or privilege (including approval to participate in a program or framework without receiving financial support) provided or made available by or on behalf of or under the authority of the National Innovation Authority or affiliated authorities or programs (including without limitation the Incubator Administration, Tnufa, Nofar, Magnet and Magneton), the Investment Center, the ITA, and any other bi- or multi-national grant program, framework or foundation (including the BIRD foundation) for research and development, the European Union, the Fund for Encouragement of Marketing Activities of the Israeli government or any Governmental Body.

"**Indebtedness**" of any Person (which shall include of any other Person for which such Person is liable) means, without duplication, (a) the principal of and accrued interest, premiums and penalties, and other amounts due in respect of (i) obligations of such Person for money borrowed and (ii) indebtedness evidenced by notes or other similar instruments of which such Person is responsible or liable, (b) all obligations in respect of guarantees and similar facilities issued for the account of such Person and performance bonds (but solely to the extent drawn and not paid), (c) all obligations of such Person for, or related to, the deferred purchase price of any property or services and (d) obligations for dividends by such Person declared but not paid.



"**Intellectual Property Rights**" means any and all proprietary and intellectual property rights, in any jurisdiction, including those rights in and to (a) inventions and discoveries (whether or not patentable or reduced to practice), and invention disclosures ("**Inventions**"), (b) patents, patent applications and any other Governmental Body-issued indicia for invention ownership (including applications or registrations for industrial design, mask works and statutory invention registrations), together with reissuances, divisionals, provisionals, continuations, continuations-in-part, reexaminations thereof, renewals, substitutions and extensions ("**Patents**"), (c) trademarks, trademark applications, service marks, brand names, service names, certification marks, trade dress, slogans, symbols, logos, trade names and corporate names, together with the goodwill associated therewith, domain names, website addresses, Uniform Resource Locators, and social media accounts (whether registered or unregistered) ("**Trademarks**"), (d) published and unpublished works of authorship, whether copyrightable or not (including software and related algorithms and websites), copyrights, moral rights and rights equivalent thereto, including the rights of attribution, assignation and integrity (whether registered or unregistered) ("**Copyrights**"), (e) all know-how, trade secrets and confidential business, financial and technical information including, but not limited to, confidential ideas, concepts, creations, ideas, technology, designs, formulae, specifications, research and development information, technical data, customer lists, supplier lists, pricing and cost information, business and marketing plans, manufacturing and other processes, methods, techniques, and procedures ("**Know-How**"), (f) any similar, corresponding or equivalent rights to any of the foregoing anywhere in the world, and (g) all applications to register, registrations and renewals, substitutions or extensions of the foregoing.

"**Law**" means any law, statute, code, directive, guideline, order, rule, regulation or other requirement that is legally binding enacted by any Governmental Body.

"**Liability**" means with respect to any Person, any liability or obligation of such Person of any kind, character or description, whether known or unknown, absolute or contingent, accrued or unaccrued, disputed or undisputed, liquidated or unliquidated, secured or unsecured, joint or several, due or to become due, vested or unvested, executory, determined, determinable or otherwise, and whether or not the same is required to be accrued on the financial statements of such Person.

"**Major Shareholder**" means Mr. Ben Zion Katz.

"**Material Adverse Effect**" means any event, circumstance, change, or effect that, individually, or together with any other event, circumstance, change or effect, has or would reasonably likely be expected to have a material adverse effect on (a) the assets, liabilities, results of operations or the financial condition of the Business, taken as a whole or (b) the ability to consummate the transactions due to unforeseeable objective reasons; provided, however, that in no event shall any of the following, alone or in combination, be deemed to constitute, nor shall any of the following be taken into account in determining whether there has been or will be, a Material Adverse Effect: any change, event, circumstance or effect that results from, changes, events, circumstances or effects affecting (whether directly or indirectly), general economic conditions or financial credit in general, or changes affecting the industry in which the Business operates, including changes attributed to changes in the applicable laws (in each case, which changes, events, circumstances or effects do not disproportionately affect the Business).



"**Person**" means an individual, partnership, corporation, business trust, limited liability company, limited liability partnership, joint stock company, trust, unincorporated association, joint venture or other entity or a Governmental Body.

"**Proceeding**" means any action, arbitration, audit, hearing, investigation, litigation or suit (whether civil, criminal, administrative, judicial or investigative, whether formal or informal, whether public or private) commenced, brought, conducted or heard by or before, or otherwise involving, any Governmental Body or arbitrator.

"**Related Person**" means (i) with respect to an individual: (a) each other member of such individual's Family; (b) any Affiliate of such individual or any one or more members of such individual's Family; and (c) any Person with respect to which one or more members of such individual's Family serves as a director, officer, partner, executor or trustee (or in a similar capacity) and (ii) with respect to a specified Person other than an individual: (a) any Affiliate of such specified Person; (b) each Person that serves as a director, officer, partner, executor or trustee of such specified Person (or in a similar capacity); and (c) any Person with respect to which such specified Person serves as a general partner or a trustee (or in a similar capacity). For purposes of this definition "**Family**" of an individual includes (i) the individual, (ii) the individual's spouse, (iii) any other natural person who is related to the individual or the individual's spouse within the second degree and (iv) any other natural person who resides with such individual.

