

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, 2019

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	Trading Symbol(s)	Name of each exchange on which registered
Ordinary Shares, nominal value NIS 80.00 per share	BOSC	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:

4,257,790 Ordinary Shares, nominal value NIS 80.00 per share, as of December 31, 2019  
and 4,257,790 Ordinary Shares, nominal value NIS 80.00 per share, as of March 31, 2020.

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<sup>†</sup> provided pursuant to Section 13(a) of the Exchange Act.

<sup>†</sup> The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards

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.

### **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, failure to successfully integrate and achieve the potential benefits of the acquisition of the business operations of Imdecol Ltd., 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, the impact of the COVID-19 virus 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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## 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, 2019, 2018 and 2017, and the selected consolidated balance sheet data as of December 31, 2019 and 2018, 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, 2016 and 2015, and the consolidated balance sheet data as of December 31, 2017, 2016 and 2015 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 years ended December 31, 2019, 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 and 2015 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.

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

Year ended December 31,	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Revenues	25,599	27,427	28,932	32,650	33,817
Cost of revenues	20,462	22,112	22,587	25,907	27,159
<b>Gross profit</b>	<b>5,137</b>	<b>5,315</b>	<b>6,345</b>	<b>6,743</b>	<b>6,658</b>
<b>Operating expenses:</b>					
Sales and marketing	2,768	3,111	3,389	3,705	4,064
General and administrative	1,681	1,498	1,870	1,834	2,255
Impairment of intangible assets	-	-	-	-	356
Impairment of goodwill	-	-	-	-	614
<b>Total operating expenses</b>	<b>4,449</b>	<b>4,609</b>	<b>5,259</b>	<b>5,539</b>	<b>7,289</b>
Operating income (loss)	688	706	1,086	1,204	(631)
Financial expense, net	(376)	(339)	(297)	(255)	(330)
<b>Income (loss) before taxes on income</b>	<b>312</b>	<b>367</b>	<b>789</b>	<b>949</b>	<b>(961)</b>
Taxes on income (tax benefit)	(22)	7	16	(41)	(48)
<b>Net income (loss)</b>	<b>334</b>	<b>360</b>	<b>773</b>	<b>990</b>	<b>(913)</b>

Basic and diluted net income (loss) per share	\$ 0.17	\$ 0.14	\$ 0.24	\$ 0.28	(0.23)
Weighted average number of shares used in computing basic net income (loss) per share	1,970	2,587	3,171	3,500	4,053
Weighted average number of shares used in computing diluted net income (loss) per share	1,970	2,593	3,171	3,500	4,059
<b>Consolidated Balance Sheet Data:</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Cash and Cash Equivalents	1,419	1,286	1,533	1,410	339
Working Capital (*)	5,246	6,099	7,342	7,637	7,313
Total Assets	16,825	18,144	21,407	20,111	17,322
Short-term banks loan and current maturities of long-term bank loans	400	400	505	467	664
Long-term liabilities	3,653	2,943	2,809	2,168	2,633
Shareholders' equity	6,505	8,584	10,218	11,511	12,557
(*) Working capital comprises of:					
Current assets	11,913	12,716	15,722	14,069	17,322
Less: current liabilities	6,667	6,617	8,380	6,432	10,009
	5,246	6,099	7,342	7,637	7,313

### 3B. Capitalization and Indebtedness

Not applicable.

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### 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, 2019, we had \$2.7 million in long-term debt (including current maturities of \$664,000) and no short-term bank loans.

In March 2020, we increased our bank credit by \$180,000 at an interest rate of Prime+1.5%. This loan is payable in monthly equal installments over a period of 2 years, commencing June 2020.

On February 19, 2020, the Company, through its wholly owned subsidiary, Ruby Tech Inc. entered into an agreement for a loan from YA II PN, LTD ("YA II") in the principal amount of \$600,000. The loan bears interest at a rate of 8% per annum, and is guaranteed by BOS-Odem and by the Company. For further details on this loan, see Item 5B below.

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 part 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.

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

As of December 31, 2019, we had an accumulated deficit of \$69.65 million. We had a net loss of \$913,000 in 2019, and although we had net income of \$990,000 in 2018, \$773,000 in 2017, \$360,000 in 2016 and \$334,000 in 2015, 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 resume profitable operations 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, to enter into new markets with new products 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 bank credit facilities to our subsidiaries. As of December 31, 2019, we had \$2.04 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 all of 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" below).

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

On June 1, 2019, the Company closed the transaction for the acquisition of the business operations of Imdecol Ltd. 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

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- Potential inability to retain, integrate and motivate key management, marketing, technical sales and customer support personnel.

During 2019, the Company recorded an impairment loss of Goodwill and Intangible assets related to the acquisition of Imdecol's business operations in the amount of \$614 thousand and \$356 thousand, respectively.

We agreed to act as Imdecol's subcontractor to complete certain existing contracts, which we have not assumed as part of the acquisition. We have experienced unexpected cost overruns and delays in the completion of these contracts, which cannot be passed on to the customers. Although Imdecol remains responsible for such cost overruns, we do not expect that Imdecol will be able to pay these amounts, so we wrote off a portion of Imdecol's debt. The delay in completing the existing contracts has also caused delays in the delivery of other robotics projects, which result in the deferral of revenues related to such projects. For further information see Note 8 to the Consolidated Financial Statements for the year ended December 31, 2019

***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, 2019 amounted to \$32,000, 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.

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

In 2019, revenues derived from the sales of our Supply Chain Solutions division to Far East accounted to US \$8.7 million, or 26% of our total revenues. Sales to the Far East could decline due to changes in market demand or for political reasons. Should our sales to the Far East, particularly 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.

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***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. 42% of our Supply Chain Solutions division purchases in the year 2019 were sourced from five key suppliers and 43% of our Intelligent Robotics and RFID division purchases in the year 2019 were sourced from five other key suppliers (including a software supplier). In the year 2018, 37% of our Supply Chain Solutions division purchases were sourced from five key suppliers and 44% of our Intelligent Robotics and RFID 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 2019, the NIS appreciated against the dollar by approximately 7.8%. In 2018, the NIS depreciated against the dollar by approximately 8.1%, while in 2017 the NIS appreciated against the dollar by 9.8% and in 2016 the NIS appreciated against the dollar by 1.5%. In the years ended December 31, 2019 and 2018, the inflation rate in Israel was 0.6% and 0.8%, respectively. In 2017 and 2016 the annual deflation was 0.4% and 0.2%, respectively. Therefore, the U.S. dollar cost of our Israeli operations decreased in 2018 and 2015, and increased in 2019, 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.

***We have 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, America 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.

***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.

In December 2019, a new strain of coronavirus (“COVID-19”) was reported to have surfaced in Wuhan, Hubei Province, China. During January, February and March of 2020, COVID-19 has spread globally, including in Israel. In response to the COVID-19 virus, countries have taken different measures in relation to prevention and containment including lock-down and quarantine. The COVID-19 virus continues to impact worldwide economic activity and pose the risk that we or our employees, contractors, suppliers, customers and other business partners may be prevented from conducting certain business activities for an indefinite period of time, including due to shutdowns that may be requested or mandated by governmental authorities or otherwise elected by companies as a preventive measure. The Company relies, with respect to some of its products, on manufacturers in China. The effects of the COVID-19 may result in such products not being produced and/or shipped to the Company. In addition, mandated government authority measures or other measures elected by companies as preventive measures may lead to our consumers being unable to complete purchases or other activities. COVID-19 may have an adverse effect on trading, on our operations and on the collection of our customer’s debt. Its continuous spread and protective measures taken by the authorities may adversely affect our future results of operations, cash flows and financial condition.

***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 the filing of an indictment and without having a monetary charge imposed in lieu of criminal proceedings (as such terms are defined in 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 on 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



***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 \$5.75 million at December 31, 2019. 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.

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.***

Pursuant to the Standby Equity Distribution Agreement, dated as May 8, 2017, (the "2017 SEDA"), (see "Item 5B – Liquidity and Capital Resources" below) 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 31, 2020. The resale by YA II of the Ordinary shares that we issue to it under the 2017 SEDA could cause the market price of our Ordinary Shares to decline.

***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.

***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.

**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, 2019 through March 15, 2020, the daily closing price of our Ordinary Shares in NASDAQ has ranged from 1.56 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.

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. The Israeli Companies 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.

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

Most 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.

***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.

***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" below.

*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 and 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.

*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](http://www.boscom.com). Our commercial websites are: Supply Chain Division - [www.odem.co.il](http://www.odem.co.il); Intelligent Robotics and RFID Division- [www.dimex.co.il](http://www.dimex.co.il); [www.idnext.co.il](http://www.idnext.co.il) and [www.imdecol.com](http://www.imdecol.com). The information contained on, or linked from, our websites is not a part of this report.

On October 31, 2019, our shareholders approved the change in the Company's name, following the recommendation of the Board. We did not effect the name change authorized by the shareholders, due to technical reasons.

We operate our business through two divisions:

- Supply Chain Division – offers electro-mechanical components, mainly to customers in the aerospace, defense and other industries worldwide that prefer to consolidate their component acquisitions through a supplier that is able to provide a comprehensive solution to their components-supply needs.
- Intelligent Robotics and RFID Division (formerly known as the RFID and Mobile Solutions) offers comprehensive technological solutions for increasing productivity in industrial and logistics processes.  
In January 2016, the Company completed the acquisition of the assets of iDnext Ltd. and its subsidiary Next-Line Ltd., which 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 June 2019, the Company acquired the business operations of Imdecol Ltd ("Imdecol"), in order to expand the Company's technological capabilities and exposure to international markets, and take advantage of the increasing demand from manufacturers for improvements in the productivity of their production lines.

The purchase price of Imdecol's business was 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 consisted 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 bore interest at 10% per annum and was secured by a first degree fixed pledge and charge on the shares of the shareholders of Imdecol. At closing, the loan was applied towards the purchase price.
- An additional NIS 4.5 million (approximately \$1.25 million) was paid to Imdecol at closing.

In addition, BOS paid an advance of NIS 1.5 million (approximately \$417,000) on account of Imdecol's inventory

Additional components of the purchase price were payable subject to the performance of Imdecol's business and the consumption of Imdecol's inventory, but based on the actual performance and inventory consumption, Imdecol is not entitled to any additional payment.

On February 6, 2019, the Company received a letter from L.I.A. Pure Capital Ltd ("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. On April 12, 2019, the Company announced that the General Meeting voted against Pure Capital's proposals. For more information please refer to Company's immediate reports on Form 6-K, filed with the SEC on March 7, 2019 and on April 12, 2019.

#### 4B. Business Overview

BOS manages its business in two reportable divisions: the Intelligent Robotics and RFID Division, and the Supply Chain Division.

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, Fokker Elmo and 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 Intelligent Robotics and RFID Solutions customers include, among others, SodaStream International Ltd., Tessa Plastics Inc., Phoenix Paper Packaging Mexico S. de R.L. de C.V, Shufersal Ltd., Hamashbir Lazarchan Ltd., Fox Vizel Ltd., The Central Company for Sales and Distribution Ltd. and Gotex Brandsand Tnuva Ltd.

In its Intelligent Robotics and RFID Division, the Company is focused on driving growth opportunities related to its robotics business in the United States. In late 2019, the Company opened a sales office in Dallas, Texas and appointed a U.S. Director of Sales.

#### BOS' Product Offerings

##### *Intelligent Robotics and RFID Division*

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' Intelligent Robotics and RFID Division offers comprehensive technological solutions for increasing productivity in industrial and logistic processes. The solutions include robots, 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 Intelligent Robotics and RFID Division purchases equipment of leading global manufacturers. Such manufacturers include Zebra Technologies Corp., Yaskawa, DLog GmbH, Honeywell International Inc., Tadbik Ltd., Bibliotheca RFID Library Systems AG and Unique Technology Europe BV.

Specifically, the Company's Intelligent Robotics and RFID 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 barcodes, and is intended to provide customers with greater visibility into a retailer's stock management and warehouse and 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.

- **Systems:**

The Company provides systems for comprehensive solution for inventory and assets tracking. The system is comprised of hardware, software and integration with the customers' information system. The Company has provided systems for varied solutions including:

- 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 Intelligent Robotics and RFID 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.

- **Robotics:**

Automatic and robotic systems that enhance the productivity of production and logistics processes. The Company has expertise in manufacturing of In Molding Labeling ("IML") robotic systems that integrate with plastic injection machines to provide automated in mold decorating.

In 2019, 42% of our revenues were attributed to sales generated from the Company's Intelligent Robotics and RFID Division.

#### *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 2019, 58% of our revenues were attributed to sales of the Supply Chain Solutions division.

#### **Marketing, Distribution and Sales**

##### *Intelligent Robotics and RFID Division*

The Company markets its solutions primarily to medium and large sized corporations 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)*

	2019	%	2018	%	2017	%
Israel	\$ 23,493	69	\$ 22,990	70	\$ 21,870	75
Far East	\$ 5,055	15	\$ 3,800	12	\$ 1,416	5
India	\$ 3,624	11	\$ 4,209	13	\$ 4,497	16
America	\$ 901	3	\$ 1,189	4	\$ 918	3
Europe	\$ 744	2	\$ 462	1	\$ 231	1
Total Revenues	\$ 33,817	100	\$ 32,650	100	\$ 28,932	100

#### Sales by quarters

	2019	%	2018	%	2017	%
Q1	\$ 7,763	23	\$ 8,291	25	\$ 7,064	24
Q2	\$ 8,786	26	\$ 7,552	23	\$ 6,716	23
Q3	\$ 7,914	23	\$ 7,714	24	\$ 7,227	25
Q4	\$ 9,354	28	\$ 9,093	28	\$ 7,925	28
Total Revenues	\$ 33,817	100	\$ 32,650	100	\$ 28,932	100

#### Sales by divisions

	2019	%	2018	%	2017	%
Intelligent Robotics and RFID Division	\$ 14,180	42	\$ 14,633	45	\$ 13,666	47
Supply Chain Division	\$ 19,750	58	\$ 18,205	55	\$ 15,495	53
Intercompany	\$ (113)	-	\$ (188)	-	\$ (229)	-
Total Revenues	\$ 33,817	100	\$ 32,650	100	\$ 28,932	100

### Competition

#### Intelligent Robotics and RFID Division

The Intelligent Robotics and RFID market is subject to rapidly changing technology and evolving standards incorporated into robots, 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 have greater financial, marketing and technological resources than BOS.

In Israel, the Company's main competitors in the Intelligent Robotics and RFID market are eWave mobile Ltd., Dannet Advanced Technologies Ltd., Globe Tag Ltd, Automatica Ltd. and GBIM Automation and Robotics Ltd..

In the international market, the Company's competitors consist of mainly Beck Automation AG, Pagès Group, Gereedschappenfabriek Van den Brink B.V..

#### 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 manufacturer and integrator in the field of Intelligent Robotics and RFID Solutions and global provider of electronic components with supply chain added value services.

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

- Leverage the acquisition of Imdecol's business operations to expand the Company's technological capabilities and exposure to international markets, thus taking advantage of the increasing demand from manufacturers for improvements in the productivity of their production lines.

We currently have more than 500 installations of Imdecol IML robots worldwide, and believe we are well-positioned to aggressively market our capabilities to U.S. manufacturers that we are targeting as our primary market for IML robots. With this in mind, we established a Dallas sales office with a dedicated U.S. sales manager, so that we may more readily capitalize on new opportunities in the United States to increase our market share and drive growth.

- Increase the Supply Chain Solutions product offerings by adding additional representations of electronic components manufacturers.

### 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) BOS-Dimex, an Israeli corporation, part of the Intelligent Robotics and RFID division;
- (2) BOS-Odem, an Israeli corporation, part of the Supply Chain Solutions division;

In the United States:

- (1) Ruby-Tech Inc., 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	2,831	January 2019 through April 2023

Our average monthly rental fees for the year 2019 and for the year 2018 amounted to \$24,000 and \$16,385, respectively. This increase is attributed mainly to the purchase of the business operations of Imdecol. The Imdecol plant and offices are located in Rosh Ha'ain, and are approximately 710 square meters.

#### Item 4A: Unresolved Staff Comments

Not Applicable.

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#### 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. The dollar amounts discussed in this section are in thousands unless otherwise indicated.

##### Overview

BOS is a global provider of Intelligent Robotics and Supply Chain solutions for enterprises, and manages its business in two reportable divisions: the Intelligent Robotics and RFID Division and the Supply Chain Division.

##### 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 was accounted for as a separate unit when it provided 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.

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'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 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's carrier or upon delivery to the customer's premises, as applicable to each contract.

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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.

Revenues from operating services and parts and product sales are recorded upon providing the service or delivery of the products and parts and when collectability is reasonably assured. Revenues from robotics and automation projects are recognized using the percentage-of-completion method. When the Company is unable to recognize revenues according to this method, the revenues are recognized upon completion of the projects.

When revenues are recognized based on the percentage relationship that incurred costs bear to total estimated costs, the costs include direct material, labor, and indirect costs. Selling, marketing, general, and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to costs and revenues and are recognized in the period in which the revisions are determined.

In specific instances where there is a lack of dependable estimates or inherent risks that may cause the forecast to be doubtful, then the completed-contract method is followed. Revenue is recognized when the contract is substantially complete and when collectability is reasonably assured. Costs that are closely associated with the project are deferred as contract costs and recognized similarly to the associated revenues.

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 included advanced payments from customers in the amount of \$144 as of December 31, 2019. This amount is expected to be recognized during 2020, 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, 2019, the deferred revenues from service contracts amounted to \$717. This amount will be mostly recognized in the years 2020 to 2022. The deferred revenues also include amounts related to software projects in the amount of \$188.

#### *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 Intelligent Robotics and RFID 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).

#### **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 2019 and 2018, inventory write-offs amounted to \$91 and \$52, 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, 2019 the remaining intangible assets were comprised mainly of customer relationship.

During the year ended December 31, 2019 the Company recognized an impairment loss related to intangible assets in an amount of \$356. For further information, see Note 8 to the Consolidated Financial Statements for the year ended December 31, 2019.

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

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 the impairment test be performed on goodwill at the level of the reporting units. As required by ASC 350, the Company chooses either to perform a qualitative assessment whether the two-step goodwill impairment test is necessary or proceeds directly to the two-step goodwill impairment test. Such determination is made for each reporting unit on a stand-alone basis. The qualitative assessment includes various factors such as macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, earnings multiples, gross margin and cash flows from operating activities and other relevant factors. When the Company chooses to perform a qualitative assessment and determines that it is more likely than not (more than 50 percent likelihood) that the fair value of the reporting unit is less than its carrying value, then the Company proceeds to the two-step goodwill impairment test. If the Company determines otherwise, no further evaluation is necessary.

When the Company decides or is required to perform the two-step goodwill impairment test, 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: the Intelligent Robotics and RFID Division and Supply Chain Solutions. The Company's goodwill is related to the Intelligent Robotics and RFID Division segment, which represents a reporting unit as a whole.

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The Company determined the fair value of each of the reporting units using the Income Approach, which utilizes a discounted cash flow model, as it believes that this approach best approximates each of the reporting units 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 most significant assumptions used for the Income Approach for 2019 impairment test were five years of projected net cash flows, WACC of 15% and a long-term growth rate of 2% for the two reporting units. 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 additional impairment charges for its remaining balance of goodwill.

The aggregate fair value of the reporting units tested for impairment 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 the year ended December 31, 2019 the Company recognized an impairment loss of \$614 related to its Intelligent Robotics and RFID Division segment. For further information, see Note 8 to the Consolidated Financial Statements for the year ended December 31, 2019.

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

d. Revenue Recognition:

The Company's revenue recognition policies are discussed above under "Overview."

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## 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. In July 2019, the court dismissed the counterclaim as well as all of the allegations of the plaintiffs, excluding the claim regarding the depreciation of the facilities' value for which an appraiser has been appointed by the court.

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 prior Chairman Yosi Lahad, the Company's prior Co-CEO, Yuval Viner, the Company's CEO, 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 2019 to 2018**

Consolidated revenues increased by 3.4% to \$33.8 million in the year 2019 from \$32.7 million in the year 2018. The growth is attributed to our supply chain division which increased by 8.5% due primarily to increased sales in the Far East.

Gross profit for 2019 was \$6.66 million (a gross margin of 19.6%) as compared to \$6.75 million (a gross margin of 20.6%) for 2018. The decrease in the gross profit margin was due to a decline in the gross profit margin of the RFID and Mobile Division from 23% in the year 2019 to 21.1% in the year 2018.

Sales and Marketing expenses increased to \$4.06 million in 2019 from \$3.7 million in 2018. The increase in expenses was primarily due to sales and marketing expenses in the amount of \$350,000 attributed to the Robotic business that was acquired from Imdecol on June 1, 2019.

General and administrative expenses increased to \$2.25 million in 2019 from \$1.84 million in 2018. The increase in expenses was primarily due to the following factors:

- Acquisition expenses in the amount of \$138,000 attributed to the Robotic business that was acquired from Imdecol on June 1, 2019.
- Costs of \$88,000 related to special shareholder's meeting.
- Costs of \$72,000 attributed to the resignation of the Co-CEO, Mr. Yuval Viner..

During 2019, the Company recorded an impairment loss of Goodwill and Intangible assets related to the acquisition of Imdecol's business operation in the amount of \$614 and \$356, respectively.

Financial expenses increased to \$330,000 in year 2019 from \$255,000 in year 2018. The increase in financial expenses is related to the new accounting standard 842 – "Leases". The Company adopted the new standard as of January 1, 2019 and it resulted in currency differences expenses in the amount of \$120,000.

Net loss for year 2019 was \$913,000 as compared to a net income of \$990,000 in 2018. The basic and diluted net loss per share in 2019 was \$0.23, compared to basic and diluted net income per share of \$0.28 in 2018.

For a discussion on our financial statements for the year 2017 see item 5A included in our annual report on Form 20-F for the year ended December 31, 2018, which was filed with the U.S. Securities and Exchange Commission on April 1, 2019.

### **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;
- 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 2019, the NIS depreciated against the dollar by approximately 7.8%. 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%. In the years 2019, 2018 and 2017, the inflation rate in Israel was 0.6%, 0.8% and 0.4%, respectively. In 2016, annual deflation was 0.2%. Therefore, the U.S. dollar cost of our Israeli operations decreased in 2018 and 2015 and increased in 2019, 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 policies or factors that have materially affected or could materially affect our operations.

## **5B. Liquidity and Capital Resources**

In the year ended December 31, 2019, the Company had net loss of \$913,000 as compared to net income of \$990,000 in the year 2018 and \$773,000 in the year 2017. In the year ended December 31, 2019, the Company generated a negative cash flow from operating activities amounting to \$915,000 as compared to positive cash flow from operating activities amounting to \$743,000 in 2018 and \$377,000 in 2017. The Company's cash and cash equivalents amounted to \$339,000 as of December 31, 2019. The Company had a positive working capital of \$7,313,000, \$7,637,000 and \$7,342,000, as of December 31, 2019, December 31, 2018, and December 31, 2017, 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, 2019, we had \$2.04 million in long-term debt (net of current maturities of \$664,000) and no short term bank loans.

In February 2020, Ruby-Tech Inc., a wholly owned subsidiary of Bos-Odem entered into an agreement for a loan from YA II in the principal amount of \$600,000. The principal loan amount bears an interest rate of 8% per annum, is not secured and is guaranteed by BOS-Odem and by the Company. The loan will be repaid in 12 monthly installments of principal and interest. BOS issued to YA II warrants to purchase up to 100,000 ordinary shares of the Company at an exercise price of \$3.00 per ordinary share. If following six months from the issuance of the warrants the shares underlying the warrants are not subject to an effective registration statement, the warrants may be exercised on a cashless basis. The warrants shall be exercisable for a period of two years from issuance. The Company paid to YA II a commitment fee of \$15,000.

In March 2020, we increased our credit from Bank BeinLeumi by \$180,000, at an interest rate of Prime+1.5%. This loan is payable in monthly equal installments over a period of 2 years, commencing June 2020.

The Company's loans from Bank Beinleumi 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
- 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 all of 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 provide 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, ended in June 2018. The Company issued 28,930 shares to YA Global as a commitment fee for this financing. As of March 15, 2020, \$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, 2020, \$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, 2020).

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, 2019, our trade receivables' and trade payables' aging days were 109 and 88days, 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 \$7,313,000 as of December 31, 2019. 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.

## **Cash Flows**

Net cash provided by (used in) operating activities was \$(915,000) in 2019 and \$743,000 in 2018 and \$377,000 in 2017.

Net cash used in investment activities in year 2019 amounted to \$2,220,000 and included \$1,895,000 of consideration for the acquisition of the business operations of Imdecoll. Net cash used in investment activities in 2018 and 2017 amounted to \$689,000 and \$315,000, respectively.

Net cash provided by financing activities in 2019 amounted to \$1,972,000 and included \$1,498,000 received from issuance of Ordinary shares of the Company. Net cash used in financing activities in 2018 amounted to \$92,000. Net cash provided by financing activities in 2017 amounted to \$236,000.

## **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**

**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, 2019, 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):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term loans <sup>(1)</sup>	\$ 2,705	\$ 664	\$ 1,981	\$ 60	\$ -
Accrued severance pay <sup>(2)</sup>	303	-	-	-	303
Operating lease - cars <sup>(3)</sup>	272	211	61	-	-
Purchase obligation for service and inventory	7,259	6,569	690	-	-
Facilities lease	532	298	234	-	-
<b>Total</b>	<b>\$ 11,071</b>	<b>\$ 7,742</b>	<b>\$ 2,966</b>	<b>\$ 60</b>	<b>\$ -</b>

(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. In May 2019, the Company increased its credit facilities from Bank Beinleumi in the amount of \$708, to pay for the acquisition of Imdecol business operations.

(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.

**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. Ziv Dekel <sup>(*)</sup> <sup>(1)</sup>	55	Chairman of the Board of Directors (Class C)
Ms. Odelia Levanon <sup>(*)</sup> <sup>(2)</sup>	56	Director (Class B)
Mr. Ralph Sassun <sup>(*)</sup> <sup>(3)</sup>	50	Chairman of Audit and Compensation Committees (Class A)
Mr. Michael Osborne <sup>(3)</sup>	49	Director (Class A)
Ms. Revital Cohen <sup>(2)</sup>	42	Director (Class B)
Mr. Eyal Cohen	50	Chief Executive Officer
Mr. Avidan Zelicovsky	50	President
Ms. Hagit Vizner	44	Chief Financial Officer

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

(1) Class C- Elected for a 3-year term.

(2) Class B - Elected for a 2-year term.

(3) Class A- Elected for a 1-year term.

**Mr. Ziv Dekel** joined our Board of Directors in June 2015 and was appointed as Chairman of the Board in 2019. Mr. Dekel has over 25 years of management and strategic counseling experience. Since 2010, Mr. Dekel provides strategic advisory services to various business entities. 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.

**Ms. Revital Cohen** joined our Board of Directors in December 2017. Since 2011, Ms. Cohen has been a consultant to companies in various fields such as business planning, finance, IT and human resources. Prior to 2011, Ms. Cohen was a senior consultant with Step Economic Consulting Ltd. Ms. Cohen holds a bachelor's degree in Sociology and Education, and master's degree 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. Since 2017, Ms. Levanon has been serving as the CEO of the Inter-University Computation Center (IUC). Ms. Levanon served as the Chief Information Officer of Irani Group, a leading Israeli importer and wholesaler of fashion brands from 2014 to September 2017. Ms. Levanon has served as the Chief Executive Officer of a venture capital fund, from 2012 to 2014 and as the Chief Information Officer and head of the technology division of Mega retail from 2000 to 2012. She also serves as a board member of the Old Jaffa Development Company Ltd. and has served as a member of the Board of You – loyalty club from 2008 to 2012. Since 2016, Ms. Levanon is a lecturer on management in the field of information systems in the Israel Academic College in Ramat Gan. Ms. Levanon holds an M.Sc. in Computer Sciences and a B.Sc. in Mathematics and Computer Sciences, 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.

**Mr. Michael Osborne** joined our Board of Directors in October 2019. Since 2004 Mr. Osborne has been serving in senior managerial positions, mainly in the operational, financial and corporate fields. Mr. Osborne currently serves as a Partner at Mirus Capital Advisors and as a director and a member of the Nominating & Governance Committee of IEC Electronics. From 2017 to 2019 Mr. Osborne served as the Chief Revenue Officer of Angelica Corporation. Mr. Osborne served as a senior vice president at Steel Partners from 2016 to 2017, and as a senior vice president of corporate development at Sparton Corporation from 2009 to 2016. Mr.

Osborne holds a bachelor's degree in science with a Major in Manufacturing Systems Engineering and a Minor in Management Sciences from GMI Engineering & Manufacturing Institute (now Kettering University). Mr. Osborne also holds a master's of Jurisprudence in Business Law from Loyola University's Chicago School of Law.

**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, and since December 2019, he serves as the Company's sole Chief Executive Officer. 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.

**Mr. Avidan Zelicovsky** is the President of the Company, leading the Company's Supply Chain division. 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 1996. He holds a BA in Business Administration from the Tel Aviv College of Management and an LL.M. from the Bar-Ilan University.

**Ms. Hagit Vizner** has been serving as the Company's controller since joining the Company in 2011 and until her appointment as Chief Financial Officer of the Company. Prior to joining the Company she held the positions of controller at Office Depot Ltd. (2009-2011) and assistant controller at Tara Ltd. (2007-2009). Between the years 2002 and 2006, Hagit served as an auditor with Deloitte Brightman Almagor Zohar & Co. Hagit holds a B.A. in Accounting and Business Administration from the College of Management in Rishon Lezion and is a certified public accountant in Israel.

## 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, 2019. Directors who are also executive officers do not receive director fees.

	Salaries, Directors' fees, Service fees, Commissions and Bonus (in thousands)	Pension, Retirement and Similar benefits (in thousands)
All directors and officers as a group (then 9 persons).	\$ 897	\$ 65

## 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 October 31, 2019.

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 October 2019, 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 \$8,360), paid on a quarterly basis, and an additional NIS 2,175 (approximately \$620) 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 October 2019 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 options shall expire on the fifth anniversary of the Grant Date.
- 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 October 31, 2019.

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 (the "**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.

#### *Chief Executive Officer*

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, 2019:

#### Co-CEO Mr. Yuval Viner

Mr. Viner has resigned as the Co-CEO of the Company in December 2019.

#### *Monthly Salary:*

A gross monthly base salary of NIS 44,472 (approximately \$12,500) linked to an increase in the CPI, plus customary benefits, which include managers' insurance, education fund, car expenses and long-term disability insurance.

*Mr. Viner did not receive any additional compensation or a bonus in respect of the year 2019.*

#### CEO, Mr. Eyal Cohen:

Following the resignation of Mr. Yuval Viner in December 2019, Mr. Eyal Cohen remained the sole CEO of the Company. Ms. Hagit Vizner, who has been serving as BOS' controller for eight years, was promoted to serve as the Company's Chief Financial Officer

#### *Monthly Salary:*

A gross monthly base salary of NIS 44,472 (approximately \$12,500) 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 of one month's salary for a net profit (on a Non-GAAP basis) exceeding \$1,300,000. In view of the Company's net losses in 2019, Mr. Cohen did not receive this bonus.

In addition, on March 30, 2020, our Board approved a special bonus of one monthly salary (NIS 44,472) to Mr. Cohen for personal achievement, in accordance with our Compensation Policy.

The entire bonus to Mr. Cohen will be paid by issuance of 7,665 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 Chief Executive Officer and is capped at five (5) monthly salaries. The Board of

*Options:*

On October 31, 2019, the Company's shareholders approved the grant of options to Eyal Cohen to purchase 40,000 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.
- 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.
- 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.

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 \$12,500) 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 of one month's salary for a net profit (on a non-GAAP basis) exceeding \$1,300,000. In view of the Company's net profit in 2019 Mr. Zelicovsky did not receive a bonus.

In addition, On March 30, 2020, our Board approved a special bonus of two monthly salaries (NIS 88,944) to be paid in cash, to Mr. Zelicovsky for personal achievement, in accordance with our Compensation Policy.

*Options:*

On October 31, 2019, the Company's shareholders approved a grant of options to purchase 40,000 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.
- 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.
- 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.

For additional information on the compensation of our directors and management see our proxy statement filed with the SEC under Form 6-K on September 11, 2019.

**6C. Board Practices**

**Directors:**

Our Board of Directors is currently comprised of 5 directors. The directors are elected by a simple majority at the annual shareholders' meeting. Pursuant to the Company's amended Articles of Association adopted by the shareholders on October 31, 2019, our Board of Directors is comprised of 3 classes, such that on each annual general meeting, approximately one-third of our directors are being nominated for election. At the October 2019 shareholders meeting the directors were elected for staggered periods ranging from one to three years, as follows: Class A shall serve an initial term of one year; Class B shall serve an initial term of two years; and Class C shall serve an initial term of three years.

Commencing upon our next annual shareholders meeting, each elected director shall be elected to serve a three-year term and until his or her respective successor is 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 4 nor more than 7. Our Articles of Association provide that the directors may appoint one more additional director (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. In addition, our Articles of Association provide that directors shall be elected only at an annual shareholders 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. Dekel, Sassun, Osborne 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.

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#### **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 (iii) 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 Ziv Dekel. 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.



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, Ziv Dekel and Odelia Levanon. The chairperson of the compensation committee is Ralph Sassun.

#### **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.

**6D. Employees**

As of March 15, 2020, we had 98 employees, all of whom are located in Israel. Of these 98 employees: 10 employees are in general and administrative positions, 16 employees are in marketing and sales, 15 employees are employed as technicians, 18 employees are in the manufacturing department and 39 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.

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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, 2020 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 4,257,790 ordinary shares outstanding as of March 15, 2020.

As of March 15, 2020 shares and options held by our officers and directors, then consisting of 7 persons, are as follows:

Name	Position	Number of shares and options Beneficially Owned	Percentage of Shares and options Beneficially Owned
Eyal Cohen	Chief Executive Officer	111,828	2.6%
Avidan Zelicovsky	President	83,067	1.9%
Ziv Dekel	Chairman	18,488	0.4%
Revital Cohen	Director	15,050	0.4%
Michael Osborne	Director	9,500	0.2%
Ralph Sassun	Director	25,500	0.6%
Odelia Levanon	Director	7,849	0.2%

**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 (ii) an amendment of the Plan allowing for the grant of Ordinary Shares in addition to options.

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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, 2020, we had 248,374 options outstanding under the Plan (of which 73,372 are exercisable) with the following exercise prices as set forth below:

	Exercise Price Per Share \$	Number of Options Outstanding
\$	2.118	87,500
\$	2.126	9,999
\$	2.131	45,002
\$	2.176	10,000
\$	2.287	7,500
\$	2.388	75,000
\$	2.96	13,373
	Total	248,374

## **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.

To the Company's knowledge, L.I.A. Pure Capital Ltd. beneficially owned, as of March 18, 2019, 221,941 Ordinary Shares, representing as of March 31, 2020 5.21% of the issued and outstanding Ordinary Shares<sup>(1)</sup>. As of March 31, 2020, No other shareholder beneficially owned more than 5% of the Company's Ordinary Shares.

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, 2017	December 31, 2018	December 31, 2019	March 15, 2020
L.I.A. Pure Capital Ltd. <sup>(1)</sup>	N/A	N/A	221,941 (5.21)%	221,941 (5.21)%

<sup>(1)</sup> 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, 2020, there were 49 record holders of Ordinary Shares, of which 7 were registered with addresses in the United States, representing approximately 94% of the outstanding Ordinary Shares. However, the number of record holders in the United States is not representative of the number of beneficial holders, nor is it representative of where such beneficial holders are resident since many of the Ordinary Shares are held of record by brokers and other nominees.

### **7B. Related Party Transactions**

#### **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 information regarding payments made by the Company pursuant to the Management Services Agreement in 2019, see Note 20 to the Consolidated Financial Statements for the year ended December 31, 2019.

#### **Intercompany Payments**

During each of the years 2018 and 2019 the Company charged each of its subsidiaries, Odem and Dimex, \$350,000 for their share of corporate overhead.

Since January 2017 until March 15, 2020, the Company has raised \$2.9 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, most recently, on July 18, 2018. In addition, under the 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.

**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
2019	\$ 10,324,000	31%
2018	\$ 9,660,000	30%
2017	\$ 7,062,000	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. In July 2019, the court dismissed the counterclaim as well as all of the allegations of the plaintiffs, excluding their claim regarding the depreciation of the facilities' value for which an appraiser has been appointed by the court.

On February 2, 2020 the Company filed a claim against Imdecol, requesting to enforce the pledges it has made for the benefit of the Company, due to Imdecol's inability to repay its debts to the Company. On February 25, 2020, the District court of Tel-Aviv ruled in favor of the Company and determined that the pledges are to be enforced.

**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.

**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.

**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, most recently in October 2019.

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.

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**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.

**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 only at a shareholders' annual 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.

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The Company's Board is classified into three separate classes, as nearly equal in number as possible, with one class being elected each year to serve a three-year term (Article 16.3). Directors can only be removed at an annual shareholders' meeting by a vote 60% of the shareholders actually voting at the shareholders' meeting (Article 16.7), or otherwise if they cease to hold office pursuant to the provisions of the Company's Articles of Association. In addition, the Board of Directors, may by a unanimous vote appoint a director (to fill a vacancy or otherwise) between annual shareholders' 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 (Article 16.3). Any amendments to the Articles of Association with respect to the Board composition shall require the approval of 60% of the shareholders actually voting at the shareholders meeting.

(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:**

An Annual Meeting 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 Meeting. The Company's other meetings shall be referred to as "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 the Companies Law. The Annual Meeting shall appoint an auditor, appoint the directors (according to the recent amendment in the our Articles of Association, directors may only be appointed at the Annual Meeting) and discuss all the other matters which must be discussed at the Company's Annual 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 Special Meeting if it receives a written requisition from any one of the following (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 Special 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 Special 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 an Annual Meeting or a Special Meeting shall be sent to all the shareholders listed in the Company's shareholders' register at least 21 days prior to the general meeting and shall be published in other ways insofar as required by the Companies 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.

The classified board structure adopted by the shareholder in October 2019 may increase the amount of time required for a takeover bidder to obtain control of the Company without the cooperation of the Board, even if the takeover bidder were to acquire a majority of the voting power of the Company's outstanding Ordinary Shares. Without the ability to obtain immediate control of the Board, a takeover bidder will not be able to take action to remove other impediments to its acquisition of the Company. Thus, the Company's board structure could discourage certain takeover attempts, perhaps including some takeovers that shareholders may feel would be in their best interests.

#### **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.

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, traders in securities and persons that own, directly or indirectly, 10% or more of our outstanding voting capital, 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.

#### **Israeli Tax Considerations**

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.

#### **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 an applicable tax treaty between Israel and the shareholder's country of residence provides otherwise. The law distinguishes between "real capital 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 capital 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 (23% in 2019 and thereafter).

In addition, shareholders that are individuals who have taxable income that exceeds a certain threshold (NIS 649,560 in 2019 and NIS 651,600 in 2020), are 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. 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 attributable to a permanent establishment of the shareholder maintained in Israel, and the shares are not traded on the Tel Aviv Stock Exchange on the date of their sale. 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.

#### **General Corporate Tax Structure in Israel**

Effective January 2018 and thereafter, the Israeli corporate tax rate 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 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.

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 or value, of our Ordinary Shares, 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 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.

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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 or loss.

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## 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

### 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.

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, 2019. We currently expect that we will not be a PFIC in 2020. 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. In order to comply with the requirements of a QEF election, a U.S. holder must receive certain information from us. There is no assurance that we will provide such information as the IRS may require in order for U.S. holders to make the QEF election. Moreover, there is no assurance that we will have timely knowledge of our status as a PFIC in the future. 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. Prospective investors should assume that a QEF election will not be available.

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.**

### 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.

### 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.boscoperate.com](http://www.boscoperate.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.

ASC 815, “Derivatives and Hedging”, 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 Company applied the following:

Until December 31, 2018, the effective portion of the changes in fair value of the derivative instruments designated for hedging purposes was reported as a component of other comprehensive income (“OCI”), net of tax 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, was recognized in earnings during the period of change. During the reporting periods, up and until December 31, 2018, the gains or losses required to be recognized in earnings for hedge ineffectiveness were insignificant.

Commencing January 1, 2019, the entire changes in fair value of the derivative instruments designated for hedging purposes that were determined as qualifying for hedging purposes (including the ineffective components of the hedging relationship) were reported as a component of OCI, net of tax and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings.

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.

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 2019, 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 \$47,000, respectively.

In addition, the Company previously 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 2017 and 2018 was \$160,000 and \$13,000, 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, 2019:

	2018	2019
Israel and others	\$ 6,792,000	\$ 8,052,000
India	1,060,000	1,394,000
Americas	732,000	322,000
Far East	38,000	237,000
Europe	2,000	58,000
	<u>\$ 8,624,000</u>	<u>\$ 10,063,000</u>

### **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 Chief Executive Officer 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 Chief Executive Officer 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, 2019. 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, 2019, 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 Chief Executive Officer and Chief Financial Officer have concluded, as of December 31, 2019, 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.”

**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 independent registered public accounting firm for the years 2018 and 2019.

The table below summarizes the audit and other fees paid and accrued by the Company and its consolidated subsidiaries to Grant Thornton during 2018 and 2019. All of such fees were pre-approved by our audit committee.

On December 12, 2017, the Company terminated the engagement with Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global (“**E&Y**”).

	Year Ended December 31, 2019		Year Ended December 31, 2018	
	Amount	Percentage	Amount	Percentage
Audit Fees – Grant Thornton <sup>(1)</sup>	\$ 71,500	95%	\$ 64,000	95%
Tax Fees – Grant Thornton <sup>(2)</sup>	\$ 3,500	5%	\$ 3,500	5%
All Other Fees – Grant Thornton <sup>(3)</sup>	\$ 9,335	-	\$ -	-
All Other Fees – E&Y <sup>(4)</sup>	\$ 7,559	-	\$ 3,000	-
Total	\$ 91,894	100%	\$ 70,500	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.

(4) Fees paid in connection with the issuance of consents to incorporate financial statements audited by E&Y into filings with the SEC.

**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.

**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 2019.

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

Not applicable.

**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.

**PART III****Item 17: Financial Statements**

Not applicable.

**Item 18: Financial Statements**

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

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<a href="#">Report of Independent Registered Public Accounting Firm</a>	F-2
<a href="#">Consolidated Balance Sheets</a>	F-3
<a href="#">Consolidated Statements of Operations</a>	F-4
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**Item 19: Exhibits**

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

1.1	<a href="#">Memorandum of Association, as amended (incorporated by reference to the Company's Registration Statement on Form S-8 filed on November 13, 2018).</a>
1.2	<a href="#">Articles of Association, as amended. (incorporated by reference to the Company's Proxy Statement on Form 6-K filed on September 11, 2019).</a>
2.1*	<a href="#">Description of Securities.</a>
4.1	<a href="#">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).</a>
4.2	<a href="#">The Company's Israeli 2003 Share Option Plan (incorporated by reference to the Company Annual Report on Form 20-F filed on April 1, 2019)</a>
4.3	<a href="#">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).</a>
4.4	<a href="#">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).</a>
4.5	<a href="#">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).</a>
4.7	<a href="#">Compensation Policy for Directors and Officers (incorporated by reference to the Company's Proxy Statement on Form 6-K filed on September 11, 2019).</a>
4.8	<a href="#">Asset Purchase Agreement by and between B.O.S Better Online Solutions Ltd. and Imdecoll Ltd. dated March 19, 2019 (incorporated by reference to the Company Annual Report on Form 20-F filed on April 1, 2019)</a>
4.9*	<a href="#">Amendments No. 1, No. 2 and No. 3 to the Asset Purchase Agreement by and between B.O.S Better Online Solutions Ltd. and Imdecoll Ltd.</a>
4.10*	<a href="#">Note Purchase Agreement between Ruby Tech Inc. and YA II PN, LTD dated February 19, 2020; \$600,000 Note issued by Ruby Tech Inc. to the Lender and Warrant to purchase up to 100,000 ordinary shares issued by B.O.S Better Online Solutions Ltd. to the Lender.</a>
8.1	<a href="#">List of subsidiaries. (incorporated by reference to the Company Annual Report on Form 20-F filed on March 29, 2018).</a>
11	<a href="#">Code of Ethics (incorporated by reference to the Company's Annual Report on Form 20-F filed on April 14, 2014).</a>
12.1*	<a href="#">Certification by Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.</a>
12.2*	<a href="#">Certification by Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.</a>
13.1*	<a href="#">Certification by Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934.</a>
23.1*	<a href="#">Consent of Fahn Kanne &amp; Co. Grant Thornton Israel.</a>
101*	The following financial information from the Company's Annual Report on Form 20-F for the year ended December 31, 2019, formatted in XBRL

\* Filed herewith.