"**Tangible Property**" means all machinery, equipment (including all production equipment), installations, fixtures, tools, furniture, office equipment, hardware, supplies, materials, spare parts, product lines, fixed assets vehicles and other items of tangible personal property (other than Inventory) of every kind owned or leased by Seller (wherever located and whether or not carried on Seller's books), together with any express or implied warranty by the manufacturers or sellers or lessors of any item or component part thereof and all maintenance records and other documents relating thereto.

"**Transaction Documents**" means this Agreement, all Schedules, Exhibits and other attachments to this Agreement, all certificates delivered pursuant this Agreement, any transfer instrument delivered pursuant to this Agreement, any other certificate, document, writing or instrument delivered pursuant to this Agreement.

"**Transaction Expenses**" means any Liability arising or incurred in connection with the negotiation, preparation, investigation and performance of this Agreement and the transactions contemplated hereby, including fees and expenses of counsel, accountants, consultants, advisers and other representatives.



EX-4.9 4 f20f2018ex4-9_bosbetter.htm BRIDGE LOAN AGREEMENT BY BETWEEN B.O.S BETTER ONLINE SOLUTIONS LTD AND IMDECOL LTD. DATED MARCH 19, 2019

**Exhibit 4.9**

**BRIDGE LOAN AGREEMENT**

**THIS BRIDGE LOAN AGREEMENT** (this "**Agreement**") is dated March 19, 2019 (the "**Effective Date**") and made by and between **B.O.S. Better Online Solutions Ltd.**, an Israeli company, registration number 52-004256-5, with its registered office at 20 Freiman St., Rishon Lezion POB 198, 75101, Israel (the "**Lender**"); and **Imdecol Ltd.**, a private Israeli company, registration number 51-268769-0, with its registered office at 11 Amal St. Rosh Ha'ayin 4809239, Israel (the "**Borrower**"). Capitalized terms used but not defined herein shall have the meanings assigned to the in the APA (as defined below).

**WHEREAS** the parties are entering into an Asset Purchase Agreement by and between the Lender and the Borrower dated as of even date hereof (the "**APA**") for the purchase by Lender of certain assets of the Borrower and which contemplates a purchase price to be paid in cash and ordinary shares of the Lender as more fully provided in the APA;

**WHEREAS,** the parties agreed that upon execution of the APA the Company shall provide Borrower with a bridge loan intended to be an advance on account of the consideration payable at the Closing; and

**WHEREAS**, a condition for the provision of the loan under the this Agreement is that the shareholders of the Borrower (the "**Pledgors**") and the Lender enter into a Pledge Agreement dated as of even date hereof (the "**Pledge Agreement**") and grant Lender, as security for the Secured Obligations (as defined in the Pledge Agreement), a first degree fixed pledge over the all of the Pledgors' shares in the Borrower (the "**Pledged Shares**") and to execute and deliver to the Company the Pledge Documents (as defined below).

**NOW, THEREFORE** the parties hereto agree as follows:

**1. DEFINITIONS AND INTERPRETATION**

1.1. In this Agreement:

"**Business Day**" means a day (other than a Friday or Saturday) on which banks are open for general business in the State of Israel.

"**Unpaid Sum**" means any sum due and payable but unpaid by the Borrower to the Lender under this Agreement.

1.2. Construction. The preamble to this Agreement forms an integral part hereof. Section and Clause headings are for ease of reference only.

**2. PROVISION OF THE LOAN**

2.1. Upon execution of the APA and subject to the delivery to the Company of the Pledge Documents as provided below, the Lender shall provide the Borrower a loan in an aggregate amount of NIS 1,000,000 (the "**Loan**")

2.2. The Loan shall bear interest at a rate of 10% per annum, pro-rated for partial periods based on a 365 day year (the "**Interest**") to be paid by Borrower together with Value Added Tax pursuant to applicable law.

2.3. Prior to the extension of the Loan each of the Pledgors shall provide to the Company a duly executed Pledge Agreement and notice to the Registrar of Pledges Registration (Form No. 1) substantially in the form attached as Exhibits A1-2 hereto (the Pledge Documents). The Pledgors undertake to cooperate with the Lender and take any action necessary or advisable in the Lender's reasonable discretion to register and perfect the pledge of the Pledged Shares with the Registrar of Pledges.

2.4. The Loan shall be provided to the Borrower by wire transfer to the Borrower's account, as notified by Borrower to Lender in writing.

**3. PURPOSE**

The Borrower shall apply all amounts borrowed by it hereunder towards its general corporate purposes and for working capital and not for any payment or distribution to any shareholder in any capacity, other than salaries in accordance with employment agreements as in effect on the Effective Date.