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### 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/ Eyal Cohen

Eyal Cohen

Chief Executive Officer

Date: March 31, 2020

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**B.O.S. BETTER ONLINE SOLUTIONS LTD.  
AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2019  
IN U.S. DOLLARS  
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**B.O.S. BETTER ONLINE SOLUTIONS LTD.  
AND ITS SUBSIDIARIES**



**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

#### 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, 2019 and 2018, the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, 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 audits 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 audits 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  
March 31, 2020

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

### CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31	
	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 339	\$ 1,410
Restricted bank deposits	240	332
Trade receivables (net of allowance for doubtful accounts of \$32 and \$31 at December 31, 2019 and 2018, respectively)	10,063	8,624
Other accounts receivable and prepaid expenses	1,273	829
Inventories	5,407	2,874
<b>Total current assets</b>	<b>17,322</b>	<b>14,069</b>
LONG-TERM ASSETS	155	177
PROPERTY AND EQUIPMENT, NET	1,257	1,108
OPERATING LEASE RIGHT-OF-USE ASSETS, NET	720	-
OTHER INTANGIBLE ASSETS, NET	598	81
GOODWILL	5,147	4,676
<b>Total assets</b>	<b>\$ 25,199</b>	<b>\$ 20,111</b>

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

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

### CONSOLIDATED BALANCE SHEETS

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

December 31	
2019	2018



## CURRENT LIABILITIES:

Current maturities of long-term loans	\$ 664	\$ 467
Operating lease liabilities, current	551	-
Trade payables	6,503	4,106
Employees and payroll accruals	1,007	778
Deferred revenues	836	768
Advances net of inventory in progress	29	-
Accrued expenses and other liabilities	419	313
<b>Total current liabilities</b>	<b>10,009</b>	<b>6,432</b>

## LONG-TERM LIABILITIES:

Long-term loans, net of current maturities	2,041	1,867
Operating lease liabilities, non-current	289	-
Accrued severance pay	303	301
<b>Total long-term liabilities</b>	<b>2,633</b>	<b>2,168</b>

## COMMITMENTS AND CONTINGENT LIABILITIES

## SHAREHOLDERS' EQUITY:

Share capital:		
Ordinary Shares of NIS 80.00 nominal value: Authorized; 6,000,000 shares at December 31, 2019 and 2018, respectively; Issued and outstanding: 4,257,790 and 3,553,714 shares at December 31, 2019 and 2018, respectively	80,482	75,317
Additional paid-in capital	2,063	5,369
Accumulated other comprehensive loss	(233)	(333)
Accumulated deficit	(69,755)	(68,842)
<b>Total shareholders' equity</b>	<b>12,557</b>	<b>11,511</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 25,199</b>	<b>\$ 20,111</b>

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

March 31, 2020

Date of approval of the financial statements

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

**CONSOLIDATED STATEMENTS OF OPERATIONS**

U.S. dollars in thousands

	Year ended December 31,		
	2019	2018	2017
Revenues	\$ 33,817	\$ 32,650	\$ 28,932
Cost of revenues	27,159	25,907	22,587
Gross profit	6,658	6,743	6,345
Operating costs and expenses:			
Sales and marketing	4,064	3,705	3,389
General and administrative	2,255	1,834	1,870
Impairment of intangible assets	356	-	-
Impairment of Goodwill	614	-	-
<b>Total operating costs and expenses</b>	<b>7,289</b>	<b>5,539</b>	<b>5,259</b>
Operating income (loss)	(631)	1,204	1,086
Financial expenses, net	(330)	(255)	(297)
Income before taxes on income (loss)	(961)	949	789
Taxes on income (tax benefit)	(48)	(41)	16
<b>Net income (loss)</b>	<b>\$ (913)</b>	<b>\$ 990</b>	<b>\$ 773</b>
Basic and diluted net Income (loss) per share	\$ (0.23)	\$ 0.28	\$ 0.24
Shares (in thousands) used in calculation of earnings per share:			
Basic	4,053	3,500	3,171
Diluted	4,059	3,500	3,171

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

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

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

U.S. dollars in thousands

	Year ended December 31,		
	2019	2018	2017
Net income (loss)	\$ (913)	\$ 990	\$ 773
Cash flow hedging instruments:			
Change in unrealized gains and losses	53	(76)	(93)
Gain (loss) in respect of derivative instruments designated for cash flow hedge, net of taxes	47	(37)	148
Other comprehensive income (loss)	100	(113)	55
Comprehensive income (loss)	\$ (813)	\$ 877	\$ 828

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

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

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

U.S. dollars in thousands, except share data

	Ordinary Shares	Share capital and additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total shareholders' equity
Balance at January 1, 2017	2,935,286	\$ 79,464	\$ (275)	\$ (70,605)	\$ 8,584
Issuance of Ordinary Shares	421,403	746	-	-	746
Other comprehensive income	-	-	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 loss	-	-	(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
Issuance of Ordinary Shares (see Note 15a(1) and 15a(3))	178,881	527	-	-	527
Issuance of Ordinary shares related to securities purchase agreement, net (see Note 15a(4))	400,000	935	-	-	935
Exercise of options	125,195	316	-	-	316
Other comprehensive income	-	-	100	-	100
Share-based compensation expense	-	81	-	-	81
Net loss	-	-	-	(913)	(913)
Balance at December 31, 2019	4,257,790	\$ 82,545	\$ (233)	\$ (69,755)	\$ 12,557

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

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

U.S. dollars in thousands

	Year ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			

Net income (loss)	\$ (913)	\$ 990	\$ 773
<b>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</b>			
Depreciation, amortization and Impairment of Goodwill	1,327	289	245
Gain from sale and disposal of property and equipment	(10)	-	(10)
Currency fluctuation of loans	213	(225)	264
Severance pay, net	2	15	92
Share-based compensation expense	81	67	60
Decrease (Increase) in trade receivables, net	(1,970)	1,180	(1,876)
Decrease (Increase) in other accounts receivable and other assets	(357)	84	58
Decrease (Increase) in inventories	(2,125)	366	(926)
Increase (decrease) in trade payables	2,397	(1,845)	1,350
Increase (decrease) in employees and payroll accruals, deferred revenues, accrued expenses and other liabilities	440	(178)	347
<b>Net cash used in (provided by) operating activities</b>	<b>(915)</b>	<b>743</b>	<b>377</b>
<b>Cash flows from investing activities:</b>			
Purchase of property and equipment	(335)	(689)	(368)
Proceeds from sale of property and equipment	10	-	53
Acquisition of Imdecol (c)	(1,895)	-	-
<b>Net cash used in investing activities</b>	<b>(2,220)</b>	<b>(689)</b>	<b>(315)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of shares, net	1,498	377	606
Proceeds from exercise of options	316	-	-
Proceeds from long-term loans	737	-	2,976
Repayment of long-term loans	(579)	(469)	(3,346)
<b>Net cash provided by (used in) financing activities</b>	<b>1,972</b>	<b>(92)</b>	<b>236</b>
Increase (decrease) in cash, cash equivalents and restricted cash	(1,163)	(38)	298
Cash, cash equivalents and restricted cash at the beginning of the year	1,742	1,780	1,482
<b>Cash, cash equivalents and restricted cash at the end of the year</b>	<b>\$ 579</b>	<b>\$ 1,742</b>	<b>\$ 1,780</b>

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

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

U.S. dollars in thousands

	Year ended December 31,		
	2019	2018	2017
<b>Supplemental disclosure of cash flow activities:</b>			
(a) Net cash paid during the year for:			
Interest	\$ 98	\$ 91	\$ 161
Taxes	\$ 31	\$ 15	\$ 7
(b) Non-cash activities:			
Prepaid expenses related to 2017 SEDA (see Note 15a(1))	\$ 35	\$ 28	\$ -
Operating lease right-of-use assets due to adoption of ASU No. 2016-02	\$ 1,176	-	-
Operating lease liabilities due to adoption of ASU No. 2016-02	\$ 1,176	-	-
(c) Net cash used to pay for the Acquisition of Imdecol (see Note 3):			
			<b>June 1, 2019</b>
Inventory			\$ 380
Intangible assets, Net			\$ 953
Property and equipment, Net			\$ 91
Loss Contracts			\$ (614)
Goodwill			\$ 1,085
Net cash used to pay for the Acquisition			\$ 1,895

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**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 Intelligent Robotics and RFID Division segment, and the Supply Chain Solutions segment (see Note 18).

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, BOS-Dimex 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. In June 2019 the Company completed the acquisition of the operational assets of Imdecol Ltd., a global integrator and manufacturer of automatic and robotic systems that enhance the productivity of production lines. Bos-Dimex comprises the Intelligent Robotics and RFID segment
2. BOS-Odem Ltd. (“BOS-Odem”), an Israeli company, that is a distributor of electro-mechanical components, mainly to customers in the aerospace, defense and other industries 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, is 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 other 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

- 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.

- 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 2019 and 2018, inventory write-offs amounted to \$91 and \$52, 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 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.

**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.)**

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.

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, 2019 the remaining intangible assets were comprised mainly of customer relationship.

During the year ended December 31, 2019 the Company recognized an impairment loss related to intangible assets in an amount of \$356. For further information see Note 8 below.

For each of the two years ended on December 31, 2018 and 2017, 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 the impairment test be performed on goodwill at the level of the reporting units. As required by ASC 350, the Company chooses either to perform a qualitative assessment whether the two-step goodwill impairment test is necessary or proceeds directly to the two-step goodwill impairment test. Such determination is made for each reporting unit on a stand-alone basis. The qualitative assessment includes various factors such as macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, earnings multiples, gross margin and cash flows from operating activities and other relevant factors. When the Company chooses to perform a qualitative assessment and determines that it is more likely than not (more than 50 percent likelihood) that the fair value of the reporting unit is less than its carrying value, then the Company proceeds to the two-step goodwill impairment test. If the Company determines otherwise, no further evaluation is necessary.

**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.)**

When the Company decides or is required to perform the two-step goodwill impairment test, 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: the Intelligent Robotics and RFID Division and Supply Chain Solutions. The Company's goodwill is related to the Intelligent Robotics and RFID Division segment, which represents a reporting unit as a whole.

The Company determined the fair value of each of the reporting units using the Income Approach, which utilizes a discounted cash flow model, as it believes that this approach best approximates each of the reporting units 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 most significant assumptions used for the Income Approach for the 2019 impairment test were five years of projected net cash flows, WACC of 15% and a long-term growth rate of 2% for two reporting units. 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 additional impairment charges for its remaining balance of goodwill.

The aggregate fair value of the reporting units tested for impairment 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 the year ended December 31, 2019 the Company recognized an impairment loss of \$614 related to its Intelligent Robotics and RFID Division segment. For further information see Note 8 below.

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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 2019, 2018 and 2017 amounted to \$315, \$ 210 and \$ 451, 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 was accounted for as a separate unit when it provided 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.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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).

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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 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.

Revenues from operating services and parts and product sales are recorded upon providing the service or delivery of the products and parts and when collectability is reasonably assured. Revenues from robotics and automation projects are recognized using the percentage-of-completion method. When the Company is unable to recognize Revenues according to this method, the Revenues are recognized upon Completion of the projects.

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

Revenues are recognized based on the percentage relationship that incurred costs bear to total estimated costs. Costs include direct material, labor, and indirect costs. Selling, marketing, general, and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to costs and revenues, and are recognized in the period in which the revisions are determined.

In specific instances where there is a lack of dependable estimates or inherent risks that may cause the forecast to be doubtful, then the completed-contract method is followed. Revenue is recognized when the contract is substantially complete and when collectability is reasonably assured. Costs that are closely associated with the project are deferred as contract costs and recognized similarly to the associated revenues.

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 \$144 as of December 31, 2019. This amount is expected to be recognized during 2020, 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, 2019, the deferred revenues from service contracts amounted to \$717. This amount will be mostly recognized in the years 2020 until 2022. The deferred revenues also include amounts related to software projects in the amount of \$188.

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.

Following the initial application of ASU 2015-17, which became effective on January 1, 2017, deferred tax balances are presented as non-current amounts.

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.

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

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

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

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 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, 2019, 2018 and 2017, is \$1, \$17 and \$27, 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, "Derivatives and Hedging", 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 Company applied the following:

Until December 31, 2018, the effective portion of the changes in fair value of the derivative instruments designated for hedging purposes was reported as a component of other comprehensive income ("OCI"), net of tax 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, was recognized in current earnings during the period of change. During the reporting periods, up and until December 31, 2017, the gains or losses required to be recognized in earnings for hedge ineffectiveness were insignificant.

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**B.O.S. BETTER ONLINE SOLUTIONS LTD.  
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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

Commencing January 1, 2019, the entire changes in fair value of the derivative instruments designated for hedging purposes that were determined as qualifying for hedging purposes (including the ineffective components of the hedging relationship) were reported as a component of OCI, net of tax and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings.

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.

See Note 11 for disclosure of the derivative financial instruments in accordance with ASC 815.

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 were determined to have an anti-dilutive effect, was 13,373, 196,750 and 314,125 for the years ended December 31, 2019, 2018, and December 31, 2017, 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.

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.

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

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 2019, 2018 and 2017 was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Year ended December 31,		
	2019	2018	2017
Risk-free interest	1.52%	2.73%	2.05%
Dividend yields	0	0	0
Volatility	55%	55%	57%
Expected option term	3.5 years	3.5 years	3.5 years
Forfeiture rate	0%	0%	0%

Until December 31, 2018 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. Commencing January 1, 2019, following the adoption of ASU 2018-07, which aligns the measurement and classification guidance for share-based payments to nonemployees with the guidance for share-based payments to employees (with certain exceptions), share-based payments to non-employees are accounted in accordance with ASC 718.

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 8). As of December 31, 2019 the Company measured the fair value of goodwill with a total carrying amount of US\$ 5.76 million that was allocated to two reporting unit. The evaluation provided an

impairment in an amount of \$614, (see Note 8). 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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.

The Company’s financial assets and liabilities 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 \$ 13 asset and \$ 87 liability as of December 31, 2019 and 2018, 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. Accounting pronouncements adopted during the reported period:

**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”.**

Commencing January 1, 2019, the Company adopted ASC Update 2016-02, Leases (Topic 842).

Under the new guidance, lessees are 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**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.

As permitted under ASU 2018-11, which provides, a transition election to not restate comparative periods for the effects of applying the new standard, the Company adopted the new standard on January 1, 2019 and used the effective date as the date of initial application. Consequently, the effect of the adoption was reflected through a cumulative-effect adjustment. Financial information for comparative periods was not required to be updated and the disclosures required under the new standard were provided for dates and periods before January 1, 2019.

The new lease standard provides a number of optional practical expedients in transition. The Company elected to apply the ‘package of practical expedients,’ which permits the Company not to reassess its prior conclusions regarding lease identification, lease classification and initial direct costs under the new standard. The Company also elected the practical expedient pertaining to the use of hindsight and the practical expedient to not separate lease and non-lease components for all leases, other than leases of real estate.

The Company also elected the short-term lease recognition exemption for all leases that qualify (leases with a term shorter than 12 months). This means, for those leases, right-of-use assets or lease liabilities are not recognized (including right-of-use assets or lease liabilities for existing short-term leases of those assets in transition).

Following adoption of the new standard, the Company recognized additional operating liabilities in an amount of \$866, with corresponding right-of-use assets of approximately the same amount based on the present value of the remaining minimum rental payments for existing operating leases of facilities and vehicles. In addition, the Company is required to provide additional new disclosures regarding the leasing activities to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. However, the adoption of this standard did not have a significant impact on the Company's consolidated statements of operations and consolidated statements of cash flows.

See note 19 for further discussion.

**Accounting Standards Update 2017-12 "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities"**

Commencing January 1, 2019, the Company adopted ASC Update 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities" (ASU 2017-12).

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

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

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 became effective for fiscal years beginning after December 15, 2018 and for interim periods within those fiscal years.

The Company applied ASU 2017-12, using the modified retrospective approach to hedging relationships that exist as of the date of adoption. However, due to the limited hedging activities of the Company as of the date of adoption, the adoption did not affect the consolidated financial statements.

**Accounting Standard Update 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting**

Commencing January 1, 2019, the Company adopted ASC Update 2018-07, "Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting" (ASU 2018-07). ASU 2018-07 aligns the measurement and classification guidance for share-based payments to nonemployees with the guidance for share-based payments to employees, with certain exceptions.

Consistent with the accounting requirement for employee share-based payment awards, awards within the scope of Topic 718 will be measured at grant-date fair value of the equity instruments that an entity is obligated to issue when the good has been delivered or the service has been rendered and any other conditions necessary to earn the right to benefit from the instruments have been satisfied. Equity-classified nonemployee share-based payment awards will be measured at the grant date.

With respect to awards with performance conditions ASU 2018-07 concludes that, consistent with the accounting for employee share-based payment awards, an entity will consider the probability of satisfying performance conditions when nonemployee share-based payment awards contain such conditions.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

ASU 2018-07 also requires that the classification of equity classified nonemployee share-based payment awards will continue to be subject to the requirements of Topic 718 unless the award was modified after the good has been delivered, the service has been rendered, any other conditions necessary to earn the right to benefit from the instruments have been satisfied, and the nonemployee is no longer providing goods or services. This eliminates the requirement to reassess classification of such awards upon vesting.

In addition, ASU 2018-07 includes certain Non-public Entity-Specific Amendments ASU 2018-07 became effective for Public entities in annual periods beginning after December 15, 2018, and interim periods within those years (first quarter of 2019 for the Company).

Based on the limited grants of share-based payments to nonemployees as of the adoption date, it was determined that the adoption of ASU 2018-07 did not have a significant impact on its consolidated financial statements.

- u. Accounting pronouncements not yet adopted:

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.”

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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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.

**NOTE 3: ACQUISITION OF BUSINESS**

On June 1, 2019, the Company completed the acquisition of the operational assets of Imdecol Ltd, a global integrator and manufacturer of automatic and robotic systems that enhance the productivity of production lines. The Company has determined that the acquired of assets and operations, represent a business and thus, the transaction was accounted for as a business combination transactions under ASC 805, “Business Combinations” in accordance with the acquisition method.

The purchase price of Imdecol’s business was 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 (“Formula of Consideration”).

The purchase price was comprised as follows:

- a. An advance of \$276 was paid to Imdecol in cash upon signing the definitive agreement in March 2019;
- b. An additional approximately \$1,619 was paid to Imdecol in cash at closing, on June 1, 2019.
- c. The final consideration will be paid by August 2020, according to the Formula of Consideration (the “Contingent Consideration”). Additional payment, if required, will be done in the following manner:
  - Up to \$417 shall be paid to Imdecol, 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.
  - The residual amount, if any, will be paid in cash.

The Imdecol’ acquisition expenses amounted to approximately \$138.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 3: ACQUISITION OF BUSINESS (Cont.)**

The purchase price allocation of the acquired business was as follows:

	June 01, 2019
Cash paid	1,895
Contingent Consideration(1)	-
<b>Total acquisition price</b>	<b>\$ 1,895</b>
Recognized amounts of identifiable assets acquired:	
Intangible assets, net (2)	953
Property and equipment, net	91
Inventory	380
Loss Contracts (3)	(614)
Net assets acquired	810
<b>Goodwill(4)</b>	<b>1,085</b>

(1) Company's management expects that the acquired business performance by August 2020 will not meet the profitability goals for contingent payment. Accordingly, no Contingent Consideration was recorded.

(2) The fair value adjustment estimate of identifiable intangible assets were determined using the "income approach", which is valuation technique that estimates the fair value of an assets based on market participants' expectations of the cash flow an assets would generate over its remaining useful life.

(3) Loss contracts - management identified certain contracts of the acquired operations of Imdecol as loss contracts as it was determined that the unavoidable costs of meeting the obligations under such contracts (i.e. the expected manufacturing costs and service costs including labor expenses) exceed the expected future economic benefits to be received. Those loss contracts were recognized as a liability at fair value as of the acquisition date.

(4) As part of the purchase price allocation for the acquisition, the Company recorded goodwill for \$1,085. Goodwill reflects the value or premium of the acquisition price in excess of the fair values assigned to specific tangible and intangible assets net of the fair value of. Goodwill has an indefinite useful life and therefore is not amortized as an expense (the goodwill balance is not deductible for income tax purposes), but is reviewed annually for impairment of its fair value to the Company. The purchase price intrinsically recognizes the benefits of the broadened depth of new markets and management team and is primarily attributable to expected synergies (See also Note 8B).

The Company filed pro-forma information regarding the acquisition and the acquired business operations was determined to be included in the Intelligent Robotics and RFID segment.

The Consolidated result of the operations do not include any revenue or expense related to Imdecol, prior to June 1, 2019, the closing date of the acquisitions.

The following table provides pro forma information as if the business acquisition had occurred on January 1, 2018:

	Year ended December 31 2018 Unaudited
Revenues	\$ 38,029
Net Income	\$ 987
Basic and diluted net Income per share	\$ 0.26

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 4:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES**

	December 31	
	2019	2018
Government authorities	\$ 129	\$ 96
Advances to suppliers	568	268
Derivatives (See Note 11)	13	-
Prepaid expenses	482	377
Accrued income	22	56
Other	59	32
	<b>\$ 1,273</b>	<b>\$ 829</b>

**NOTE 5:- INVENTORIES**

	December 31	
	2019	2018
Raw materials	\$ 120	\$ 83
Inventory in progress	1,285	-
Finished goods	4,906	2,791
Net – advances from customers	(904)	-
	<b>\$ 5,407</b>	<b>\$ 2,874</b>

**NOTE 6:- LONG TERM ASSETS**

	December 31	
	2019	2018

Prepaid expenses related to SEDA (see Note 15a1)	\$	77	\$	112
Other		78		65
	\$	155	\$	177

**NOTE 7:- PROPERTY AND EQUIPMENT, NET**

	December 31,	
	2019	2018
<u>Cost:</u>		
Computers and software	\$ 1,396	\$ 1,302
Office furniture and equipment	893	733
Leasehold improvements	1,100	1,064
Motor Vehicles	456	302
	<u>\$ 3,845</u>	<u>\$ 3,401</u>
<u>Accumulated Depreciation:</u>		
Computers and software	\$ 1,251	\$ 1,099
Office furniture and equipment	669	580
Leasehold improvements	458	371
Motor Vehicles	210	243
	<u>\$ 2,588</u>	<u>\$ 2,293</u>
Property and equipment, net	<u>\$ 1,257</u>	<u>\$ 1,108</u>

Depreciation expenses amounted to \$277, \$232 and \$ 188 for the years ended on December 31, 2019, 2018 and 2017, respectively.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 8:- GOODWILL AND OTHER INTANGIBLE ASSETS, NET**

**A. Other Intangible Assets:**

	December 31, 2019	December 31, 2018	Weighted average amortization period
<u>Cost:</u>			
Brand name	946	670	4.1
Customer list	2,450	2,450	2.5
Software	111	111	3
Customer relationship	728	141	7
Backlog	90	-	
	<u>4,325</u>	<u>3,372</u>	
<u>Accumulated amortization:</u>			
Brand name	946	670	
Customer list	2,450	2,450	
Software	111	111	
Customer relationship	130	60	
Backlog	90	-	
	<u>3,727</u>	<u>3,291</u>	
Amortized cost	<u>\$ 598</u>	<u>\$ 81</u>	

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 8:- GOODWILL AND OTHER INTANGIBLE ASSETS, NET (Cont.)**

Intangible assets are amortized based on the straight-line method for their remaining useful life.

Amortization expenses amounted to \$79, \$ 57 and \$ 57 for the years ended December 31, 2019, 2018 and 2017, respectively. In addition the Company recognized an impairment loss of the brand name and backlog related to the acquisition of Imdecol's business operation in the amount of \$356.

B. The changes in the carrying amount of goodwill for the years ended December 31, 2019 and 2018 are as follows:

	<u>Goodwill</u>
Balance as of January 1 and December 31, 2018	4,676
<b>Changes during 2019</b>	
Acquisition of Imdecol	1,085
Impairment of Goodwill (See Note 2J)	(614)
Balance as of December 31, 2019	<u>\$ 5,147</u>

**NOTE 9:- CURRENT MATURITIES OF LONG TERM LOANS**

Short term loans	Loan currency	Weighted interest rate as of December 31, 2019 %	December 31	
			2019	2018
Current maturities	NIS	3.5 (Prime+1.75%)	664	467
			<u>664</u>	<u>467</u>

As of December 31, 2019, the Company and its subsidiaries had an unutilized short term credit line in the amount of \$1,380, bearing an annual interest of 3.3%.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 10:- ACCRUED EXPENSES AND OTHER LIABILITIES**

	December 31	
	2019	2018
Derivatives (See Note 11)	\$ -	\$ 87
Professional services	149	97
Accrued expenses related to retirement cost of CO-CEO	72	-
Tax accruals	3	10
Other	195	119
	<u>\$ 419</u>	<u>\$ 313</u>

**NOTE 11:- DERIVATIVES INSTRUMENTS**

For time to time 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:

	Year ended December 31,		
	2019	2018	2017
Derivatives designated as cash flow hedging instruments:			
Cost of revenues	\$ (25)	\$ 18	\$ (63)
Sales and marketing	\$ (16)	\$ 13	\$ (61)
General and administrative	\$ (6)	\$ 6	\$ (24)
Total expenses (income)	<u>\$ (47)</u>	<u>\$ 37</u>	<u>\$ (148)</u>

**NOTE 12:- FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following table presents financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2019 and 2018:

Description	December 31, 2019			
	Fair Value	Level 1	Level 2	Level 3
Derivative asset	\$ 13	-	\$ 13	-
	<u>\$ 13</u>	<u>-</u>	<u>\$ 13</u>	<u>-</u>
Description	December 31, 2018			
	Fair Value	Level 1	Level 2	Level 3
Derivative liabilities	\$ 87	-	\$ 87	-

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**NOTE 13:- 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,	
	December 31,		
	2019	2019	2018
	%		
NIS	3.5 (Prime+1.75%)	\$ 2,705	\$ 2,334
Less - current maturities		664	467
		<u>\$ 2,041</u>	<u>\$ 1,867</u>

- (1) 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. Amounts drawn under the credit facilities in 2017 will be paid in monthly equal installments for a period of 6 years. In May 2019, the Company increased its credit facilities from Bank Beinleumi in the amount of \$708, to pay for the acquisition of Imdecol business operations. The loan will be paid in monthly equal installments for a period of 5 years. See Note 3.

The Bank Beinleumi loan 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 its Israeli subsidiaries, owned now or in the future. As of December 31, 2019, the Company met the covenants set forth in the agreement.

- 2) The total amount to be paid by the Company is as follows:

Payment schedule	December 31, 2019
2020	664
2021	664
2022	662
2023	655
2024	60
Total	<u>\$ 2,705</u>

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**NOTE 14:- 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, 2019, the Company has an outstanding contingent obligation to pay royalties to the OCS, including interest, in the amount of approximately \$ 3,794, 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. Litigation:

1. As of December 31, 2019 The Company is a party to 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. In July 2019, the court dismissed the counterclaim as well



as all of the allegations of the plaintiffs, excluding the claim regarding the depreciation of the facilities' value for which an appraiser has been appointed by the court.

2. 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 prior Chairman Yosi Lahad, the Company's prior Co-CEO, Yuval Viner, the Company's Co-CEO and CFO, Eyal Cohen and Ms. Gabriela Jacobs, an (indirect) shareholder of the Company.

The Plaintiff claimed that the defendants, acting in bad faith, breached their duties of loyalty and care and several laws, by inducing the Plaintiff to purchase shares of the Company. The Plaintiff claimed that he was led to believe that the defendants shall facilitate his becoming a controlling shareholder of the Company. The claim was for a total amount of NIS 2,600,000 (approximately \$750,000).

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.

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**NOTE 15:- SHAREHOLDERS' EQUITY**

a. Ordinary Shares:

1. Issuance of Ordinary Shares in connection with Standby Equity Distribution Agreement:

On each of 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 with YA II PN Ltd., respectively (YA II PN together with YA Global, "YA"). The SEDAs were for the sale of up to \$ 1,300 and \$2,000, respectively, of the Company's Ordinary Shares to YA. The Company may affect the sale, at its sole discretion, during 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 93% of the lowest daily VWAP (as defined below) of the Ordinary Shares during the five consecutive trading days (or, 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. "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.

In connection with the 2015 SEDA and 2017 SEDA, the Company issued Ordinary shares to YA as a commitment fee of 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, 2019, the balance of those prepaid expenses was \$77.

During the years 2017 until 2019, the Company issued to YA 709,144 Ordinary Shares, for a total amount of \$1,448, net of \$45 issuance expenses.

2. From February 19, 2019 until March 15, 2019, 125,195 options were exercised for \$316.
3. On February 25, 2019 the Company issued 20,858 Ordinary Shares (equivalent to \$62) to officers of the Company as year 2018 Bonus payments approved by the Board of Directors and shareholders.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 15:- SHAREHOLDERS' EQUITY (Cont.)**

4. On May 16, 2019 the Company entered into and closed a securities purchase agreement with several investors for the sale of 400,000 Ordinary Shares at a price of \$2.50 per share, resulting in gross proceeds of \$1,000 and \$65 issuance expenses. In addition, the Company issued to the investors 240,000 warrants with an exercise price of \$3.30 per Ordinary Share. The warrants shall be exercisable for 3.5 years and shall be subject to a three-year vesting period as follows: one third of the warrants shall vest annually (upon the lapse of 12 months, 24 months and 36 months from issuance), provided that on the applicable vesting date the investor did not sell any of the Ordinary Shares purchased on the private placement. Vesting of all of the warrants shall be accelerated in the event that any one or more shareholders acting together acquire a block of 40% of the Company's issued and outstanding share capital. In addition, the Company issued 60,000 warrants as fees to a placement agent.
5. 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.

b. Warrants to shareholders

The Company's outstanding warrants to shareholders as of December 31, 2019 are as follows:

<b>Outstanding and exercisable warrants</b>	<b>Weighted average exercise price of outstanding warrants</b>	<b>Weighted average Remaining contractual life (years)</b>
300,000	3.30	2.82

## c. 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, 2019 there are 238,381 options available for future grants under the Plan. Each option granted under the Plan expires five years from the date of the grant. The options vest gradually over a period of up to three years.

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

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

**NOTE 15:- SHAREHOLDERS' EQUITY (Cont.)**

A summary of the Company's employee and director stock option activity and related information for the year ended December 31, 2019, is as follows:

	2019		2018		2017	
	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price
Outstanding - beginning of year	320,875	\$ 2.59	314,125	\$ 3.39	252,670	\$ 6.21
Changes during the year:						
Granted	95,000	\$ 2.13	108,000	\$ 2.39	75,000	\$ 2.13
Exercised	(125,195)	\$ 2.52	-	\$ -	-	\$ -
Forfeited	(43,806)	\$ 3.65	(101,250)	\$ 4.85	(13,545)	\$ 49.09
Outstanding - year end	246,874	\$ 2.26	320,875	\$ 2.59	314,125	\$ 3.39
Vested and expected to vest	148,498	\$ 2.41	167,874	\$ 2.90	192,584	\$ 4.10
Exercisable at year end	79,372	\$ 2.38	157,874	\$ 2.89	182,584	\$ 4.17

During the years 2019, 2018, and 2017, stock-based compensation expense related to employees and directors stock options amounted to \$81, \$67 and \$60, 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, 2019, 2018 and 2017 was \$1.97, \$ 2.58 and \$ 2.16, respectively. The weighted-average grant-date fair value of unvested options as of December 31, 2019 was \$ 2.18. The aggregate intrinsic value of the outstanding options in each of the years ended December 31, 2019, 2018 and 2017 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.

During the year ended December 31, 2019, 125,195 options were exercised. No options were exercised during the years ended on December 31, 2018 and December 31, 2017. As of December 31, 2019 and 2018, there were a total of \$155 and \$163, 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 2022.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 15:- SHAREHOLDERS' EQUITY (Cont.)**

Options granted to employees and directors that are outstanding as of December 31, 2019 broken into exercise prices, are as follows:

Exercise Price	Options outstanding as of December 31, 2019	Weighted average remaining contractual life (years)	Options exercisable as of December 31, 2019	Weighted average Remaining Contractual life of options exercisable (years)
2.118	87,500	4.83	-	-
2.126	9,999	1.86	9,999	1.86
2.131	45,002	2.93	22,501	2.93
2.287	7,500	4.08	-	-
2.388	83,500	3.19	33,499	2.67
2.960	13,373	0.81	13,373	0.81

See also Note 2r regarding the assumptions utilized for the un measurement of the fair value of stock options at the grant date.

#### NOTE 16:- TAXES ON INCOME

a. Corporate tax rates in Israel

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, 2019, in the amount of approximately \$ 33,204. 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 losses in the amount of approximately \$23,597.

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:

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

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### NOTE 16:- TAXES ON INCOME (Cont.)

	December 31	
	2019	2018
Net operating loss carry forward (1)	\$ 7,658	\$ 7,407
Net capital loss carry forward (1)	5,427	5,427
Allowances and provisions	129	120
Intangible assets, net	(393)	(372)
	<u>12,821</u>	<u>12,582</u>
Valuation allowance (2)	\$ (12,821)	\$ (12,582)
Net deferred tax Liability	\$ -	\$ -

(1) See Note 16b.

(2) In years 2019 and 2018, 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 2019 was due to a increase of net capital loss carry forward.

d. Taxes on income (tax benefit) are comprised as follows:

	Year ended December 31,		
	2019	2018	2017
Current	\$ 31	\$ 19	\$ 16
Other	(79)	(60)	-
	<u>(48)</u>	<u>(41)</u>	<u>16</u>
Domestic	\$ (52)	\$ (44)	\$ 9
Foreign	4	3	7
	<u>(48)</u>	<u>(41)</u>	<u>16</u>

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

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### NOTE 16:- TAXES ON INCOME (Cont.)

e. Income (loss) before taxes on income is comprised as follows:

	Year ended December 31,		
	2019	2018	2017
Domestic	\$ (980)	\$ 877	\$ 750
Foreign	19	72	39
	<u>\$ (961)</u>	<u>\$ 949</u>	<u>\$ 789</u>

- 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 2014 have all been assessed as final.

- h. 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 2015 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, 2019 and 2018, there is no balance of uncertain tax positions.

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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 17:- SUPPLEMENTARY INFORMATION TO STATEMENTS OF OPERATIONS**

- a. Financial expenses, net:

	Year ended December 31,		
	2019	2018	2017
Financial income:			
Interest income	\$ -	\$ -	\$ 1
foreign currency differences gains	26	-	12
	<u>26</u>	<u>-</u>	<u>13</u>
Financial expenses:			
In respect of interest related to bank loans and bank fees	(245)	(192)	(259)
Other (mainly foreign currency differences)	(111)	(63)	(51)
	<u>(356)</u>	<u>(255)</u>	<u>(310)</u>
	<u>\$ (330)</u>	<u>\$ (255)</u>	<u>\$ (297)</u>

The following table sets forth the computation of basic and diluted net income per share:

- b. Net earnings per share:

	Year ended December 31,		
	2019	2018	2017
1. Numerator:			
Income (loss)	\$ (913)	\$ 990	\$ 773
Net income (loss) available to Ordinary shareholders	<u>\$ (913)</u>	<u>\$ 990</u>	<u>\$ 773</u>
2. Denominator (in thousands):			
Basic weighted average Ordinary shares outstanding (in thousands)	4,053	3,500	3,171
Diluted weighted average Ordinary shares outstanding (in thousands)	4,059	3,500	3,171
Basic and diluted income (loss) per share	<u>\$ (0.23)</u>	<u>\$ 0.28</u>	<u>\$ 0.24</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 18:- SEGMENTS AND GEOGRAPHICAL INFORMATION**

The Company manages its business in two reportable segments, consisting of the Intelligent Robotics and RFID Division 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 2019, 2018 and 2017 were as follows:

	<b>Intelligent Robotics and RFID Division</b>	<b>Supply Chain Solutions</b>	<b>Intercompany</b>	<b>Consolidated</b>
<b>2019</b>				
Revenues	\$ 14,180	\$ 19,750	\$ (113)	\$ 33,817
Gross profit	\$ 2,908	\$ 3,750	\$ -	\$ 6,658
Assets related to segment	\$ 6,850	\$ 1,027	\$ -	\$ 7,877
<b>2018</b>				
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
<b>2017</b>				
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

- b. The following presents total revenues for the years 2019, 2018 and 2017 based on the location of customers and long-lived assets based on major geographic areas in which the Company operates:

	<b>Year ended December 31,</b>					
	<b>2019</b>		<b>2018</b>		<b>2017</b>	
	<b>Total revenues</b>	<b>Long-lived assets *</b>	<b>Total revenues</b>	<b>Long-lived assets *</b>	<b>Total revenues</b>	<b>Long-lived assets *</b>
Israel	\$ 23,493	\$ 1,257	\$ 22,990	\$ 1,108	\$ 21,870	\$ 651
Far East	5,055	-	3,800	-	1,416	-
India	3,624	-	4,209	-	4,497	-
America	901	-	1,189	-	918	-
Europe	744	-	462	-	231	-
	<b>\$ 33,817</b>	<b>\$ 1,257</b>	<b>\$ 32,650</b>	<b>\$ 1,108</b>	<b>\$ 28,932</b>	<b>\$ 651</b>

(\*) Long-lived assets are comprised of property and equipment (intangible assets and goodwill are not included).

- c. There were no major customer during the reported periods.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 19:- LEASES**

We have operating leases for office space, warehouses and car leases. We determine if a contract contains a lease at inception or modification of a contract. Our leases generally do not provide an implicit interest rate, and we therefore use our incremental borrowing rate as the discount rate when measuring operating lease liabilities. The incremental borrowing rate represents an estimate of the interest rate we would incur at lease commencement to borrow an amount equal to the lease payments on a collateralized basis over the term of the lease within a particular currency environment. We used the incremental borrowing rates as of January 1, 2019 for operating leases that commenced prior to that date. Many of our leases contain rental escalation, renewal options and/ or termination options that are factored into our determination of lease payments as appropriate. Variable lease payment amounts that cannot be determined at the commencement of the lease are not included in the right-to-use assets or liabilities.

The following table presents the lease balances within the Consolidated Balance Sheet as of December 31, 2019:

<b>Assets :</b>	<b>Classification on the Balance Sheet</b>	<b>Year ended December 31, 2019</b>
	Operating lease asstes	Operating lease right of use asstes, net

<b>Liabilities:</b>		
current		
Operating lease liabilities	Operating lease liabilities, current	551
Long term		
Operating lease liabilities	Operating lease liabilities, non-current	289
<b>Remaining Lease Term</b>		
Vehicles		.036 -2.33 years
Facilities rent		1.33-3.33 years
<b>Weighted Average Discount Rate</b>		
Vehicles		3.5%
Facilities rent		3.5%

The following table reconciles the undiscounted future minimum lease payments (displayed by year and in the aggregate) under no cancelable operating leases with terms of more than one year to the total operating lease liabilities recognized on our Consolidated Balance Sheet as of December 31, 2019:

**future lease payments are:**

2020	509
2021	250
2022	35
2023	10
	<u>804</u>

Expense under operating leases was \$0.9 million for the year ended December 31, 2019. Operating lease costs are included within Operating loss in the Consolidated Statement of Operations. Short-term lease costs were not material. Supplemental cash flow information is as follows:

	<b>Year ended December 31, 2019</b>
Operating cash out flows from operating lease	<u>120</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 20:- RELATED PARTIES**

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:

- iDnext monthly fee of NIS increased from NIS 33,000 to NIS 53,000 and bonus of 15% from the net profit of certain product line, effective from January 1, 2018.
- Three employees of BOS Dimex transferred to be employed by iDnext for a monthly consideration of 35,000 NIS.
- 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:

	<b>Year ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Monthly fees	\$ 49	\$ 183	\$ 125
Bonus	10	49	-
Payments for employees	<u>33</u>	<u>39</u>	<u>-</u>
<b>Total</b>	<u>\$ 92</u>	<u>\$ 271</u>	<u>\$ 125</u>

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

**NOTE 21:- SUBSEQUENT EVENTS**

- 1) On February 2, 2020 the Company filed a claim against Imdecol, requesting to enforce the pledges it has made for the benefit of the Company, due to Imdecol's inability to repay its debts to the Company. On February 25, 2020, the District court of Tel-Aviv ruled in favor of the Company and determined that the pledges are to be enforced.
- 2) On February 19, 2020, the Company, through its wholly owned subsidiary, Ruby Tech Inc. entered into an agreement for a loan from YA II PN, LTD ("YA II") in the principal amount of \$600,000.

The principal loan amount bears an interest rate of 8% per annum and is not secured and is guaranteed by BOS-Odem and by the company. The loan will be paid in 12 monthly installments of principal and interest starting from March 2020. BOS issued to the lender warrants to purchase up to 100,000 ordinary shares of the Company at an exercise price of \$3.00 per ordinary share. If following six months from the issuance of the warrants the shares underlying the warrants are not subject to an effective registration statement, the warrants may be exercised on a cashless basis. The warrants are exercisable for a period of two years from issuance. The Company paid to the lender a commitment fee of \$15,000.

- 3) In March 2020, the Company increased its credit facilities from Bank Beinleumi in the amount of \$180,000 in interest rate of Prime+1.5%. The loans will be paid from June 2020, in monthly equal installments for a period of 2 years.
- 4) In December 2019, a new strain of coronavirus ("COVID-19") was reported to have surfaced in Wuhan, Hubei Province, China. During January, February and March of 2020, COVID-19 has spread globally, including in Israel. In response to the COVID-19 virus, countries have taken different measures in relation to prevention and containment including lock-down and quarantine. The COVID-19 virus continues to impact worldwide economic activity and pose the risk that we or our employees, contractors, suppliers, customers and other business partners may be prevented from conducting certain business activities for an indefinite period of time, including due to shutdowns that may be requested or mandated by governmental authorities or otherwise elected by companies as a preventive measure. The Company relies, with respect to some of its products, on manufacturers in China. The effects of the COVID-19 may result in such products not being produced and/or shipped to the Company. In addition, mandated government authority measures or other measures elected by companies as preventive measures may lead to our consumers being unable to complete purchases or other activities. COVID-19 may have an adverse effect on trading, on our operations, collection of our client debt and, its continuous spread and protective measures taken by the authorities may adversely affect our future results of operations, cash flows and financial condition.

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EX-2.1 2 f20f2019ex2-1\_bosbetter.htm DESCRIPTION OF SECURITIES

**Exhibit 2.1**

**DESCRIPTION OF THE REGISTRANT'S SECURITIES  
REGISTERED PURSUANT TO SECTION 12 OF THE  
SECURITIES ACT OF 1934**

As of December 31, 2019, B.O.S. Better Online Solutions Ltd. (the "Company") had the following class of securities registered under Section 12(b) of the Securities Exchange Act of 1934, as amended: ordinary shares, nominal value NIS 80.00 per share. The Company's ordinary shares are listed on the Nasdaq Capital Market under the trading symbol "BOSC".

**DESCRIPTION OF SHARE CAPITAL**

This description summarizes relevant provisions of the Israeli Companies Law, 5759-1999, or the Companies Law. The following summary does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the applicable provisions of the Companies Law and the Company's articles of association, a copy of which is incorporated by reference as an exhibit to the Annual Report on Form 20-F of which this Exhibit 2.1 is a part. The Company encourages you to read its articles of association and the applicable provisions of the Companies Law for additional information.

**Authorized Share Capital**

Our authorized share capital consists of NIS 480,000,000 divided into 6,000,000 ordinary shares, nominal value NIS 80.00 per share.