**4. CONVERSION; REPAYMENT**

4.1. Upon Closing, the Loan and any accrued Interest shall be deemed paid by the Lender as part of the Purchase Price to be paid at the Closing and shall no longer be outstanding.

4.2. Unless previously deemed repaid under Section 4.1 above, the Loan, all Interest and all Unpaid Sums shall automatically become due and payable

without need for any notice or action by Lender upon the earlier of (i) August 31, 2019, or (ii) an Event of Default.

4.3. "**Event of Default**" shall mean any of the following: (a) any representation or statement made or deemed to be made by the Borrower in this Agreement is or proves to have been incorrect or misleading in any material respect when made or deemed to be made; (b) the Borrower: (i) admits its general inability to pay its debts as they fall due; or (ii) is declared by a competent court to be unable to pay its debts; (c) a legal proceeding or petition is taken in order to obtain an order for: (x) the winding-up, dissolution or reorganisation (by reason of insolvency) of the Borrower; or (y) the appointment of a liquidator, receiver, administrative receiver, administrator, compulsory manager or other similar office holder (*ba'al tafkid*) in respect of the Borrower or any material part of its assets (this clause (c) shall not apply to any proceeding or petition which is discharged, stayed or dismissed without any action taken thereunder within fifteen (15) days of commencement); and (d) the Borrower's board of directors or shareholders' meeting has adopted a binding resolution for the voluntary dissolution of the Borrower..

4.4. The Borrower shall notify the Lender of any Event of Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.

4.5. All amounts due to be paid by the Borrower under this Agreement shall be paid to the Lender in full without any set offs, deductions or withholdings by wire transfer of immediately available funds to the Lender's account designated by the Lender in writing.

4.6. In the event the Lender shall be required to take action to enforce its rights under the Pledge Agreement or the Pledge (as defined under the Pledge Agreement), Borrower shall, within five (5) Business Days of demand, pay to the Lender the amount of all reasonable costs and expenses (including but not limited to legal fees) incurred by the Lender in connection with such enforcement.



**5. REPRESENTATIONS AND WARRANTIES**

The Borrower makes the following representations and warranties as of the Effective Date:

5.1. Status. Borrower is a corporation, duly incorporated and validly existing under the law of the State of Israel and it has full power, authority, and legal right to own its assets and carry on its business as it is being conducted and as contemplated to be conducted.

5.2. Authority; No Conflict. Borrower has the power and authority to execute, deliver and perform this Agreement. The entry into and performance by Borrower of the transactions contemplated by this Agreement do not and will not conflict with any law or regulation applicable to it; any of its organizational documents; or any agreement or instrument binding upon it or upon any of its assets.

5.3. No Event of Default. No Event of Default is occurring on the Effective Date.

5.4. No Proceedings Pending or Threatened. No litigation, arbitration or administrative proceedings of or before any court, arbitral body or agency or governmental authority are pending or threatened against it.

**6. UNDERTAKINGS**

The undertakings in this Section 6 shall remain in force from the Effective Date until all amounts on account of the Loan then outstanding (including any Interest) are repaid in full.

6.1. Financial Statements. The Borrower shall deliver to the Lender a copy of any annual financial statements approved by its board of directors following such approval.

6.2. Information. The Borrower shall supply to the Lender: (a) promptly, all material documents provided by the Borrower to its shareholders; (b) promptly, upon becoming aware of them, details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against the Borrower; and (c) promptly, such further information regarding the financial condition, business and operations of the Borrower as the Lender may reasonably request.

6.3. No Distributions. The Borrower shall not make any dividend distribution, unless the Loan, Interest and Unpaid Sums owed to the Lender under this Agreement are paid in full.

**7. MISCELLANEOUS**

7.1. Assignment. Neither party may assign or transfer any of its rights or obligations under this Agreement.

7.2. Notices. Any notice to be provided under this Agreement shall be provided in accordance with Section 14.2 of the APA.

7.3. Severability. If, at any time, any provision of this Agreement is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision under the law of any other jurisdiction will in any way be affected or impaired.



7.4. Remedies and Waivers. No failure to exercise, nor any delay in exercising, on the part of a party, any right or remedy under this Agreement shall operate as a waiver, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise or the exercise of any other right or remedy. Other than as expressly provided herein, the rights and remedies provided in this Agreement are cumulative and not exclusive of any rights or remedies provided by law.

7.5. Amendment. Any term of this Agreement may be amended or waived only with the written consent of the Lender and the Borrower.

7.6. Counterparts. This Agreement may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of this Agreement. Delivery of signatures via electronic means (include pdf files) shall have the same effect as the delivery of original signatures.

7.7. Jurisdiction. The courts situated in Tel-Aviv, the State of Israel have exclusive jurisdiction to hear and determine any dispute arising out of or in connection with this Agreement (including a dispute regarding the existence, validity or termination of this Agreement) and no other court shall have jurisdiction.