**Borrowing Powers**

The board of directors has the power to cause us to borrow money and to secure the payment of borrowed money. The board of directors specifically has the power to issue bonds or debentures, and to impose mortgages or other security interests on all or any part of our property.

**Amendment of Articles of Association**

Shareholders may amend our articles of association by a resolution adopted at a shareholders meeting by the holders of 50% of voting power represented at the meeting in person or by proxy and voting thereon, except that amendments to the articles of association with respect to the Board composition require the approval of 60% of the shareholders actually voting at the shareholders meeting.

**Qualification of Directors**

No person shall be disqualified to serve as a Director by reason of his not holding shares in the Company or by reason of his having served as a Director in the past.

**Dividends**

Under the Israeli Companies Law, we may pay dividends only out of our profits as determined for statutory profits, unless court approval is granted for the payment of dividends despite the lack of statutory profits. The same applies to a company's repurchase of its outstanding shares.) The amount of any dividend to be distributed among shareholders is based on the nominal value of their shares.

**Voting Rights and Powers**

Every shareholder has one vote for each share held of record. The company may in the future issue a class of shares with preferential voting rights.

## **Business Combinations**

Our articles of association do not impose restrictions on our ability to engage in any merger, asset or share sale or other similar transaction.

## **Winding Up**

Upon our liquidation, our assets available for distribution to shareholders will be distributed to them in proportion to the nominal value of their shares.

## **Redeemable Shares**

Subject to the provisions of the Companies Law, we may issue and redeem redeemable shares.

## **Modification of Rights**

The provisions of our articles of association relating to general meetings also apply to any separate general meeting of the holders of the shares of a particular class.

## **Transferring Shares**

According to the Articles, our shares may be freely transferred, unless the transfer is restricted or prohibited by another agreement, undertaking or any applicable law.

## **Quorum requirements**

Pursuant to our articles of association, holders of our ordinary shares are entitled to one vote for each ordinary share held on all matters submitted to a vote before the shareholders at a general meeting. As provided under our articles of association and as permitted under the NASDAQ Listing Rules due to our status as a foreign private issuer, the quorum required for our general meetings of shareholders consists of at least two shareholders present in person, by proxy or written ballot who hold or represent between them at least 33⅓% of the voting rights. A meeting adjourned for lack of a quorum is generally adjourned to the same day in the following week at the same time and place or to a later time or date if so specified in the notice of the meeting. The quorum for the commencement of the adjourned meeting shall be any number of participants.

## **Shareholder Meetings**

An annual meeting of shareholders is to be held once a year, within 15 months after the previous annual meeting.

The board of directors may, whenever it deems fit, convene a special shareholders meeting. The board of directors must convene a special shareholders meeting at the request of:

- two directors or one quarter of the directors then holding office;
- one or more shareholders holding at least 5% of the issued capital and at least 1% of the voting rights in the Company; or
- one or more shareholders holding at least 5% of the voting rights in the Company.

## **Notice of General Meetings; Omission to Give Notice**

The provisions of the Companies Law and the related regulations override the provisions of our articles of association, and provide for notice of a meeting of shareholders to be sent to each registered shareholder at least 21 days or 35 days in advance of the meeting, depending on the items included in the meeting agenda.

Notice of a meeting of shareholders must specify the type of meeting, the place and time of the meeting, the agenda, a summary of the proposed resolutions, the majority required to adopt the proposed resolutions, and the record date for the meeting. The notice must also include the address and telephone number of our registered office, and a list of times at which the full text of the proposed resolutions may be examined at the registered office.

The accidental omission to give notice of a general meeting to any shareholder, or the non-receipt of notice sent to such shareholder, does not invalidate the proceedings at the general meeting.

## **Limitations on Foreign Shareholders to Hold or Exercise Voting Rights**

There are no limitations on foreign shareholders in our articles of association. Israeli law restricts the ability of citizens of countries that are in a state of war with Israel to hold shares of Israeli companies.

## **Fiduciary Duties; Approval of Transactions under Israeli Law**

**Fiduciary duties.** The Companies Law codifies the fiduciary duties that office holders, which under the Companies Law includes our directors and executive officers, owe to a company. An office holder's fiduciary duties consist of a duty of loyalty and a duty of care.

The duty of loyalty requires an office holder to act in good faith and for the benefit of the company, including to avoid any conflict of interest between the office holder's position in the company and personal affairs, and prohibits any competition with the company or the exploitation of any business opportunity of the company in order to receive a personal advantage for himself or herself or for others. This duty also requires an office holder to reveal to the company any information or documents relating to the company's affairs that the office holder has received due to his or her position as an office holder. A company may approve any of the acts mentioned above provided that all the following conditions apply: the office holder acted in good faith and neither the act nor the approval of the act prejudices the good of the company and, the office holder disclosed the essence of his personal interest in the act, including any substantial fact or document, a reasonable time before the date for discussion of the approval. A director is required to exercise independent discretion in fulfilling his or her duties and may not be party to a voting agreement with respect to his or her vote as a director. A violation of these requirements is deemed a breach of the director's duty of loyalty.

The duty of care requires an office holder to act with a level of care that a reasonable office holder in the same position would employ under the same circumstances. This includes the duty to use reasonable means to obtain information regarding the advisability of a given action submitted for his or her approval or performed by virtue of his or her position and all other relevant information material to these actions.



**Disclosure of personal interest.** The Companies Law requires that an office holder promptly discloses to the company any personal interest that he or she may have and all related material information or documents known to him or her, in connection with any existing or proposed transaction by the company. "Personal interest," as defined by the Companies Law, includes a personal interest of any person in an act or transaction of the company, including a personal interest of his relative or of a corporation in which that person or a relative of that person is a 5% or greater shareholder, a holder of 5% or more of the voting rights, a director or general manager, or in which he or she has the right to appoint at least one director or the general manager, and includes shares for which the person has the right to vote pursuant to a power-of-attorney. "Personal interest" does not apply to a personal interest stemming merely from holding shares in the company.

The office holder must make the disclosure of his personal interest no later than the first meeting of the company's board of directors that discusses the particular transaction. This duty does not apply to the personal interest of a relative of the office holder in a transaction unless it is an "Extraordinary Transaction." The Companies Law defines an "Extraordinary Transaction" as a transaction that is not in the ordinary course of business, not on market terms or that is likely to have a material impact on the company's profitability, assets or liabilities.

**Approvals.** The Companies Law provides that a transaction with an office holder or a transaction in which an office holder has a personal interest requires board approval, unless the transaction is an Extraordinary Transaction or the articles of association provide otherwise. Our articles of association do not provide otherwise. The transaction may be approved only if it is in our best interest. If the transaction is an Extraordinary Transaction, then the approvals of the company's audit committee and the board of directors are required. If the transaction concerns exculpation, indemnification, insurance or compensation of an office holder, then the approvals of the company's compensation committee and the board of directors are required, except if the compensation arrangement is an immaterial amendment to an existing compensation arrangement of an officer who is not a director, in which case the approval of the compensation committee is sufficient. Exculpation, indemnification, insurance or compensation of a director or the Chief Executive Officer also requires shareholder approval.

A person who has a personal interest in a matter that is considered at a meeting of the board of directors or the audit committee generally may not attend that meeting or vote on that matter, unless a majority of the board of directors or the audit committee has a personal interest in the matter or if such person is invited by the chair of the board of directors or audit committee, as applicable, to present the matter being considered. If a majority of the board of directors or the audit committee has a personal interest in the transaction, shareholder approval would also be required.

### **Controlling Shareholders**

The Companies Law imposes on a controlling shareholder of a public company the same disclosure requirements described above as it imposes on an office holder. For this purpose, a "controlling shareholder" is any shareholder who has the ability to direct the company's actions, including any shareholder holding 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights in the company. Two or more shareholders with a personal interest in the approval of the same transaction are deemed to be one shareholder.

Approval of the audit committee, the board of directors and our shareholders, in that order, is required for Extraordinary Transactions, including a private placement, with a controlling shareholder or in which a controlling shareholder has a personal interest.

Approval of the compensation committee, the board of directors and our shareholders, in that order, is required for the terms of compensation or employment of a controlling shareholder or his or her relative, as an officer holder or employee of our company or as a service provider to the company, including through a company controlled by a controlling shareholder.

Shareholder approval must include the majority of shares voted at the meeting. In addition to the majority vote, the shareholder approval must satisfy either of two additional tests:

- the majority includes at least a majority of the shares voted by shareholders who have no personal interest in the transaction; or
- the total number of shares held by disinterested shareholders that voted against the approval of the transaction does not exceed 2% of the aggregate voting rights of our company.

Generally, the approval of such a transaction may not extend for more than three years, except that in the case of an Extraordinary Transaction, including a private placement, with a controlling shareholder or in which a controlling shareholder has a personal interest that does not concern compensation for employment or service, the transaction may be approved for a longer period if the audit committee determines that the approval of the transaction for a period longer than three years is reasonable under the circumstances.

### **Duties of Shareholders**

Under the Israeli Companies Law, a shareholder also has a duty to act in good faith towards the company and other shareholders and refrain from abusing his or her power in the company, including, among other things, voting in the general meeting of shareholders on the following matters:

- any amendment to the articles of association;
- an increase of the company's authorized share capital;
- a merger; or
- approval of related party transactions that require shareholder approval.

In addition, any controlling shareholder, any shareholder who can determine the outcome of a shareholder vote and any shareholder who, under the company's articles of association, can appoint or prevent the appointment of an office holder, is under a duty to act with fairness towards the company. The Israeli Companies Law also provides that a breach of the duty of fairness will be governed by the laws governing breach of contract; however, the Israeli Companies Law does not describe the substance of this duty.

### **Anti-Takeover Provisions Under Israeli Law**

The Companies Law provides that an acquisition of shares of a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would hold 25% or more of the voting rights in the company, unless there is already another shareholder of the company with 25% or more of the voting rights. Similarly, the Companies Law provides that an acquisition of shares of a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would hold more than 45% of the voting rights in the company, unless there is a shareholder with more than 45% of the voting rights in the company.

The Companies Law requires the parties to a proposed merger to file a merger proposal with the Israeli Registrar of Companies, specifying certain terms of the transaction. Each merging company's board of directors and shareholders must approve the merger. Shares in one of the merging companies held by the other merging company or certain of its affiliates are disenfranchised for purposes of voting on the merger. A merging company must inform its creditors of the proposed merger. Any creditor of a party to the merger may seek a court order blocking the merger, if there is a reasonable concern that the surviving company will not be able to satisfy all of the obligations of the parties to the merger. Moreover, a merger may not be completed until at least 50 days have passed from the time that the merger

**AMENDMENT OF THE ASSET PURCHASE AGREEMENT**

AMENDMENT OF THE ASSET PURCHASE AGREEMENT (this “**Amendment**”) made as of April 15, 2019 by and among **B.O.S BETTER ONLINE SOLUTIONS LTD.**, (“**Buyer**”), and **Imdecol**. (“**Seller**”) (each, a “**Party**”, and together, the “**Parties**”).

**WHEREAS**, pursuant to an Asset Purchase Agreement (the “**Purchase Agreement**”) entered into on March 19<sup>th</sup>, 2019 by the Seller and the Buyer, the parties wish to amend the Purchase Agreement as further provided herein;

**NOW, THEREFORE**, the parties agree as follows:

**1. Amendments**

1.1 Section 7.3(a) of the Purchase Agreement is hereby amended and restated in its entirety to read as follows:

“Following the signing of this Agreement and due to the sale of Seller’s activity as specified in this Agreement, Seller shall conduct, with respect to each of Seller’s employees and officers, an employment termination process in accordance with applicable law that will include: invitation letters to a hearing prior termination, hearings prior termination and termination letters, according to which the employment relations between Seller and Seller’s employees and officers will be terminated no later than the Closing Date subject to applicable law; and the provision of all other required termination documents, including, inter alia, 161 forms and release letters to the pension funds”.

1.2 Section 7.3(b) of the Purchase Agreement is hereby amended and restated in its entirety to read as follows:

“Buyer shall enter into new employment agreements with any of the Seller’s employees (in a form determined by the Buyer in its sole and absolute discretion) 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 according to their employment agreement or pursuant to applicable law (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**”).

1.3 Section 7.3(g) of the Purchase Agreement is hereby amended and restated in its entirety to read as follows:

“Seller will sign any required document that may be needed in order to transfer the pension and severance funds of Hired Employees and Seller’s Officers to Buyer”.

**2. Miscellaneous**

- 2.1 Capitalized terms used in this Amendment that are not otherwise herein defined are used as defined in the Purchase Agreement.
- 2.2 This Amendment shall enter into force as of the date stated above and all other provisions of the Purchase Agreement shall remain in full force and effect.
- 2.3 This addendum shall be attached to the Purchase Agreement and shall constitute an integral part thereof.
- 2.4 Except as amended pursuant to this Amendment, the Purchase Agreement is ratified, adopted, approved and confirmed in all respects and remains in full force and effect.

**3. Governing Law**

3.1 Notwithstanding the place where this Amendment may be executed, all of the terms and provisions hereof shall be construed under and governed by the substantive laws of the State of Israel, without regard to the principles of conflict of laws.

*[Signature page to follow]*

IN WITNESS WHEREOF, the Parties have signed this Amendment as of the date first indicated above.

**Buyer**

By: \_\_\_\_\_  
Name:  
Title:

**Seller**

By: \_\_\_\_\_  
Name:  
Title:

This **AMENDMENT NO. 2 TO ASSET PURCHASE AGREEMENT** (this "**Amendment**") is made 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**") on May 30, 2019.

Reference is made to that certain Asset Purchase Agreement (the "**APA**") dated as of March 19, 2019, by and between Buyer, and Seller. All capitalized terms not expressly defined herein shall have the meaning ascribed to them in the APA.

**WHEREAS**, the Parties have entered into this Amendment to evidence certain agreements to amend the APA.

**NOW, THEREFORE**, in consideration of the mutual promises and agreements set forth herein, Buyer and Seller agree as follows:

1. **Amendment of the Purchase Agreement.** This Amendment amends the APA in accordance with Section 13.8 of the APA, and in the event of any conflict between the provisions of the APA and this Amendment, the provisions of this Amendment shall govern and bind the Parties.

2. **Inventory Schedule.** Section 1.9 of the APA will be replaced with the following: "After the Closing, a list of each item in Seller's inventory (the "**Inventory**") shall be produced as follows: (a) Buyer shall conduct an inventory count of the items of Inventory that are parts as of the Closing Date and provide Seller, by June 3, 2019, with a list of each item of the Seller's inventory that was a part as of the Closing Date, for the Seller's reasonable approval. (b) Seller shall provide Buyer, by June 10, 2019, with a list of the costs of the items of Inventory as of the Closing Date that were parts, as paid to third parties (the book values of such items), for the Buyer's reasonable approval. (c) For each item of Inventory that was work in process as of the Closing Date, Seller shall provide Buyer, by June 10, 2019, with a list of each such item and the cost of the materials as paid to third parties for such item and the cost of the work hours utilized for such item as of the Closing Date (the book value of such item as of the Closing Date), for the Buyer's reasonable approval. (d) After the lists to be provided under the preceding clauses (a), (b) and (c), have been provided and approved, they shall collectively constitute **Schedule 1.9**. The Inventory shall become the property of the Buyer at the Closing in return for the payment for the Inventory as set forth in this Agreement. Inventory that is not utilized by Buyer by June 30, 2020, shall be returned to Seller and if any of such Inventory was paid for by the Buyer under this Agreement such payment shall be returned to Buyer."

3. Notwithstanding Section 13.18, no draft of Schedule 1.9 of the APA shall be provided prior to Closing.

4. **Amendment of Intellectual Property Assignment Agreement Requirement.** Notwithstanding any provision of the APA to the contrary, Schedule 3.2(a)(ii)(2) shall not be attached to the APA and no Intellectual Property Assignment Agreement shall be provided by the Seller or the Buyer to each other.

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5. **Waiver of Consents Delivery.**

5.1. Notwithstanding any provision of the APA to the contrary, the Seller waives delivery of consents to the assignment of Seller's agreements with Em Hachita Ltd. and Seller's agreements with Em Hachita Ltd. (the "**Non-Transferred Agreements**") shall not be assigned to Buyer.

5.2. Notwithstanding any provision of the APA to the contrary, the Seller's agreements with A.A. Poliyiv (1999) Ltd. shall not be assigned to the Buyer at the Closing. Within fourteen (14) days of the Closing, Buyer shall be entitled to elect, by a notice sent within such fourteen (14) day period to the Seller, that either (i) Seller's agreements with A.A. Poliyiv (1999) Ltd. shall be assigned to Buyer and Seller shall be obligated to provide A.A. Poliyiv (1999) Ltd.'s consent to such assignments within ten (10) days of Buyer's request, (ii) Seller's agreements with A.A. Poliyiv (1999) Ltd. shall also be deemed "**Non-Transferred Agreements**" under this Agreement, or (iii) that Seller's agreements with A.A. Poliyiv (1999) Ltd. shall not be assigned to Buyer.

5.3. For clarity, none of Seller's agreements with Phoenicia Flat Glass Industries Ltd. shall be assigned to Buyer.

5.4. With respect to the Non-Transferred Agreements, each of Seller and Buyer shall act as follows: (i) Buyer shall, as agent or subcontractor for Seller, pay, perform and discharge fully the Liabilities of Seller thereunder from and after the Closing Date (other than Retained Liabilities) and (ii) Seller shall pass along to Buyer the rights and benefits under the Non-Transferred Agreements, exercise the rights and benefits under the Non-Transferred Agreements on behalf of Buyer and in accordance with Buyer's instructions, and hold in trust for and pay to Buyer promptly upon receipt thereof, all income, proceeds and other consideration received by Seller to the extent related to such Non-Transferred Agreement. Notwithstanding the above, warranty obligations under the Non-Transferred Agreements shall be treated as Warranty Obligations under Section 1.8 of the APA.

6. **Waiver of Employment Agreement Delivery.** Notwithstanding Section 3.2(a)(vi) of the APA, an employment agreement with Sergey Barslevski shall not be required to be delivered at the Closing.

7. **Delivery of Certain Financial Statements.** Notwithstanding Section 7.8 of the APA, the unaudited interim financial reports of Seller for the first quarters of 2019 and 2018, prepared in accordance with US GAAP, shall not be provided to Buyer. The Parties agree that Seller shall provide Buyer within ninety (90) days of Buyer's written request, unaudited interim financial reports of the Seller for the six months ending June 30, 2019, prepared in accordance with US GAAP.

8. **Compliance Cost Deduction and Indemnification.**

8.1. Within five (5) months of the Closing, Buyer, in consultation with Seller, shall determine, based on market prices, the costs of Buyer's compliance, to the satisfaction of the landlord under the Lease Agreement, with Sections 13.5 and 14.1 of the Lease Agreement (the "**Compliance Cost**").

8.2. Notwithstanding anything in the APA to the contrary, upon determination of the Compliance Cost, the Compliance Cost will be deducted from any Make-Up Payment and if the Make-Up Payment is less than the Compliance Cost, any balance shall be deducted from the Deferred Payment Amount. The Seller shall indemnify the Buyer and shall pay to the Buyer at its first demand any portion of the Compliance Cost that exceeds the combined amount of the Deferred Payment Amount and the Make-Up Payment.

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9. **Miscellaneous Amendments.** The APA shall be amended such that references to "Schedule 4.14(2)" in Sections 1.1(a), 1.5 and 7.5 of the APA shall be replaced with references to "Schedule 4.14(1)". The references to "Section 5" in Section 3.2(a)(i) shall be replaced with a reference to "Section 4". The last sentence of Section 4.10(a) shall be replaced with the following sentence: "Buyer shall be entitled to use the Real Property until the termination of the Lease Agreement, all subject to the terms and conditions of the Lease Agreement and the Assignment and Assumption of Lease."

10. **Miscellaneous.**

10.1. **Counterparts.** This Amendment 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.

10.2. Governing Law. The validity and construction of this Amendment 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 Amendment 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.

Signature Page Follows

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IN WITNESS WHEREOF, and intending to be legally bound hereby, the parties hereto have caused this Amendment to be duly executed and delivered as of the date and year first above written.

B.O.S BETTER ONLINE SOLUTIONS LTD.

By: \_\_\_\_\_  
Name: Eyal Cohen  
Title: Co-CEO and CFO

IMDECOL LTD.

By: \_\_\_\_\_  
Name: Ben Zion Katz  
Title: CTO & Director

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### AMENDMENT NO. 3 TO ASSET PURCHASE AGREEMENT

This **AMENDMENT NO. 3 TO ASSET PURCHASE AGREEMENT** (this "**Amendment**") is made as of September 11, 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**").

Reference is made to that certain Asset Purchase Agreement dated as of March 19, 2019, as amended (the "**APA**"), by and between Buyer and Seller. All capitalized terms not expressly defined herein shall have the meaning ascribed to them in the APA.

**WHEREAS**, the Parties have entered into this Amendment to evidence certain agreements to amend the APA.

**NOW, THEREFORE**, in consideration of the mutual promises and agreements set forth herein, Buyer and Seller agree as follows:

1. Amendment of the APA. This Amendment amends the APA in accordance with Section 13.8 of the APA, and in the event of any conflict between the provisions of the APA and this Amendment, the provisions of this Amendment shall govern and bind the Parties.

#### 2. Purchase Orders.

2.1. Section 1.7(a) of the APA shall be replaced with the following:

"**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 in connection with such Assigned Contracts (the "**Advance Payments**") are due and payable to Buyer. The Seller hereby agrees that any consideration it shall receive for Rejected Contracts (as defined below) shall be promptly, and not later than within 3 business days, transferred to the Purchaser: (i) on account of the Advance Payments and (ii) as payment for the Subcontractor Services as defined under Section 1.7B below, until such obligations have been satisfied in full. For the avoidance of doubt, Buyer's entitlement to receive payment for Advance Payment and/or for Subcontractor Services shall not be limited by the provision of Section 11 hereof."

2.2. Schedule 1.7(a) shall be replaced with the revised Schedule 1.7(a) attached hereto as **Exhibit A**.

2.3. Section 1.7(b) of the APA shall be replaced with the following:

"**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)** are due and payable to Seller promptly following the date hereof."

2.3 Section 1.7(c) shall be added to the APA as follows:

In the event that the total payment received by Buyer from the customer pursuant to any Assigned Contract reflects a profit, then Buyer shall pay Seller, within 30 days of customer's payment, a portion of such profit corresponding to the proportion of the costs incurred by the Seller out of the entire costs incurred in the Assigned Contract.

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#### 3. Rejected Contracts.

3.1. The following section 1.7B shall be added to the APA:

"**Schedule 1.7B** lists open customer purchase orders for goods or services which Buyer has decided not to assume and are not Non-Transferred Agreements (as defined in Amendment No. 2 to the APA dated May 30, 2019, the "**Rejected Contracts**"). Buyer shall provide Seller with services as a sub-contractor (in a scope agreed upon by the Parties) in order to support the Seller's completion of the Rejected Contracts (the "**Subcontractor Services**"), and shall be charged by the Buyer for the time and materials involved (as set forth is Schedule 1.7B) using the same cost principles employed for the purchase of the Assigned Contracts."

3.2. A new Schedule 1.7B (Rejected Contracts), in the form attached hereto as **Exhibit B** shall be added to the APA.

4. Section 5.4 of Amendment No. 2 to the APA dated May 30, 2019 shall be cancelled. For the avoidance of doubt, the agreements referred to in Sections 5.1-5.3 shall be deemed Rejected Contracts.

5. Security Interest.

5.1. The following Section 1.7C.1 shall be added s to the APA:

“For the purpose of securing the payment in full of (a) the Advance Payments; (b) any consideration to be paid to Buyer pursuant to section 1.7B above; and (c) reimbursement to Buyer under section 8 below, the Seller shall grant Buyer the following security interests: (i) a first priority fixed pledge and charge with respect to consideration received in connection with any and all Rejected Contracts; and (ii) a first priority fixed pledge and charge with respect to all of Seller’s rights in bank account no. 71810094 and 31120053 with Bank Leumi\_branch number, and any amounts as may be in such account from time to time ((i) and (ii) collectively, the “**Pledges**”).

5.2. The Pledges shall be granted pursuant to a Pledge Agreement substantially in the form attached as **Exhibit C** hereto”

5.3. The following Section 1.7C.2 shall be added to the APA:

“Concurrently with the execution of the Pledge Agreement the Seller shall provide the Buyer with a duly executed notice to the Registrar of Companies in respect of the Pledges. The Seller undertakes to cooperate with the Buyer and take any action necessary or advisable in the Buyer’s reasonable discretion to register and perfect the Pledges with the Registrar of Companies.”

6. Inventory Schedule. Schedule 1.9 of the APA shall be replaced with a revised Schedule 1.9, attached hereto as **Exhibit D**, detailing all inventory actually purchased under the APA.

7. Payment for Inventory.

Notwithstanding Section 2.6(b) to the APA, since Buyer’s advance payment for Inventory of NIS 1,500,000 on the Closing Date was in excess of the value of the inventory actually received by Buyer by NIS 1,023,732, Seller shall reimburse Buyer for such difference, within 3 business days from receiving any consideration for the completion of any Rejected Contracts.

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8. Miscellaneous.

8.1. Counterparts. This Amendment 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.

8.2. Governing Law. The validity and construction of this Amendment 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 Amendment 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.

*Signature Page Follows*

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**IN WITNESS WHEREOF**, and intending to be legally bound hereby, the parties hereto have caused this Amendment to be duly executed and delivered as of the date and year first above written.

B.O.S BETTER ONLINE SOLUTIONS LTD.

By: \_\_\_\_\_  
Name: Eyal Cohen  
Title: Co-CEO and CFO

IMDECOL LTD.

By: \_\_\_\_\_  
Name: Ben Zion Katz  
Title: CTO & Director

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EX-4.10 4 f20f2019ex4-10\_bosbetter.htm NOTE PURCHASE AGREEMENT BETWEEN RUBY TECH INC. AND YA II PN, LTD DATED FEBRUARY 19, 2020; \$600,000 NOTE ISSUED BY RUBY TECH INC. TO THE LENDER AND WARRANT TO PURCHASE UP TO 100,000 ORDINARY SHARES ISSUED BY B.O.S BETTER ONLINE SOLUTIONS LTD. TO THE LENDER

**Exhibit 4.10**

**NOTE PURCHASE AGREEMENT**

**THIS NOTE PURCHASE AGREEMENT** (this “Agreement”) is dated as of February 19, 2020, by and between **RUBY-TECH INC.**, a corporation organized and existing under the laws of the State of New York (the “Company”), and **YA II PN, LTD.**, a Cayman Islands exempt limited partnership (the “Investor”).

**WITNESSETH**

**WHEREAS**, the parties desire that, upon the terms and subject to the conditions contained herein, the Company shall issue and sell to the Investor, as provided herein, and the Investor shall purchase a full recourse promissory note in the form attached hereto as “Exhibit A” (the “Note”) in the original principal amount of \$600,000;

WHEREAS, the issuance and sale of a Note shall take place at a closing (the "Closing") to take place within 2 days of the date hereof, or such other date as may be agreed upon between the parties;

WHEREAS, the Company is a wholly owned subsidiary of BOS-Odem Ltd ("BOS-Odem"), which itself is a wholly owned subsidiary of B.O.S. Better Online Solutions Ltd., a corporation organized and existing under the laws of the State of Israel (the "Parent");

WHEREAS, in consideration of the benefits that will accrue to BOS-Odem and the Parent and as a condition to the Investor purchasing the Promissory Note hereunder, BOS-Odem, and the Parent shall enter into a guaranty agreement (the "Guaranty") in a form attached hereto as "Exhibit B";

NOW, THEREFORE, in consideration of the mutual covenants and other agreements contained in this Agreement, the Company and the Investor hereby agree as follows:

1. PURCHASE AND SALE OF NOTE:

(a) Purchase of Note at the Closing. Subject to the satisfaction (or waiver) of the terms and conditions of this Agreement, the Investor agrees to purchase at the Closing and the Company agrees to sell and issue to the Investor at the Closing a Note in the original principal amount of \$600,000 for a purchase price equal to the face amount issued.

(b) Commitment Fees. The Company shall pay to YA Global II SPV, Ltd (the "Subsidiary Fund"), as designee of the Investor a commitment fee of \$15,000 (the "Commitment Fee") in connection with the issuance of the Note. The Company hereby authorizes the Investor to deduct the Commitment Fee from the gross proceeds of the issuance of the Note and pay it to the Subsidiary Fund in satisfaction of the Commitment Fee.

(c) Warrants. In connection with the purchase and sale of the Note, the Parent shall issue to the Investor at the Closing a warrant in the form attached hereto as "Exhibit C" (the "Warrant") to purchase 100,000 ordinary shares of the Parent at an exercise price of \$3.00 for 2 years.

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(d) Closing Deliverables. At the Closing, the following transactions shall occur and shall be deemed to take place simultaneously. No transaction shall be deemed to have been completed or any document delivered until all such transactions have been completed and all required documents have been delivered, unless waived in writing by the receiving Party: (i) the Company shall deliver, or cause to be delivered, to the Investor a duly executed Note in the face amount applicable of \$600,000, (ii) the Parent shall issue to the Investor a duly executed Warrant; (iii) the Parent and BOS-Odem shall execute and deliver to the Investor the Guaranty, and (IV) the Investor shall pay to the Company the face amount of the Note issued to the Investor (less the Commitment Fee, which shall be paid to the Subsidiary Fund) by wire transfer to the account of the Company as specified on Schedule I to the Note.

2. CONDITIONS PRECEDENT TO CLOSING. The obligation of the Investor hereunder to purchase the Note at the Closing is subject to the satisfaction, at or before the date of the Closing, of each of the following conditions, provided that these conditions are for the Investor's sole benefit and may be waived by the Investor at any time in its sole discretion.

(a) The Representations and Warranties of the Company are true and correct.

(b) No event shall have occurred since the date of this Agreement that could result in, or reasonably be expected to result in a Material Adverse Effect, where "Material Adverse Effect" shall mean any condition, circumstance, or situation that may result in, or would reasonably be expected to result in (i) a material adverse effect on the legality, validity or enforceability of this Agreement, the Note, or the Warrant (collectively, the "Transaction Documents"), (ii) a material adverse effect on the results of operations, assets, business, prospects or condition (financial or otherwise) of the Company or the Parent, or (iii) a material adverse effect on the Company or the Parent's ability to perform in any material respect on a timely basis its obligations under any Transaction Document.

(c) The ordinary shares of the Parent shall be authorized for quotation or trading on the Nasdaq Capital Market (the "Primary Market") and trading in the common stock of the Company shall not have been suspended for any reason.

(d) The Parent is, and has been for a period of at least 90 days immediately prior to each the Closing, subject to the reporting requirements of section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act").

(e) The Standby Equity Distribution Agreement dated May 8, 2017 between the Parent and the Investor (the "SEDA") is in full force and effect.

3. INVESTOR'S REPRESENTATIONS AND WARRANTIES. Investor hereby represents and warrants to, and agrees with, the Company that the following are true and correct as of the date hereof and as of the date of the Closing:

(a) Organization and Authorization. The Investor is duly organized, validly existing and in good standing under the laws of the Cayman Islands and has all requisite power and authority to purchase, hold and sell the Note. The decision to invest and the execution and delivery of this Agreement by such Investor, the performance by such Investor of its obligations hereunder and the consummation by such Investor of the transactions contemplated hereby have been duly authorized and requires no other proceedings on the part of the Investor. The undersigned has the right, power and authority to execute and deliver this Agreement and all other instruments on behalf of the Investor. This Agreement has been duly executed and delivered by the Investor and, assuming the execution and delivery hereof and acceptance thereof by the Company, will constitute the legal, valid and binding obligations of the Investor, enforceable against the Investor in accordance with its terms.

(b) Evaluation of Risks. The Investor has such knowledge and experience in financial, tax and business matters as to be capable of evaluating the merits and risks of, and bearing the economic risks entailed by, an investment in the Company and of protecting its interests in connection with this transaction. It recognizes that its investment in the Company involves a high degree of risk.

(c) No Legal Advice from the Company. The Investor acknowledges that it had the opportunity to review this Agreement and the transactions contemplated by this Agreement with its own legal counsel and investment and tax advisors. The Investor is relying solely on such counsel and advisors and not on any statements or representations of the Company or any of the Company's representatives or agents for legal, tax or investment advice with respect to this investment, the transactions contemplated by this Agreement or the securities laws of any jurisdiction.

(d) Investment Purpose. The Note is being purchased by the Investor for its own account, and for investment purposes. The Investor agrees not to assign or in any way transfer the Investor's rights to the Note or any interest therein and acknowledges that the Company will not recognize any purported assignment or transfer except in accordance with applicable Federal and state securities laws. Except for affiliates of the Investor, no other Person has or will have a direct or indirect beneficial interest in the Commitment Fee Shares. The beneficial owner of the Commitment Fee Shares agrees not to sell, hypothecate or otherwise transfer the Commitment Fee Shares unless such are registered under Federal and applicable state securities laws or unless, in the opinion of counsel satisfactory to the Company, an exemption from such laws is available.

(e) Accredited Investor. The Investor is an “Accredited Investor” as that term is defined in Rule 501(a)(3) of Regulation D of the

(f) Information. The Investor and its advisors (and its counsel), if any, have been furnished with all materials relating to the business, finances and operations of the Company and information it deemed material to making an informed investment decision. The Investor and its advisors, if any, have been afforded the opportunity to ask questions of the Company and its management. Neither such inquiries nor any other due diligence investigations conducted by such Investor or its advisors, if any, or its representatives shall modify, amend or affect the Investor’s right to rely on the Company’s representations and warranties contained in this Agreement. The Investor understands that its investment involves a high degree of risk.

(g) No General Solicitation. Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has engaged in any form of general solicitation or general advertising (within the meaning of Regulation D under the Securities Act) in connection with the offer or sale of the Note offered hereby.

(h) Not an Affiliate. The Investor is not an officer, director or a person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with the Company or any “Affiliate” of the Company (as that term is defined in Rule 405 of the Securities Act).

4. COMPANY’S REPRESENTATIONS AND WARRANTIES. The Company hereby represents and warrants to, the Investor that the following are true and correct as of the date hereof:

(a) Organization and Qualification. The Company is duly incorporated, validly existing and in good standing under the laws of the State of New York and has all requisite corporate power to own its properties and to carry on its business as now being conducted. Each of the Company, the Parent, and its subsidiaries is duly qualified to do business and is in good standing (to the extent applicable) in every jurisdiction in which the nature of the business conducted by it makes such qualification necessary, except to the extent that the failure to be so qualified or be in good standing would not have a Material Adverse Effect.

(b) Authorization, Enforcement, Compliance with Other Instruments. (i) The Company has the requisite corporate power and authority to enter into and perform this Agreement, the Note, and any related agreements, in accordance with the terms hereof and thereof, (ii) the execution and delivery of this Agreement, the Note, and any related agreements by the Company and the consummation by it of the transactions contemplated hereby and thereby, have been duly authorized by the Company’s Board of Directors and no further consent or authorization is required by the Company, its Board of Directors or its shareholders, (iii) this Agreement, the Note, and any related agreements have been duly executed and delivered by the Company, (iv) this Agreement and assuming the execution and delivery thereof and acceptance by the Investor, the Note, and any related agreements, constitute the valid and binding obligations of the Company enforceable against the Company in accordance with their terms, except as such enforceability may be limited by general principles of equity or applicable bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium, liquidation or similar laws from time to time relating to, or affecting generally, the enforcement of creditors’ rights and remedies.

(c) No Conflict. The execution, delivery and performance of this Agreement and the other Transaction Documents by the Company and the consummation by the Company of the transactions contemplated hereby will not (i) result in a violation of its constituting documents or (ii) conflict with or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture or instrument to which the Company or any of its subsidiaries is a party, or result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations and the rules and regulations of the Principal Market on which the Ordinary Shares are quoted) applicable to the Company, the Parent, or any of its subsidiaries or by which any material property or asset of the Company is bound or affected and which would cause a Material Adverse Effect. Neither the Company nor its subsidiaries is in violation of any term of or in default under its constituting documents, or, to the Company’s knowledge, any material contract, agreement, mortgage, indebtedness, indenture, instrument, judgment, decree or order or any statute, rule or regulation applicable to the Company or its subsidiaries that would cause a Material Adverse Effect. To the Company’s knowledge, the business of the Company and its subsidiaries is not being conducted in violation of any material law, ordinance or regulation of any governmental entity, except as would not cause a Material Adverse Effect.

(d) Internal Accounting Controls. The Parent and each of its subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management’s general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain asset accountability, (iii) access to assets is permitted only in accordance with management’s general or specific authorization and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(e) Absence of Litigation. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending against or affecting the Company, the Ordinary Shares or any of the Company’s subsidiaries, wherein an unfavorable decision, ruling or finding would have a Material Adverse Effect.

(f) Subsidiaries. The Company does not presently own or control, directly or indirectly, any interest in any other corporation, partnership, association or other business entity.

(g) Tax Status. The Company and each of its subsidiaries has made or filed all federal and state income and all other tax returns, reports and declarations required by any jurisdiction to which it is subject to be filed as of the date hereof (unless and only to the extent that the Company and each of its subsidiaries has set aside on its books provisions reasonably adequate for the payment of all unpaid and unreported taxes) and has paid all taxes and other governmental assessments and charges that are material in amount, shown or determined to be due on such returns, reports and declarations, except those being contested in good faith and has set aside on its books provision reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the officers of the Company know of no basis for any such claim. Certain Transactions. None of the officers or directors of the Company is presently a party to any transaction with the Company (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer or director, or to the knowledge of the Company, any corporation, partnership, trust or other entity in which any officer or director has a substantial interest or is an officer, director, trustee or partner.

(h) Use of Proceeds. The net proceeds from this offering shall be used for working capital and other general corporate purposes of the Company the Parent and its subsidiaries.

(i) No General Solicitation. Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has engaged in any form of general solicitation or general advertising (within the meaning of Regulation D under the Securities Act) in connection with the offer or sale of the Commitment Fee Shares.

5. GOVERNING LAW. This Agreement shall be governed by and interpreted in accordance with the laws of the State of New York without regard to the principles of conflict of laws. Each of the parties consents to the jurisdiction of the state courts of the State of New York and the U.S. District Court for the District of New York sitting in Manhattan, for the adjudication of any civil action asserted pursuant to this paragraph.

6. NOTICES. Any notices, consents, waivers or other communications required or permitted to be given under the terms hereof must be in writing and will be deemed to have been delivered: (i) upon receipt, when delivered personally; (ii) upon receipt, when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party); or (iii) one (1) Business Day after deposit with a nationally recognized overnight delivery service, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

If to the Company, to:

Ruby-Tech Inc.  
147-20 184th St.  
Jamaica NY 11413, USA  
Attention: Eyal Cohen  
Telephone: +972-3-9542070  
Email: eyalc@boscom.com

If to the Holder:

YA II PN, Ltd.  
1012 Springfield Avenue  
Mountainside, NJ 07092  
Attention: Mark Angelo  
Telephone: (201) 985-8300  
Facsimile: (201) 985-8266  
Email: Legal@yorkvilleadvisors.com

With a copy to:

David Gonzalez, Esq.  
1012 Springfield Avenue  
Mountainside, NJ 07092  
Telephone: (201) 985-8300  
Facsimile: (201) 985-8266  
Email: dgonzalez@yorkvilleadvisors.com

or at such other address and/or facsimile number and/or to the attention of such other person as the recipient party has specified by written notice given to each other party three Business Days prior to the effectiveness of such change. Written confirmation of receipt (i) given by the recipient of such notice, consent, waiver or other communication, (ii) mechanically or electronically generated by the sender's facsimile machine containing the time, date, recipient facsimile number and an image of the first page of such transmission or (iii) provided by a nationally recognized overnight delivery service, shall be rebuttable evidence of personal service, receipt by facsimile or receipt from a nationally recognized overnight delivery service in accordance with clause (i), (ii) or (iii) above, respectively.

## 7. MISCELLANEOUS.

(a) Counterparts. This Agreement may be executed in two or more identical counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party.

(b) Entire Agreement; Amendments. This Agreement and the exhibit thereto supersedes all other prior oral or written agreements between the Investor and the Company with respect to the matters discussed herein), and this Agreement and the exhibit thereto contain the entire understanding of the parties with respect to the matters covered herein and therein. No provision of this Agreement may be waived or amended other than by an instrument in writing signed by the party to be charged with enforcement.

(c) Binding Effect. All of the covenants and obligations contained herein shall be binding upon and shall inure to the benefit of the respective parties, their successors and assigns.

(d) Enforcement Costs. The Company shall reimburse the Investor promptly for all out-of-pocket fees, costs and expenses, including, without limitation, reasonable attorneys' fees and expenses incurred by the Investor in any action for the collecting of any sums which become due and payable to the Investor in accordance with the terms of this Agreement or the Note.

(e) Remedies Cumulative. No remedy herein conferred upon any party is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law, in equity, by statute, or otherwise. No single or partial exercise by any party of any right, power or remedy hereunder shall preclude any other or further exercise thereof.

(f) Severability. If any provision of this Agreement is, for any reason, invalid or unenforceable, the remaining provisions of this Agreement will nevertheless be valid and enforceable and will remain in full force and effect. Any provision of this Agreement that is held invalid or unenforceable by a court of competent jurisdiction will be deemed modified to the extent necessary to make it valid and enforceable and as so modified will remain in full force and effect.

(g) Waiver of Jury Trial. THE PARTIES HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT ANY OF THEM MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE PARTIES' ACCEPTANCE OF THIS AGREEMENT.

*[signature page follows]*



COMPANY:

RUBY-TECH INC.

By: \_\_\_\_\_  
Name: Eyal Cohen

By: \_\_\_\_\_  
Name: Avidan Zelicovsky

INVESTOR:

YA II PN, LTD.

By: Yorkville Advisors Global LP  
Its: Investment Manager

By: Yorkville Advisors Global II LLC  
Its: General Partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

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**Exhibit A**  
**Form of Note**

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**Exhibit B**  
**Form of Guaranty**

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**Exhibit C**  
**Form of Warrant**

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THIS NOTE HAS NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE. THIS NOTE HAS BEEN SOLD IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS.

**RUBY-TECH INC.**

**NOTE**

No. RUBY-1  
Issuance Date: February 19, 2020

Original Principal Amount: \$600,000

**FOR VALUE RECEIVED**, Ruby-Tech Inc., a corporation organized and existing under the laws of the State of New York (the "Company"), hereby promises to pay to the order of YA II PN, Ltd. or its registered assigns (the "Holder") (i) the outstanding portion of the amount set out above as the Original Principal Amount (as reduced pursuant to the terms hereof pursuant to scheduled payment, redemption or otherwise, the "Principal") when due, whether a regularly scheduled principal payment or upon the Maturity Date (as defined below), acceleration, redemption or otherwise (in each case in accordance with the terms hereof) and (ii) to pay interest ("Interest") on any outstanding Principal at the applicable Interest Rate (as defined below) from the Issuance Date written above (the "Issuance Date") until the same is paid, whether a regularly scheduled interest payment or upon the Maturity Date or acceleration, redemption or otherwise (in each case in accordance with the terms hereof).

This Note (this "Note") is being issued pursuant to that certain Note Purchase Agreement dated as of February 19, 2020 (the "Note Purchase Agreement") between the Company and the Holder. and the obligations of the Company hereunder are guaranteed by B.O.S. Better Online Solutions Ltd. ("BOSC"), and BOS-Odem Ltd ("BOS-Odem") and collectively along with BOSC, the "Guarantors") pursuant to a guaranty agreement dated February 19, 2020 (the "Guaranty Agreement")

Certain capitalized terms used herein but otherwise not defined herein are defined in Section 17 or in the Note Purchase Agreement.

(1) GENERAL TERMS

(a) Advance of Original Principal Amount. In consideration for the issuance of this Note on the Issuance Date by the Company, the Holder shall advance and make available to the Company on the Issuance Date the Original Principal Amount by wire transfer of immediately available funds to the account indicated by the Company on *Schedule I* attached hereto.

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(b) Maturity Date. The term of this Note shall expire after 12 months of the Issuance Date (the "Maturity Date"). On the Maturity Date, the Company shall pay to the Holder an amount in cash representing all then outstanding Principal and accrued and unpaid Interest.