*Remainder of this page intentionally left blank*

**IN WITNESS WHEREOF**, the parties have signed this Bridge Loan Agreement:

**B.O.S. Better Online Solutions Ltd.**
as Lender

By: /s/ Yuval Viner /s/ Eyal Cohen
Name: Yuval Viner Eyal Cohen
Title: CO-CEO

**Imdecol Ltd.**
as Borrower

By: /s/ Ben Zion Katz
Name: Ben Zion Katz
Title: CTO

By: /s/ Hayak Ayelet
Name: Hayak Ayelet
Title: CEO

The undersigned hereby undertake to pledge the Pledged Shares pursuant to the Pledge Agreement attached as an exhibit to this Agreement.

**/s/ Ben Zion Katz**
**Ben Zion Katz**

**/s/ Ayelet Aya**
**Ayelet Aya**

**/s/ Tirza Sima Katz**
**Tirza Sima Katz**



EX-4.10 5 f20f2018ex4-10_bosbetter.htm PLEDGE AGREEMENT BY AND AMONG BEN ZION KATZ, TIRZA SIMA KATZ AND AYELET AYA HAYAK AND B.O.S BETTER ONLINE SOLUTIONS LTD DATED MARCH 19, 2019

**Exhibit 4.10**

**PLEDGE AGREEMENT**

**THIS PLEDGE AGREEMENT** (the "**Pledge Agreement**") is made and executed as of the 19th day of March, 2019, by and among (1) Ben Zion Katz, an Israeli citizen, identification card number 64425671, (2) Tirza Sima Katz, an Israeli citizen, identification card number 30531263, and (3) Ayelet Aya Hayak, an Israeli citizen, identification card number 27888379, as pledgors (each, a "**Pledgor**") and B.O.S. Better Online Solutions Ltd., an Israeli company, company registration number 52-004256-5, with its registered office at 20 Freiman St., Rishon Lezion POB 198, 75101, Israel, as pledgee ("**BOS**").

**WHEREAS**, the Pledgors are owners of 130 Ordinary Shares, par value NIS 1.00 each (the "**Pledged Shares**"), of Imdecol Ltd., a private Israeli company, company registration number 51-268769-0, with its registered office at 11 Amal St. Rosh Ha'ayin 4809239, Israel (the "**Company**") constituting 100% of the issued and outstanding shares of the Company; and

**WHEREAS**, BOS and the Company have entered into that certain Loan Agreement dated March 14th, 2019 (the "**Loan Agreement**"); and

**WHEREAS**, a condition for the provision of the loan under the Loan Agreement is that the Pledgors grant BOS, as security for the Secured Obligations (as defined below), a first degree fixed pledge over the Pledged Shares; and

**WHEREAS**, the Pledgors agree, as security for the Secured Obligations, to create in favor of BOS such first degree fixed pledge over all of the Pledged Shares in accordance with the terms of this Pledge Agreement.

**NOW, THEREFORE, IT IS AGREED AS FOLLOWS**:

1. The Preamble to this Pledge Agreement constitutes an integral part hereof. All capitalized terms used and not otherwise defined herein shall have the meaning ascribed to such terms in the Loan Agreement. In addition, in this Pledge Agreement:

"**Derivative Assets**" means:

(a) shares, options, warrants or other securities of the Company;

(b) cash; or

(c) any other asset or right,

in each case, distributable, accruing, offered, issued or deriving at any time, by way of dividend, bonus, redemption, exchange, substitution, conversion, consolidation, subdivision or otherwise attributable to any of the Pledged Shares or the Pledged Rights.

"**Pledged Assets**" means the Pledged Shares, the Pledged Rights and the Derivative Assets, and to the extent not included in the foregoing, all present and future rights to compensation, indemnity, insurance proceeds, warranty or guarantee accruing to any Pledgor by reason of the loss of, damage to or expropriation of, or any other event or circumstance with respect to, such Pledged Assets and any and all proceeds, products and benefits deriving from such Pledged Assets, including, without limitation, those received upon the sale or other disposition of such Pledged Assets and any property into which such Pledged Assets are converted, whether cash or non-cash.

"**Pledge Law**" means the Israeli Pledges Law, 5727-1967, and the regulations promulgated thereunder, as amended from time to time.

"**Pledged Rights**" means all present and future claims, title, rights or interests of each Pledgor in relation to any Receivables and all rights of each Pledgor as shareholder in the Company, whether under law or under the constitutional documents of the Company.

"**Receivables**" means any and all present and future receivables, claims or monies regardless of the nature thereof (including without limitation, principal, interest, default interest, fees, commissions, expenses, costs and indemnities) in any currency, whether actual or contingent, owed jointly or severally, or in any other capacity whatsoever, and whether subordinated or not, owed from time to time by the Company to any Pledgor in its capacity as a shareholder of the Company (including payments payable by the Company to any Pledgor under any shareholder loan or capital note, whether subordinated or not).

"**Secured Obligations**" means all present and future obligations and liabilities (whether actual or contingent or in any capacity whatsoever) of the Company to BOS under the Loan Agreement, together with all costs, charges and expenses incurred by BOS, in connection with the protection, preservation or enforcement of its rights under the Loan Agreement and/or under this Pledge Agreement.

"**Security Period**" means the period beginning on the date of this Pledge Agreement and ending on the date upon which BOS confirms in writing to the Pledgors its satisfaction that the Company is not under any obligation (whether actual or contingent) to BOS under the Loan Agreement and the Secured Obligations have been unconditionally and irrevocably paid and discharged in full.

2. **Security**

2.1. Each of the Pledgors, as a continuing security for the full and punctual discharge and performance of all the Secured Obligations, hereby pledges (or as the case may be, assigns, by way of charge) in favor of BOS by way of a first degree fixed pledge and charge, unlimited in amount, over the Pledged Assets (the "**Pledge**").

3. **Perfection**

In order to secure the rights of BOS in respect of the Pledged Assets, the Pledgors hereby jointly and severally undertake:

3.1. concurrently with the execution of this Pledge Agreement, provide BOS for registration of the Pledge with the Israeli Pledges Registrar Registration Forms No. 1 under Regulation 5(a) of the Pledge Regulations (Registration and Review Procedures), 5754-1994, in such forms, as required and acceptable for filing with the Israeli Pledges Registrar for the perfection and the registration of the Pledge, and deliver to BOS an original certificate of registration of the Pledge upon receipt;

3.2. promptly following the first request of BOS, to take all steps as the BOS may reasonably require so that the Pledge created hereunder shall be valid and binding against other creditors of the Pledgors and to execute and/or deliver to BOS any amendment of, or supplement to, this Pledge Agreement and any other documents as BOS shall require for this purpose;



3.3. forthwith upon the execution of this Pledge Agreement, to deliver to BOS: (i) the irrevocable instructions letter from the Pledgors to the Company notifying the Company of this Pledge Agreement, and the restriction on transfers of the Pledged Assets in the form attached hereto as **Annex A**, duly signed by the Pledgors; and (ii) the acknowledgment and undertaking of the Company, duly signed by the Company; and

3.4. on the date of signing of this Pledge Agreement, to enter the following annotation in respect of the Pledged Shares on the shareholders registry of the Company: "the 130 ordinary shares of Imdecol Ltd. of nominal value NIS 1.00 each, and registered in the name of (1) Ben Zion Katz , an Israeli citizen, identification card number _64425671, (2) Tirza Sima Katz, an Israeli citizen, identification card number 30531263, and (3 Ayelet Aya Hayak, an Israeli citizen, identification card number 27888379, are pledged in favor of B.O.S. Better Online Solutions Ltd a by way of first degree fixed pledge, pursuant to the Pledge Agreement dated March 14th, 2019 as amended from time to time" and to provide BOS with a certified copy of such annotated shareholders registry.

4. **Release of Security**

Upon the earlier of (1) the "Closing" as such term is defined in that Certain Asset Purchase Agreement by and between BOS and the Company dated as of even date hereof, or (2) the end of the Security Period; at the request of the Pledgors, BOS shall promptly execute and provide the Pledgors with all documents necessary in order to release the Pledge created under this Pledge Agreement.

5. **Continuing Security**

The Pledgors, jointly and severally, declare and agree that:

5.1. the security interests created by this Pledge Agreement shall remain in full force and effect as continuing security for full and punctual discharge and performance of the Secured Obligations and shall remain in force notwithstanding any settlement of account, any intermediate payment or discharge in whole or in part or any other act, event or matter whatsoever and shall be released and discharged only after the end of the Security Period.

5.2. BOS will not be bound to enforce any of the other rights under any of the Loan Agreement before enforcing any of the security interests created by this Pledge Agreement.

6. **Covenants**

The Pledgors jointly and severally undertake:

6.1. not to: (a) sell, assign, transfer or otherwise dispose of any part of the Pledged Assets and not to grant any right therein; or (b) create any pledge, charge, lien or other encumbrance over, or permit the creation of, any such security interest, in any manner, over the Pledged Assets, without the prior written consent of BOS.

6.2. to take all action deemed necessary or appropriate by BOS, in its reasonable commercial judgment, to maintain all of its security interests and rights over the Pledged Assets in full force and effect.



6.3. to furnish to BOS from time to time upon its request statements and schedules further identifying and describing the Pledged Assets and such other reports in connection with the Pledged Assets as BOS may reasonably request, in reasonable detail.

6.4. to prevent the Company from issuing any additional shares, or any other equity securities (including but not limited to debt securities which are convertible into or exchangeable for equity securities) without its prior written consent.

6.5. to pass the required resolutions of the Company to amend the constitutional documents of the Company in order that they do not restrict or limit in any way BOS's right to enforce this Pledge Agreement and transfer the Pledged Shares.

6.6. and hereby acknowledges that (a) they shall not have any rights under Section 13(b) of the Pledge Law or any other statutory provisions in substitution therefor, and any prepayment or prior discharge of the Secured Obligations shall be made strictly in accordance with the terms of the Loan Agreement; and (b) Section 7(b) of the Pledge Law shall not apply.