(c) Payments. On each of the Installment Dates, the Company shall pay to the Holder an amount equal to the relevant Installment Amount due on such Installment Date as listed on Schedule II hereto. Principal and Interest (if any) owed under this Note must be paid by wire transfer of immediately available funds to the account listed on Schedule I hereto (or to any other account specified by the Holder to the Company on or before the applicable Installment Date by notice given in accordance with Section 7 hereof).

(d) Interest. Interest shall accrue on the outstanding Principal balance hereof at a rate equal to 8% per annum ("Interest Rate"). Interest shall be calculated on the basis of a 365-day year and the actual number of days elapsed, to the extent permitted by applicable law.

(2) NO PREPAYMENT PENALTY. The Company may prepay all or any part of the balance outstanding hereunder at any time without penalty.

(3) REPRESENTATIONS AND WARRANTIES. The Company hereby represents and warrants to the Investor that the following are true and correct as of the date hereof:

(a) The Company has the requisite corporate power and authority to enter into and perform its obligations under this Note and any related agreements, in accordance with the terms hereof and thereof, (ii) the execution and delivery of this Note and any related agreements by the Company and the consummation by it of the transactions contemplated hereby and thereby, have been duly authorized by the Company's Board of Directors and no further consent or authorization is required by the Company, its Board of Directors or its shareholders, (iii) this Note has been duly executed and delivered by the Company, (iv) this Note (assuming the execution and delivery thereof and acceptance by the Investor and the occurrence of the Issuance Date), constitutes the valid and binding obligations of the Company enforceable against the Company in accordance with its terms, except as such enforceability may be limited by general principles of equity or applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally, the enforcement of creditors' rights and remedies.

(b) The execution, delivery and performance by the Company of its obligations under this Note will not (i) result in a violation of the Company's constituting documents or (ii) conflict with or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture or instrument to which the Company or any of its subsidiaries is a party, or result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations and the rules and regulations of the Principal Market on which the Ordinary Shares of BOSC are quoted) applicable to the Company or any of its subsidiaries or by which any material property or asset of the Company is bound or affected and which would cause a Material Adverse Effect.

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#### (4) EVENTS OF DEFAULT

(a) An "Event of Default", wherever used herein, means any one of the following events (whatever the reason and whether it shall be voluntary or involuntary or effected by operation of law or pursuant to any judgment, decree or order of any court, or any order, rule or regulation of any administrative or governmental body) shall have occurred and be continuing:

(i) the Company's failure to pay to the Holder any amount of Principal or Interest when and as due and payable under this Note, and such failure continues for five (5) days following the date upon which such payment was due;

(ii) the Company or a Guarantor shall commence, or there shall be commenced against the Company or a Guarantor under any applicable bankruptcy or insolvency laws as now or hereafter in effect or any successor thereto, or the Company or a Guarantor commences, or there shall be commenced against the Company or a Guarantor, any other proceeding under any reorganization, arrangement, adjustment of debt, relief of debtors, dissolution, insolvency or liquidation or similar law of any jurisdiction whether now or hereafter in effect relating to the Company or a Guarantor, in each case which remains un-stayed or un-dismissed for a period of 61 days; or the Company or a Guarantor is adjudicated insolvent or bankrupt pursuant to a final, non-appealable order; or any order of relief or other order approving any such case or proceeding is entered; or the Company or a Guarantor suffers any appointment of any custodian, private or court appointed receiver or the like for it or any substantial part of its property which continues un-discharged or un-stayed for a period of 61 days; or the Company or a Guarantor makes a general assignment for the benefit of creditors; or the Company or a Guarantor shall admit in writing that it is unable to pay its debts generally as they become due; or the Company or a Guarantor shall call a meeting of its creditors with a view to arranging a composition, adjustment or restructuring of its debts.

(iii) the Ordinary Shares of BOSC cease to be quoted or listed for trading on the Principal Market and shall not again be quoted or listed for trading on any Principal Market within fifteen Trading Days of such delisting;

(iv) the Company or a Guarantor, as applicable, is a party to any agreement memorializing (1) the consummation of any transaction or event (whether by means of a share exchange or tender offer applicable to the Ordinary Shares of BOSC, a liquidation, consolidation, recapitalization, reclassification, combination or merger of the Company or a Guarantor or a sale, lease or other transfer of all or substantially all of the consolidated assets of the Company or a Guarantor) or a series of related transactions or events pursuant to which all of the Ordinary Shares of BOSC are exchanged for, converted into or constitute solely the right to receive, cash, securities or other property, (2) a consolidation or merger in which the Company or a Guarantor is not the surviving corporation, or (3) a sale, assignment, transfer, conveyance or other disposal of all or substantially all of the properties or assets of the Company or a Guarantor to another person or entity (each of (1), (2) and (3) a "Change in Control") unless in connection with such Change in Control, all Principal and accrued and unpaid Interest due under this Note will be paid in full or the Holder consents to such Change in Control;

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(v) the Company shall fail to observe or perform any other material covenant, agreement or warranty contained in, or otherwise commit any material breach or default of any provision of this Note

(vi) BOSC shall fail to observe or perform any material covenant, agreement or warrant contained in, or otherwise commit any material breach or default of any provision of the Standby Equity Distribution Agreement dated May 8, 2017 between BOSC and the Holders (the "SEDA") which is not cured within the time prescribed in the SEDA, as applicable, or if not so prescribed, within thirty days after notice to the Company by the Holder of such material failure, breach or default;

(vii) BOSC shall terminate the SEDA; or

(viii) an event of default by the Company or any other material obligation, instrument, note or agreement for borrowed money occurring after the Issuance Date of this Note and continuing beyond any applicable notice and/or grace period, and as a result of which the obligations of the Company or a Guarantor, as applicable, under such material obligation, instrument, note or agreement have been accelerated.

(5) REMEDY UPON DEFAULT. During the time that any portion of this Note is outstanding, if (i) any Event of Default has occurred, the Holder, by notice in writing to the Company, may at any time and from time to time declare the full unpaid Principal of this Note or any portion thereof, together with Interest accrued thereon to be due and payable immediately (the "Accelerated Amount") or (ii) any Event of Default specified in Section 4(a)(ii) has occurred, the unpaid Principal of the Note and the Interest accrued thereon shall be immediately and automatically due and payable without necessity of further action. In addition, for so long as an Event of Default has occurred and remains uncured, the Company shall pay default interest at the rate of 15% per annum instead of 8% per annum until the applicable Event of Default is cured. Such declaration shall be rescinded and annulled following such cure, and may also be rescinded and annulled by Holder at any time prior to payment hereunder. No such rescission or annulment shall affect any subsequent Event of Default or impair any right consequent thereon.

(6) REISSUANCE OF THIS NOTE. Upon receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Note, and, in the case of loss, theft or destruction, of an indemnification undertaking by the Holder to the Company in customary form and, in the case of mutilation, upon surrender and cancellation of this Note, the Company shall execute and deliver to the Holder a new Note representing the outstanding Principal which Note (i) shall be of like tenor with this Note, (ii) shall represent, as indicated on the face of such new Note, the Principal remaining outstanding (iii) shall have an issuance date, as indicated on the face of such new Note, which is the same as the Issuance Date of this Note, (iv) shall have the same rights and conditions as this Note, and (v) shall represent accrued and unpaid Interest from the Issuance Date.

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(7) NOTICES. Any notices, consents, waivers or other communications required or permitted to be given under the terms hereof must be in writing and will be deemed to have been delivered: (i) upon receipt, when delivered personally; (ii) upon receipt, when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party); or (iii) one (1) Business Day after deposit with a nationally recognized overnight delivery service, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

If to the Company, to:

Ruby-Tech Inc.  
147-20 184th St.  
Jamaica NY 11413, USA  
Attention: Eyal Cohen  
Telephone: +972-3-9542070  
Email: eyalc@boscom.com

If to the Holder:

YA II PN, Ltd.  
1012 Springfield Ave  
Mountainside, New Jersey 07092  
Attention: Mark Angelo  
Telephone: (201) 985-8300  
Facsimile: (201) 985-8266

With a copy to:

David Gonzalez, Esq.  
1012 Springfield Ave  
Mountainside, New Jersey 07092  
Telephone: (201) 985-8300  
Facsimile: (201) 985-8266

or at such other address and/or facsimile number and/or to the attention of such other person as the recipient party has specified by written notice given to each other party three Business Days prior to the effectiveness of such change. Written confirmation of receipt (i) given by the recipient of such notice, consent, waiver or other communication, (ii) mechanically or electronically generated by the sender's facsimile machine containing the time, date, recipient facsimile number and an image of the first page of such transmission or (iii) provided by a nationally recognized overnight delivery service, shall be rebuttable evidence of personal service, receipt by facsimile or receipt from a nationally recognized overnight delivery service in accordance with clause (i), (ii) or (iii) above, respectively.

(8) No provision of this Note shall alter or impair the obligations of the Company, which are absolute and unconditional, to pay the Principal of or Interest (if any) on, this Note at the time, place, and rate, and in the currency, herein prescribed. This Note is a direct obligation of the Company. As long as this Note is outstanding, the Company shall not, without the consent of the Holder, (i) amend its constituting documents so as to adversely affect any rights of the Holder under this Note; or (ii) enter into any agreement with respect to any of the foregoing.

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(9) This Note shall not entitle the Holder to any of the rights of a shareholder of the Company, including without limitation, the right to vote, to receive dividends and other distributions, or to receive any notice of, or to attend, meetings of shareholders or any other proceedings of the Company.

(10) This Note shall be governed by and interpreted in accordance with the laws of the State of New York, without regard to the principles of conflict of laws. Each of the parties consents to the jurisdiction of the state courts of the State of New York and the U.S. District Court for the District of New York sitting in Manhattan, in connection with any dispute arising under this Note and hereby waives, to the maximum extent permitted by law, any objection, including any objection based on forum non conveniens to the bringing of any such proceeding in such jurisdictions.

(11) If an Event of Default has occurred, then the Company shall reimburse the Holder promptly for all out-of-pocket fees, costs and expenses, including, without limitation, reasonable attorneys' fees and expenses incurred by the Holder in any action for the collecting of any sums which become due and payable to the Holder in accordance with the terms of this Note.

(12) Any waiver by the Holder of a breach of any provision of this Note shall not operate as or be construed to be a waiver of any other breach of such provision or of any breach of any other provision of this Note. The failure of the Holder to insist upon strict adherence to any term of this Note on one or more occasions shall not be considered a waiver or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Note. Any waiver must be in writing.

(13) If any provision of this Note is invalid, illegal or unenforceable, the balance of this Note shall remain in effect, and if any provision is inapplicable to any person or circumstance, it shall nevertheless remain applicable to all other persons and circumstances. If it shall be found that any interest or other amount deemed interest due hereunder shall violate applicable laws governing usury, the applicable rate of interest due hereunder shall automatically be lowered to equal the maximum permitted rate of interest. The Company covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law or other law which would prohibit or forgive the Company from paying all or any portion of the Principal of or interest on this Note as contemplated herein, wherever enacted, now or at any time hereafter in force,

(14) Whenever any payment or other obligation hereunder shall be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day.

(15) Assignment of this Note by the Company shall be prohibited without the prior written consent of the Holder. Prior to the Maturity Date, the Holder shall not sell, transfer, negotiate or otherwise make any disposition of this Note or any portion thereof without the prior written consent of the Company.

(16) THE PARTIES HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT ANY OF THEM MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS NOTE OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE PARTIES' ACCEPTANCE OF THIS AGREEMENT.

(17) CERTAIN DEFINITIONS For purposes of this Note, the following terms shall have the following meanings:

(a) "Business Day" means any day except Saturday, Sunday and any day which shall be a federal legal holiday in the United States or a day on which banking institutions are authorized or required by law or other government action to close.

(b) "Installment Amount" means the principal and interest payment due on an Installment Date as set forth on *Schedule II* hereto.

(c) "Installment Date" means each date on which Installment Amounts are due to be paid in accordance with *Schedule II* hereto.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed by a duly authorized officer as of the date first set forth above.

COMPANY:  
RUBY-TECH INC.

By: \_\_\_\_\_  
Eyal Cohen  
Director

By: \_\_\_\_\_  
Avidan Zelicovsky  
Director

Schedule I

(Company's Account Information)

(Holder's Account Information)

Schedule II  
Repayment Schedule

<b>Ruby-Tech</b>	<b>Interest</b>	8%
	<b>Initial Principal</b>	\$ 600,000.00
	<b>Funding Date</b>	12-Feb-20

Installment Date	Principal Repayment	Repayment Interest	Installment Amount
March 12, 2020	\$ 50,000.00	\$ 3,813.70	\$ 53,813.70
April 12, 2020	\$ 50,000.00	\$ 3,736.99	\$ 53,736.99
May 12, 2020	\$ 50,000.00	\$ 3,287.67	\$ 53,287.67
June 12, 2020	\$ 50,000.00	\$ 3,057.53	\$ 53,057.53
July 12, 2020	\$ 50,000.00	\$ 2,630.14	\$ 52,630.14
August 12, 2020	\$ 50,000.00	\$ 2,378.08	\$ 52,378.08
September 12, 2020	\$ 50,000.00	\$ 2,038.36	\$ 52,038.36
October 12, 2020	\$ 50,000.00	\$ 1,643.84	\$ 51,643.84
November 12, 2020	\$ 50,000.00	\$ 1,358.90	\$ 51,358.90
December 12, 2020	\$ 50,000.00	\$ 986.30	\$ 50,986.30
January 12, 2021	\$ 50,000.00	\$ 679.45	\$ 50,679.45
February 12, 2021	\$ 50,000.00	\$ 339.73	\$ 50,339.73
	<b>\$ 600,000.00</b>	<b>\$ 25,950.69</b>	<b>\$ 625,950.69</b>

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## WARRANT

NEITHER THIS WARRANT NOR THE SECURITIES INTO WHICH THIS WARRANT IS EXERCISABLE INTO HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE. THESE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE BEEN SOLD IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND ACCORDINGLY, MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OR PURSUANT TO AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, THE AVAILABILITY OF WHICH IS CONFIRMED BY AN OPINION OF COUNSEL IN GENERALLY ACCEPTABLE FORM AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS.

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

#### Warrant To Purchase Ordinary Shares

Warrant No.: BOSC-2020-1	Number of Shares:	100,000
	Warrant Exercise Price:	\$3.00
	Expiration Date:	February 19, 2022

Date of Issuance: February 19, 2020

B.O.S. BETTER ONLINE SOLUTIONS LTD., a company organized and existing under the laws of the State of Israel (the "Company"), hereby certifies that, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, **YA II PN, Ltd.** (the "holder"), or its permitted assigns hereunder, is entitled, subject to the terms set forth below, to purchase from the Company upon surrender of this Warrant, at any time or times on or after the date hereof, but not after 11:59 P.M. Eastern Time on the Expiration Date (as defined herein) up to 100,000 fully paid and nonassessable Ordinary Shares (as defined herein) of the Company (the "Warrant Shares") at the exercise price per share provided in Section 1(b) below or as subsequently adjusted; provided, however, that in no event shall the holder be entitled to exercise this Warrant for a number of Warrant Shares in excess of that number of Warrant Shares which, upon giving effect to such exercise, would cause the aggregate number of Ordinary Shares beneficially owned by the holder and its affiliates to exceed 4.99% of the outstanding Ordinary Shares following such exercise (however, such restriction may be waived by the holder (but only as to itself and not to any other holder) upon not less than 65 days prior notice to the Company). For purposes of the foregoing proviso, the aggregate number of Ordinary Shares beneficially owned by the holder and its affiliates shall include the number of Ordinary Shares issuable upon exercise of this Warrant with respect to which the determination of such proviso is being made, but shall exclude Ordinary Shares which would be issuable upon (i) exercise of the remaining, unexercised Warrants beneficially owned by the holder and its affiliates and (ii) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company beneficially owned by the holder and its affiliates (including, without limitation, any convertible notes or preferred stock) subject to a limitation on conversion or exercise analogous to the limitation contained herein. Except as set forth in the preceding sentence, for purposes of this paragraph, beneficial ownership shall be calculated in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended. For purposes of this Warrant, in determining the number of outstanding Ordinary Shares a holder may rely on the number of outstanding Ordinary Shares as reflected in (1) the Company's most recent Form 20-F, (2) a more recent public announcement by the Company or (3) any other notice by the Company or its transfer agent setting forth the number of Ordinary Shares outstanding. Upon the written request of any holder, the Company shall promptly, but in no event later than 1 Business Day following the receipt of such notice, confirm in writing to any such holder the number of Ordinary Shares then outstanding. In any case, the number of outstanding Ordinary Shares shall be determined after giving effect to the exercise of Warrants (as defined below) by such holder and its affiliates since the date as of which such number of outstanding Ordinary Shares was reported.

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#### Section 1.

(a) This Warrant is issued pursuant to the Note Purchase Agreement ("Purchase Agreement") dated February 19, 2020 between the Company and the holder or issued in exchange or substitution thereafter or replacement thereof. Each Capitalized term used, and not otherwise defined herein, shall have the meaning ascribed thereto in the Purchase Agreement.

(b) Definitions. The following words and terms as used in this Warrant shall have the following meanings:

(i) "Business Day" means any day other than Saturday, Sunday or other day on which commercial banks in the City of New York are authorized or required by law to remain closed.

(ii) "Closing Bid Price" means the closing bid price (or closing trade if there is no closing bid price) of Ordinary Shares as quoted on the Principal Market (as reported by Bloomberg, LP ("Bloomberg")).

(iii) "Ordinary Shares" means the Company's Ordinary Shares, nominal value NIS 80.00.

(iv) "Event of Default" means an event of default under the Purchase Agreement or the Note issued in connection therewith.

(v)

(vi) "Expiration Date" means the date set forth on the first page of this Warrant. "Issuance Date" means the date hereof.

(vii) "Note" means the note issued pursuant to the Purchase Agreement.

(viii) "Person" means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and a government or any department or agency thereof.

(ix) "Primary Market" means the Nasdaq.

(x) "Securities Act" means the Securities Act of 1933, as amended.

(xi) "Warrant" means this Warrant and all Warrants issued in exchange, transfer or replacement thereof.

(c) Other Definitional Provisions.

(i) Except as otherwise specified herein, all references herein (A) to the Company shall be deemed to include the Company's successors and (B) to any applicable law defined or referred to herein shall be deemed references to such applicable law as the same may have been or may be amended or supplemented from time to time.

(ii) When used in this Warrant, the words "herein", "hereof", and "hereunder" and words of similar import, shall refer to this Warrant as a whole and not to any provision of this Warrant, and the words "Section", "Schedule", and "Exhibit" shall refer to Sections of, and Schedules and Exhibits to, this Warrant unless otherwise specified.

(iii) Whenever the context so requires, the neuter gender includes the masculine or feminine, and the singular number includes the plural, and vice versa.

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Section 2. Exercise of Warrant.

(a) Subject to the terms and conditions hereof, this Warrant may be exercised by the holder hereof then registered on the books of the Company, at any time on any Business Day on or after the opening of business on such Business Day, commencing with the first day after the date hereof, and prior to 5:00 P.M. Eastern Time on the Expiration Date (i) by delivery of a written notice, in the form of the subscription notice attached as Exhibit A hereto (the "Exercise Notice"), of such holder's election to exercise this Warrant, which notice shall specify the number of Warrant Shares to be purchased, payment to the Company of an amount equal to the Warrant Exercise Price(s) applicable to the Warrant Shares being purchased, multiplied by the number of Warrant Shares (at the applicable Warrant Exercise Price) as to which this Warrant is being exercised (plus any applicable issue or transfer taxes) (the "Aggregate Exercise Price") in cash or wire transfer of immediately available funds and the surrender of this Warrant (or an indemnification undertaking with respect to this Warrant in the case of its loss, theft or destruction) to a common carrier for overnight delivery to the Company or (ii) if at the time of exercise, at least six months have elapsed from the date hereof and the Warrant Shares are not subject to an effective registration statement, by delivering an Exercise Notice and in lieu of making payment of the Aggregate Exercise Price in cash or wire transfer, elect instead to receive upon such exercise the "Net Number" of Ordinary Shares determined according to the following formula (the "Cashless Exercise"):

$$\text{Net Number} = \frac{(A \times B) - (A \times C)}{B}$$

For purposes of the foregoing formula:

A = the total number of Warrant Shares with respect to which this Warrant is then being exercised.

B = the weighted average Closing Bid Price of the Ordinary Shares during the 20 trading days preceding date of exercise of the Warrant.

C = the Warrant Exercise Price then in effect for the applicable Warrant Shares at the time of such exercise.

(b) In the event of any exercise of the rights represented by this Warrant in compliance with this Section 2, the Company shall on or before the 3<sup>rd</sup> Business Day following the date of receipt of the Exercise Notice, the Aggregate Exercise Price and this Warrant (or an indemnification undertaking with respect to this Warrant in the case of its loss, theft or destruction) and the receipt of the representations of the holder specified in Section 5 hereof, if requested by the Company (the "Exercise Delivery Documents"), and if the Warrant Shares are subject to an effective and current Registration Statement and the Ordinary Shares is DTC eligible, credit such aggregate number of Ordinary Shares to which the holder shall be entitled to the holder's or its designee's balance account with The Depository Trust Company; provided, however, if the holder who submitted the Exercise Notice requested physical delivery of any or all of the Warrant Shares, or, if the Warrant Shares are not subject to an effective and current Registration Statement and the Ordinary Shares is not DTC eligible then the Company shall, on or before the 3<sup>rd</sup> Business Day following receipt of the Exercise Delivery Documents, issue and surrender to a common carrier for overnight delivery to the address specified in the Exercise Notice, a certificate, registered in the name of the holder, for the number of Ordinary Shares to which the holder shall be entitled pursuant to such request. The Warrant Shares shall be issued with a legend unless they are subject to an effective and current Registration Statement or they are being transferred pursuant to an exemption from such registration requirements, the availability of which is confirmed in an opinion of counsel acceptable to the Company's Transfer Agent. Upon delivery of the Exercise Notice pursuant to the notice delivery provisions in Section 9 herein and Aggregate Exercise Price referred to in clause (i) or (ii) above the holder of this Warrant shall be deemed for all corporate purposes to have become the holder of record of the Warrant Shares with respect to which this Warrant has been exercised.