7. **Representations and Warranties**

The Pledgors hereby jointly and severally represent that:

7.1. the Pledged Shares constitute all of the issued and outstanding shares of the Company. Each Pledged Share was validly issued, is fully paid or credited as fully paid. The Pledged Shares confer upon their holder the right to receive not less than 100% of all dividends distributed by the Company to its shareholders, and not less than 100% of the remaining assets of the Company after all its debts and obligations have been discharged in the event of winding up and to cast not less than 100% of all votes entitled to be cast by all shareholders of the Company;

7.2. subject only to this Pledge Agreement, and without derogating from the provisions of the Loan Agreement, the Pledgors have, and at all times during the Security Period will have, good and marketable title to, and are entitled, and at all times during the Security Period will be entitled to the entire legal and beneficial ownership of the Pledged Assets free from any lien, pledge or charge and, subject to the foregoing, no other person has any legal or beneficial interest (or any right to claim any such interest) in the Pledged Assets and the Pledgors have not received notice of any such claim;

7.3. they waive and shall have no claim on the Company as a result or in connection with the enforcement of this Pledge Agreement;

7.4. except for applicable law, there is no limitation in any agreement which the Pledgors are a party to, which restricts the creation of a pledge and charge over the Pledged Shares; and

7.5. the Pledgors have the complete power and authority to create the Pledge, in accordance with the provisions hereof.



8. **Default and Enforcement**

BOS shall be entitled to (a) take all acts that it shall see fit for the collection of the Secured Obligations and (b) realize the Pledge (in accordance with the provisions contained herein) upon the occurrence of an Event of Default (as defined under the Loan Agreement) and in any case of any breach of this Pledge Agreement (each an "**Event of Default**"), including the realization and/or sale of the Secured Assets, in whole or in part, whether by the appointment of a receiver and/or by the execution office and/or by realization of its rights under Section 20 of the Pledge Law and/or by the courts and/or by any other method as BOS shall see fit, and to apply the proceeds thereof on account of the Secured Obligations, in whole or in part, all without BOS first being required to realize any other guarantee or collateral or other securities, if such be held by BOS.

9. **Power of Attorney**

The Pledgors hereby irrevocably appoint BOS, at any time after the occurrence of an Event of Default, as its true and lawful attorney, with full power of substitution, in respect of this Pledge Agreement, to act, in the Pledgors' names and on their behalf and at the Pledgors' expense in order to do any such act, including, without limitation, to sign in the name of the Pledgors any and all documents, as may in the sole discretion of BOS be necessary in order to secure the rights of BOS against third parties in respect of the security interests contemplated by this Pledge Agreement pursuant to the terms hereof.

10. **Indemnity**

The Pledgors shall forthwith on demand indemnify BOS against any loss or liability incurred as a consequence of the exercise, or attempted or purported exercise, or the consideration of the exercise, by or on behalf of BOS of any of the rights or powers of BOS or any other action taken by or on behalf of BOS with a view to or in connection with the recovery by BOS of the Secured Obligations from the Pledgors or the carrying out of any other act or matter which BOS or any other person or entity acting on its behalf may consider to be necessary for the preservation of the Pledged Assets.

11. **Miscellaneous**

11.1. Jurisdiction; Service of Process. Any dispute arising under or with respect to this Pledge Agreement shall be resolved exclusively in the appropriate court in Tel-Aviv, Israel.. The Pledgor agrees that the documents which are filed in connection with any proceedings in relation to this Pledge Agreement, and any other documents required to be served in connection with those proceedings, may be served on it by being delivered to the Company, or to such other address in Israel as the Pledgors may specify by notice in writing to BOS. Nothing in this paragraph shall affect the right of BOS to serve process in any other manner permitted by applicable law.

11.2. Successors and Assigns. Without prejudice to the provisions of Section 11.3, the provisions hereof shall inure to the benefit of, and be binding upon, the successors and permitted assigns of the parties hereto.

11.3. Assignment. Except as otherwise expressly stated to the contrary herein, the Pledgors may not assign or transfer any of their rights or obligations hereunder without BOS's prior written consent and any such assignment or attempted assignment without BOS's prior written consent shall be void and of no force or effect. BOS may transfer or assign any right or obligation under this Pledge Agreement without the Pledgors' prior written consent.



11.4. Notices. All notices and other communications required or permitted hereunder to be given to a party to this Pledge Agreement shall be in writing and shall be sent by facsimile or mailed by registered or certified mail, postage prepaid, or by electronic mail, or otherwise delivered personally or by courier, to the following addresses:

(a) if to the Pledgors - c/o Imdecol Ltd., 11 Amal St. Rosh Ha'ayin 4809239, Israel – to the attention of the CEO and the Major Shareholder, or by fax to: _____, or by email to: _____;

(b) if to BOS - to 20 Freiman St., Rishon Lezion POB 198, 75101, Israel – to the attention of the CEO and the CFO or by fax to: _____or by email to: _____,

or to such other address, or to the attention of such other person, as any party shall notify the other party in writing as above provided. Any notice sent in accordance with this clause shall be deemed delivered (i) if mailed, two (2) business days after mailing, (ii) if sent by courier, upon delivery, and (iii) if sent via facsimile or electronic mail, upon transmission and electronic confirmation of receipt, or - if transmitted and received on a day which is not a business day - on the first business day following transmission and electronic confirmation of receipt.

11.5. Amendment; Waiver. Any term of this Pledge Agreement may be amended and the observance of any term hereof may be waived (either prospectively or retroactively and either generally or in a particular instance) only with the written consent of the parties hereto. No delay or omission to exercise any right, power, or remedy accruing to any party upon any breach or default under this Pledge Agreement, shall be deemed a

waiver of any other breach or default theretofore or thereafter occurring. All remedies, either under this Pledge Agreement or by law or otherwise afforded to any of the parties, shall be cumulative and not alternative.

11.6. Entire Agreement. This Pledge Agreement constitutes the full and entire understanding and agreement among the parties with regard to the subject matters hereof and thereof. The preamble, exhibits and schedules hereto shall be deemed part of this Pledge Agreement.

11.7. Counterparts. This Pledge Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original but all such counterparts together shall constitute one and the same instrument. Delivery of signatures via electronic means (include pdf files) shall have the same effect as the delivery of original signatures.

11.8. Headings. Section headings herein are included for convenience of reference only and shall not constitute a part hereof for any other purpose or be given any substantive effect.

11.9. Severability. In case any provision in or obligation hereunder shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

11.10. Survival of Representations and Warranties. All representations and warranties made herein shall survive the execution and delivery hereof.

11.11. Expenses. Without derogating from the provisions contained herein, the Pledgors shall pay for the expenses incurred in connection with the preparation, filing, perfection and removal of the Fixed Charge pursuant to this Pledge Agreement.

[*Signature Page to Follow*]



**IN WITNESS WHEREOF**, this Pledge Agreement has been executed by the parties hereto as of the date first above written.

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

By: /s/ Yuval Viner /s/ Eyal Cohen
Title: CO-CEO
Name: Yuval Viner Eyal Cohen

**/s/ Ben Zion Katz**
**Ben Zion Katz**

**/s/ Ayelet Aya Hayak**
**Ayelet Aya Hayak**

**/s/ Tirza Sima Katz**
**Tirza Sima Katz**



**Annex A**

**Irrevocable Instructions to Imdecol Ltd.**

Date: March 19, 2019

To: Imdecol Ltd. (the: "**Company**")

Dear Sirs,

Further to the Pledge Agreement dated March 14th, 2019 (the "**Pledge Agreement**") and made among (1) Ben Zion Katz, an Israeli citizen, identification card number 64425671, (2) Tirza Sima Katz, an Israeli citizen, identification card number 30531263, and (3) Ayelet Aya Hayak, an Israeli citizen, identification card number 27888379, as pledgers (the "**Pledgor**"), and B.O.S. Better Online Solutions Ltd, an Israeli company, company registration number 52-004256-5, as pledgee ("**BOS**"), pursuant to which we have created in favor of BOS a first degree fixed pledge and assignment over the Pledged Assets (as defined in the Pledge Agreement) (the "**Pledge Agreement**"), we hereby irrevocably instruct you and notify you as follows, to the extent permitted under applicable law:

1. not to register any transaction which in any way conflicts with the Pledge Agreement;

2. to promptly notify BOS of any resolution passed or any application filed for the winding-up, dissolution, administration or court supervised management of the Company's affairs, or written notice from a third party of any intention to do so, or any creditors' or shareholders' arrangement or for the appointment of a receiver, manager or administrator over Company's assets (including any act, proceedings or applications for the appointment of a receiver, liquidator or similar officer with respect to the Pledged Assets or any part thereof);

3. to notify BOS of any enforcement of security by the levying of any attachment on the Pledged Assets, in which case you shall forthwith notify the attaching party of the Pledge Agreement in favor of BOS and take at your expense, immediately and without delay all such measures as are required for discharging such attachment;

4. not to issue any shares, securities, or rights in connection with the share capital (including but not limited to debt securities which are convertible into equity securities) without BOS's prior written consent; and

5. to register the following annotation in respect of the Pledged Shares in the shareholders registry of the Company: "the 130 ordinary shares of Imdecol Ltd. of nominal value NIS 1.00 each, and registered in the name of (1) Ben Zion Katz, an Israeli citizen, identification card number 64425671, (2) Tirza Sima Katz, an Israeli citizen, identification card number 30531263, and (3) Ayelet Aya Hayak, an Israeli citizen, identification card number 27888379, are pledged in favor of B.O.S. Better Online Solutions Ltd a by way of first degree fixed pledge, pursuant to the Pledge Agreement dated March 14th, 2019 as amended from time to time".

6. These instructions are irrevocable and shall not be amended, revoked or cancelled without the written consent of BOS.

7. These instructions shall automatically terminate upon the expiration of the Security Period.



Capitalized terms utilized herein but not otherwise defined shall have the meaning ascribed to them in the Pledge Agreement.

Please acknowledge receipt of these instructions by signing the acknowledgement on the enclosed copy letter and returning the same to us at _____ marked for the attention of _____.

Yours faithfully,

**/s/ Ben Zion Katz**
**Ben Zion Katz**

**/s/ Ayelet Aya Hayak**
**Ayelet Aya Hayak**

**/s/ Tirza Sima Katz**
**Tirza Sima Katz**

**cc: B.O.S. Better Online Solutions Ltd.**

Imdecol Ltd. hereby acknowledges receipt of these Irrevocable Instructions to Imdecol Ltd. and agrees with the Pledgors and BOS to abide by them unless and until instructed otherwise by BOS.

**IMDECOL LTD.**

By: /s/ Ben Zion Katz
Title: CTO
Name: Ben Zion Katz

By: /s/ Hayak Ayelet
Title: CEO
Name: Hayak Ayelet



EX-12.1 6 f20f2018ex12-1_bosbetter.htm CERTIFICATION

**Exhibit 12.1**

**Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.**

I, Yuval Viner, certify that:

1. I have reviewed this annual report on Form 20-F of B.O.S. Better Online Solutions Ltd. (the "company").

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of company's board of directors (or persons performing the equivalent function

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 1, 2019

/s/ Yuval Viner
Yuval Viner,
Co-Chief Executive Officer

EX-12.2 7 f20f2018ex12-2_bosbetter.htm CERTIFICATION

**Exhibit 12.2**

**Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.**

I, Eyal Cohen, certify that:

1. I have reviewed this annual report on Form 20-F of B.O.S. Better Online Solutions Ltd. (the "company").

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of company's board of directors (or persons performing the equivalent function

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 1, 2019

/s/ Eyal Cohen
Eyal Cohen,
Co-Chief Executive Officer and
Chief Financial Officer

EX-13.1 8 f20f2018ex13-1_bosbetter.htm CERTIFICATION

**Exhibit 13.1**

**Certification Pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934.**

In connection with the Annual Report on Form 20-F of B.O.S. Better Online Solutions Ltd., a company organized under the laws of the State of Israel (the "**Company**"), for the period ending December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "**Report**"), each of the undersigned officers of the Company certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to such officer's knowledge, that:

1. The Report fully complies, in all material respects, with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Report.

By: /s/ Yuval Viner
Yuval Viner
Co-Chief Executive Officer

By: /s/ Eyal Cohen
Eyal Cohen
Co-Chief Executive Officer and Chief Financial Officer

Date: April 1, 2019

EX-23.1 9 f20f2018ex23-1_bosbetter.htm CONSENT OF KOST FORER GABBAY & KASIERER, A MEMBER OF ERNST &YOUNG GLOBAL

**Exhibit 23.1**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements on Form F-3 (Nos. 333-223158, 333-215862, 333-212399, 333-205572, 333-193927, 333-191117, 333-130048 and 333-152020) and related prospectus and in the Registration Statements on Form S-8 (Nos. 333-160414, 333-148318, 333-136957, 333-110696, 333-100971, 333-11650, 333-179253 and 333-228344) of B.O.S. Better Online Solutions Ltd. ("BOS") of our report dated March 26, 2017, with respect to the consolidated financial statements of BOS, included in this Annual Report on Form 20-F.

/s/ Kost Forer Gabbay & Kasierer
KOST FORER GABBAY & KASIERER,
A Member of Ernst & Young Global

Tel Aviv, Israel
March 31, 2019

EX-23.2 10 f20f2018ex23-2_bosbetter.htm CONSENT OF FAHN KANNE & CO. GRANT THORNTON ISRAEL

**Exhibit 23.2**

Fahn Kanne
Grant Thornton

**Fahn Kanne & Co.**
Head Office
32 Hamasger Street
Tel-Aviv 6721118, ISRAEL
PO Box 36172, 6136101

T +972 3 7106666
F +972 3 7106660
www.gtfk.co.il

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We have issued our report dated April 1, 2019, with respect to the consolidated financial statements included in the Annual Report of B.O.S. Better Online Solutions Ltd. on Form 20-F for the year ended December 31, 2018. We consent to the incorporation by reference of said report in the Registration Statements of B.O.S. Better Online Solutions Ltd. on Forms F-3 (File No. 333-223158, 333-215862, 333-212399, 333-205572, 333-193927, 333-191117, 333-130048 and 333-152020) and Forms S-8 (File No. 333-160414, 333-148318, 333-136957, 333-110696, 333-100971, 333-11650, 333-179253 and 333-228344).

/s/ FAHN KANNE & CO. GRANT THORNTON ISRAEL

Tel Aviv, Israel
April 1, 2019

**Certified Public Accountants**
Fahn Kanne & Co. is the Israeli member firm of Grant Thornton International Ltd.

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