(c) Unless the rights represented by this Warrant shall have expired or shall have been fully exercised, the Company shall, as soon as practicable and in no event later than 5 Business Days after any exercise and at its own expense, issue a new Warrant identical in all respects to this Warrant exercised except it shall represent rights to purchase the number of Warrant Shares purchasable immediately prior to such exercise under this Warrant exercised, less the number of Warrant Shares with respect to which such Warrant is exercised. No fractional Warrant Shares are to be issued upon any pro rata exercise of this Warrant, but rather the number of Warrant Shares issued upon such exercise of this Warrant shall be rounded up or down to the nearest whole number.

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(d) If the Company or its Transfer Agent shall fail for any reason or for no reason to issue to the holder within 5 Business Days of receipt of the Exercise Delivery Documents, the number of Warrant Shares to which the holder is entitled or to credit the holder's balance account with the Transfer Agent for such number of Warrant Shares to which the holder is entitled upon the holder's exercise of this Warrant, unless such failure results from an act of terrorism, war, natural disaster, act of god or other force majeure event, the Company shall, in addition to any other remedies under this Warrant or otherwise available to such holder, pay as additional damages in cash to such holder on each day the issuance of such Warrant Shares is not timely effected or recorded with the Transfer Agent an amount equal to 0.025% of the product of (A) the sum of the number of Warrant Shares not issued to the holder on a timely basis and to which the holder is entitled, and (B) the Closing Bid Price of the Ordinary Shares for the trading day immediately preceding the last possible date which the Company could have issued such Ordinary Shares to the holder without violating this Section 2.

(e) If within 5 Business Days after the Company's receipt of the Exercise Delivery Documents and the written request of the Holder that a new Warrant be issued, the Company fails to deliver a new Warrant to the holder for the number of Warrant Shares to which such holder is entitled pursuant to Section 2 hereof, then the holder shall be entitled to exercise or transfer its rights under such new warrant as if it had received such new Warrant and the Company shall be obligated to honor such exercises or transfers as if the holder had submitted the new Warrant without violating this Section 2.

Section 3. Covenants as to Ordinary Shares. The Company hereby covenants and agrees as follows:

(a) This Warrant is, and any Warrants issued in substitution for or replacement of this Warrant will upon issuance be, duly authorized and validly

issued.

(b) All Warrant Shares which may be issued upon the exercise of the rights represented by this Warrant will, upon issuance, be validly issued, fully paid and nonassessable and free from all taxes, liens and charges with respect to the issue thereof.

(c) During the period within which the rights represented by this Warrant may be exercised, the Company will at all times have authorized and reserved at least 100% of the number of Ordinary Shares needed to provide for the exercise of the rights then represented by this Warrant. If at any time the Company does not have a sufficient number of Ordinary Shares authorized and available, then the Company shall call and hold a special meeting of its stockholders within 60 days of that time for the sole purpose of increasing the number of authorized Ordinary Shares.

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(d) If at any time after the date hereof the Company shall file a Registration Statement (other than a registration (i) pursuant to a Registration Statement on Form S-8 (or other registration solely relating to an offering or sale to employees or directors of the Company pursuant to any employee stock plan or other employee benefit arrangement), or (ii) pursuant to a Registration Statement on Form F-4 (or similar form that relates to a transaction subject to Rule 145 under the Securities Act or any successor rule thereto), the Company shall include the Warrant Shares issuable to the holder, pursuant to the terms of this Warrant and shall maintain, so long as any other Ordinary Shares shall be so listed, such listing of all Warrant Shares from time to time issuable upon the exercise of this Warrant on the Primary Market or such national securities exchange or automated quotation system on which the Ordinary Shares of the Company is listed.

(e) The Company will not, by amendment of its Articles of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed by it hereunder, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in the taking of all such action as may reasonably be requested by the holder of this Warrant in order to protect the exercise privilege of the holder of this Warrant. The Company will take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Ordinary Shares upon the exercise of this Warrant.

(f) This Warrant will be binding upon any entity succeeding to the Company by merger, consolidation or acquisition of all or substantially all of the Company's assets.

Section 4. Taxes. The Company shall pay any and all taxes, except any applicable withholding, which may be payable with respect to the issuance and delivery of Warrant Shares upon exercise of this Warrant.

Section 5. Warrant Holder Not Deemed a Stockholder. Except as otherwise specifically provided herein, no holder, as such, of this Warrant shall be entitled to vote or receive dividends or be deemed the holder of shares of capital stock of the Company for any purpose, nor shall anything contained in this Warrant be construed to confer upon the holder hereof, as such, any of the rights of a stockholder of the Company or any right to vote, give or withhold consent to any corporate action (whether any reorganization, issue of stock, reclassification of stock, consolidation, merger, conveyance or otherwise), receive notice of meetings, receive dividends or subscription rights, or otherwise, prior to the issuance to the holder of this Warrant of the Warrant Shares which he or she is then entitled to receive upon the due exercise of this Warrant. In addition, nothing contained in this Warrant shall be construed as imposing any liabilities on such holder to purchase any securities (upon exercise of this Warrant or otherwise) or as a stockholder of the Company, whether such liabilities are asserted by the Company or by creditors of the Company.

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Section 6. Representations of Holder. The holder of this Warrant, by the acceptance hereof, represents that it is acquiring this Warrant and the Warrant Shares for its own account for investment only and not with a view towards, or for resale in connection with, the public sale or distribution of this Warrant or the Warrant Shares, except pursuant to sales registered or exempted under the Securities Act; provided, however, that by making the representations herein, the holder does not agree to hold this Warrant or any of the Warrant Shares for any minimum or other specific term and reserves the right to dispose of this Warrant and the Warrant Shares at any time in accordance with or pursuant to a registration statement or an exemption under the Securities Act. The holder of this Warrant further represents, by acceptance hereof, that, as of this date, such holder is an "accredited investor" as such term is defined in Rule 501(a)(1) of Regulation D promulgated by the Securities and Exchange Commission under the Securities Act (an "Accredited Investor"). Upon exercise of this Warrant the holder shall, if requested by the Company, confirm in writing, in a form satisfactory to the Company, that the Warrant Shares so purchased are being acquired solely for the holder's own account and not as a nominee for any other party, for investment, and not with a view toward distribution or resale and that such holder is an Accredited Investor. If such holder cannot make such representations because they would be factually incorrect, it shall be a condition to such holder's exercise of this Warrant that the Company receive such other representations as the Company considers reasonably necessary to assure the Company that the issuance of its securities upon exercise of this Warrant shall not violate any United States or state or Israeli securities laws. Ownership and Transfer.

(a) The Company shall maintain at its principal executive offices (or such other office or agency of the Company as it may designate by notice to the holder hereof), a register for this Warrant, in which the Company shall record the name and address of the person in whose name this Warrant has been issued, as well as the name and address of any permitted transferee. The Company may treat the person in whose name any Warrant is registered on the register as the owner and holder thereof for all purposes, notwithstanding any notice to the contrary, but in all events recognizing any transfers made in accordance with the terms of this Warrant.

Section 7. Adjustment of Warrant Exercise Price. The Warrant Exercise Price of this Warrant shall be adjusted from time to time as follows:

(a) RESERVED.

(b) Adjustment of Warrant Exercise Price upon Subdivision or Combination of Ordinary Shares. If the Company at any time after the date of issuance of this Warrant subdivides (by any stock split, stock dividend, recapitalization or otherwise) one or more classes of its outstanding Ordinary Shares into a greater number of shares, any Warrant Exercise Price in effect immediately prior to such subdivision will be proportionately reduced and the number of Ordinary Shares obtainable upon exercise of this Warrant will be proportionately increased. If the Company at any time after the date of issuance of this Warrant combines (by combination, reverse stock split or otherwise) one or more classes of its outstanding Ordinary Shares into a smaller number of shares, any Warrant Exercise Price in effect immediately prior to such combination will be proportionately increased and the number of Warrant Shares issuable upon exercise of this Warrant will be proportionately decreased. Any adjustment under this Section 7(b) shall become effective at the close of business on the date the subdivision or combination becomes effective.

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(c)

(d) Voluntary Adjustments By Company. The Company may at any time during the term of this Warrant reduce the then current Exercise Price to any amount and for any period of time deemed appropriate by the Board of Directors of the Company.

(e) Notices.

(i) Immediately upon any adjustment of the Warrant Exercise Price, the Company will give written notice thereof to the holder of this Warrant, setting forth in reasonable detail, and certifying, the calculation of such adjustment.

(ii) The Company will give written notice to the holder of this Warrant at least ten (10) days prior to the date on which the Company closes its books or takes a record (A) with respect to any dividend or distribution upon the Ordinary Shares, (B) with respect to any pro rata subscription offer to holders of Ordinary Shares or (C) for determining rights to vote with respect to any Organic Change (as defined below), dissolution or liquidation, provided that such information shall be made known to the public prior to or in conjunction with such notice being provided to such holder.

(iii) The Company will also give written notice to the holder of this Warrant at least 10 days prior to the date on which any Organic Change, dissolution or liquidation will take place, provided that such information shall be made known to the public prior to or in conjunction with such notice being provided to such holder.

Section 8. "Organic Change" shall mean any recapitalization, reorganization, reclassification, consolidation, merger, sale of all or substantially all of the Company's assets to another Person or other transaction in each case which is effected in such a way that holders of Ordinary Shares are entitled to receive (either directly or upon subsequent liquidation) stock, securities or assets with respect to or in exchange for Ordinary Shares. Lost, Stolen, Mutilated or Destroyed Warrant. If this Warrant is lost, stolen, mutilated or destroyed, the Company shall promptly, on receipt of an indemnification undertaking (or, in the case of a mutilated Warrant, the Warrant), issue a new Warrant of like denomination and tenor as this Warrant so lost, stolen, mutilated or destroyed.

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Section 9. Notice. Any notices, consents, waivers or other communications required or permitted to be given under the terms of this Agreement must be in writing and will be deemed to have been delivered upon: (i) receipt, when delivered personally, (ii) 1 Business Day after deposit with an overnight courier service with next day delivery specified, in each case, properly addressed to the party to receive the same, or (iii) receipt, when sent by electronic mail (provided that the electronic mail transmission is not returned in error or the sender is not otherwise notified of any error in transmission). The addresses and e-mail addresses for such communications shall be:

If to Holder: YA II PN, Ltd.  
c/o Yorkville Advisors Global, LP  
1012 Springfield Avenue  
Mountainside, NJ 07092  
Attention: Matt Beckman  
Email: mbeckman@yorkvilleadvisors.com

With Copy to: David Gonzalez, Esq.  
1012 Springfield Avenue  
Mountainside, NJ 07092  
Email: Legal@yorkvilleadvisors.com

If to the Company, to: B.O.S. Better Online Solutions Ltd.  
20 Freiman Street  
Rishon LeZion, 7535825, Israel  
Attention: Eyal Cohen  
Email: eyalc@boscom.com

or at such other address and/or electronic email address and/or to the attention of such other person as the recipient party has specified by written notice given to each other party 3 Business Days prior to the effectiveness of such change. Written confirmation of receipt (i) given by the recipient of such notice, consent, waiver or other communication, (ii) mechanically or electronically generated by the sender's computer containing the time, date, recipient's electronic mail address and the text of such electronic mail or (iii) provided by a nationally recognized overnight delivery service, shall be rebuttable evidence of personal service, receipt by electronic mail or receipt from a nationally recognized overnight delivery service in accordance with clause (i), (ii) or (iii) above, respectively.

Section 10. Date. The date of this Warrant is set forth on page 1 hereof. This Warrant, in all events, shall be wholly void and of no effect after the close of business on the Expiration Date, except that notwithstanding any other provisions hereof, the provisions of Section 3(d) shall continue in full force and effect after such date as to any Warrant Shares or other securities issued upon the exercise of this Warrant.

Section 11. Amendment and Waiver. Except as otherwise provided herein, the provisions of the Warrant may be amended and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, only if the Company has obtained the written consent of the holders of Warrants representing at least 2/3rds of the Warrant Shares issuable upon exercise of the Warrants then outstanding.

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Section 12. Assignment. This Warrant may be assigned by the holder only if such assignment is made in compliance with all applicable laws, including federal and state and Israeli securities laws. In connection with any permitted transfer, the transferee shall make such representation and warranties to the Company, consistent with Section 5 hereof, as the Company may reasonably request.

Section 13. Descriptive Headings; Governing Law. The descriptive headings of the several sections and paragraphs of this Warrant are inserted for convenience only and do not constitute a part of this Warrant. This Warrant shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to conflicts of laws thereof. Each of the parties consents to the jurisdiction of the state and federal courts sitting in The City of New York, Borough of Manhattan in connection with any dispute arising under this Warrant and hereby waives, to the maximum extent permitted by law, any objection, including any objection based on forum non conveniens to the bringing of any such proceeding in such jurisdictions.

Section 14. Remedies, Other Obligations, Breaches and Injunctive Relief. The remedies provided in this Warrant shall be cumulative and in addition to all other remedies available under this Warrant, in any other agreement between the Company and the holder, at law or in equity (including a decree of specific performance and/or other injunctive relief), and nothing herein shall limit the right of the holder to pursue actual damages for any failure by the Company to comply with the terms of this Warrant.

**Section 15. Waiver of Jury Trial. AS A MATERIAL INDUCEMENT FOR EACH PARTY HERETO TO ENTER INTO THIS WARRANT, THE PARTIES HERETO HEREBY WAIVE ANY RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING RELATED IN ANY WAY TO THIS WARRANT AND/OR ANY AND**



IN WITNESS WHEREOF, the Company has caused this Warrant to be signed as of the date first set forth above.

B.O.S. BETTER ONLINE SOLUTIONS LTD.

By: \_\_\_\_\_

By: \_\_\_\_\_

Name:

Name:

Title:

Title:

**EXHIBIT A TO WARRANT**

**EXERCISE NOTICE**

**TO BE EXECUTED  
BY THE REGISTERED HOLDER TO EXERCISE THIS WARRANT**

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

The undersigned holder hereby exercises the right to purchase \_\_\_\_\_ of the Ordinary Shares ("Warrant Shares") of B.O.S. Better Online Solutions Ltd. (the "Company"), evidenced by the attached Warrant (the "Warrant"). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Warrant.

Specify Method of exercise by check mark:

1.  Cash Exercise

(a) Payment of Warrant Exercise Price. The holder shall pay the Aggregate Exercise Price of \$ \_\_\_\_\_ to the Company in accordance with the terms of the Warrant.

(b) Delivery of Warrant Shares. The Company shall deliver to the holder \_\_\_\_\_ Warrant Shares in accordance with the terms of the Warrant.

2.  Cashless Exercise

(a) Payment of Warrant Exercise Price. In lieu of making payment of the Aggregate Exercise Price, if permitted by the terms of the Warrant, the holder elects to receive upon such exercise the Net Number of Ordinary Shares determined in accordance with the terms of the Warrant.

(b) Delivery of Warrant Shares. The Company shall deliver to the holder \_\_\_\_\_ Warrant Shares in accordance with the terms of the Warrant.

Date: \_\_\_\_\_, \_\_\_\_\_

Name of Registered Holder

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Address:

Taxpayer ID No.:

**EXHIBIT B TO WARRANT**

**FORM OF WARRANT POWER**

**FOR VALUE RECEIVED**, the undersigned does hereby assign and transfer to \_\_\_\_\_, Federal Identification No. \_\_\_\_\_, a warrant to purchase \_\_\_\_\_ shares of the capital stock of B.O.S. Better Online Solutions Ltd. represented by warrant certificate no. \_\_\_\_\_, standing in the name of the undersigned on the books of said corporation. The undersigned does hereby irrevocably constitute and appoint \_\_\_\_\_, attorney to transfer the warrant of said corporation, with full power of substitution in the premises.

Dated: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

## GUARANTY

This Guaranty is made as of February 19, 2020, by **B.O.S. Better Online Solutions Ltd.** and **BOS-Odem Ltd.** (each, a “Guarantor” and collectively, the “Guarantors”), in favor of **YA II PN, LTD.** (“YA II”) with respect to all obligations of RUBY-TECH INC. (the “Debtor”) owed to YA II.

## RECITALS

WHEREAS, YA II and Debtor are entering into a Note Purchase Agreement (the “Purchase Agreement”) of even date herewith pursuant to which YA II will be purchasing a promissory note (the “Note”) from the Debtor of up to an aggregate of \$600,000;

WHEREAS, it is a condition of the Purchase Agreement and YA II’s obligation to purchase the Note from the Debtor that Guarantors jointly and severally guaranty all of the Debtor’s obligations under the Purchase Agreement and the Note (collectively, the “Transaction Documents”) by to YA II; and

WHEREAS, the Debtor is wholly owned by BOS-Odem Ltd. (“BOS-Odem”), which itself is wholly owned by B.O.S. Better Online Solutions Ltd., and through such relationships, each Guarantor will benefit, directly or indirectly, from the Debtor entering into the Transaction Documents and from the extension of credit YA II will make to Debtor;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, each Guarantor covenants and agrees as follows:

1. **Guaranty of Payment and Performance.** Each Guarantor, jointly and severally, hereby guarantees to the YA II the full, prompt and unconditional payment when due (whether at maturity, by acceleration or otherwise), and the performance, of all liabilities, agreements and other obligations of the Debtor to the YA II pursuant to the Transaction Documents, whether direct or indirect, absolute or contingent, due or to become due, secured or unsecured, now existing or hereafter arising or acquired, together with all interest and costs of collection, compromise or enforcement, including without limitation reasonable attorneys’ fees, incurred with respect to any such obligations or this Guaranty, or with respect to a proceeding under the federal bankruptcy laws or any insolvency, receivership, arrangement or reorganization law or an assignment for the benefit of YA II concerning Debtor or any Guarantor (all the foregoing, collectively, the “Obligations”). This Guaranty is an absolute, unconditional and continuing guaranty of the full and punctual payment and performance of the Obligations and not of their collectability only and is in no way conditioned upon any requirement that the YA II first attempt to collect any of the Obligations from the Debtor or resort to any security or other means of obtaining their payment. Should the Debtor default in the payment or performance of any of the Obligations, the obligations of any Guarantor hereunder shall become immediately due and payable to the YA II, without demand or notice of any nature, all of which are expressly waived by each Guarantor.

2. **Unlimited Guaranty.** The liability of each Guarantor hereunder shall be unlimited.

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3. **Waivers by each Guarantor; YA II’s Freedom to Act.** The Guarantor hereby agrees that the Obligations will be paid and performed strictly in accordance with their terms regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of the YA II with respect thereto. The Guarantor waives presentment, demand, protest, notice of acceptance, notice of Obligations incurred and all other notices of any kind, all defenses that may be available by virtue of any valuation, stay, moratorium law or other similar law now or hereafter in effect, any right to require the marshalling of assets of the Debtor, and all suretyship defenses generally. Without limiting the generality of the foregoing, the Guarantor agrees to the provisions of any instrument evidencing, securing or otherwise executed in connection with any Obligation and agrees that the obligations of each Guarantor hereunder shall not be released or discharged, in whole or in part, or otherwise affected by (i) the failure of the YA II to assert any claim or demand or to enforce any right or remedy against the Debtor; (ii) any extensions or renewals of, or alteration of the terms of, any Obligation or any portion thereof; (iii) any rescissions, waivers, amendments or modifications of any of the terms or provisions of any agreement evidencing, securing or otherwise executed in connection with any Obligation; (iv) the substitution or release of any entity primarily or secondarily liable for any Obligation; (v) the adequacy of any rights the YA II may have against any collateral or other means of obtaining repayment of the Obligations; (vi) the impairment of any collateral securing the Obligations, including without limitation the failure to perfect or preserve any rights the YA II might have in such collateral or the substitution, exchange, surrender, release, loss or destruction of any such collateral; (vii) failure to obtain or maintain a right of contribution for the benefit of each Guarantor; (viii) errors or omissions in connection with the YA II’s administration of the Obligations (except behavior constituting gross negligence or bad faith); or (ix) any other act or omission that might in any manner or to any extent vary the risk of any Guarantor or otherwise operate as a release or discharge of any Guarantor, all of which may be done without notice to any Guarantor.

4. **Unenforceability of Obligations Against Debtor.** If for any reason the Debtor are under no legal obligation to discharge any of the Obligations, or if any of the Obligations have become irrecoverable from the Debtor by operation of law or for any other reason, this Guaranty shall nevertheless be binding on each Guarantor to the same extent as if each Guarantor at all times had been the principal obligor on all such Obligations. In the event that acceleration of the time for payment of the Obligations is stayed upon the insolvency, bankruptcy or reorganization of the Debtor, or for any other reason, all such amounts otherwise subject to acceleration under the terms of any agreement evidencing, securing or otherwise executed in connection with any Obligation shall be immediately due and payable by each Guarantor.

5. **Subrogation; Subordination.** Until the payment and performance in full of all Obligations and any and all obligations of the Debtor to YA II, each Guarantor shall not exercise any rights against the Debtor arising as a result of payment by each Guarantor hereunder, by way of subrogation or otherwise, and will not prove any claim in competition with the YA II in respect of any payment hereunder in bankruptcy or insolvency proceedings of any nature; each Guarantor will not claim any set-off or counterclaim against the Debtor in respect of any liability of each Guarantor to the Debtor; and each Guarantor waives any benefit of and any right to participate in any collateral that may be held by the YA II. Each Guarantor agrees that after the occurrence of any default in the payment or performance of the Obligations, each Guarantor will not demand, sue for or otherwise attempt to collect any such indebtedness of the Debtor to each Guarantor until the Obligations shall have been paid in full. If, notwithstanding the foregoing sentence, each Guarantor shall collect, enforce or receive any amounts in respect of such indebtedness, such amounts shall be collected, enforced and received by each Guarantor as trustee for the YA II and be paid over to the YA II on account of the Obligations without affecting in any manner the liability of each Guarantor under the other provisions of this Guaranty.

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7. **Termination; Reinstatement.** This Guaranty is irrevocable and shall expire upon the repayment in full of all amounts owed by Debtor under the Note. This Guaranty shall be reinstated if at any time any payment made or value received with respect to an Obligation is rescinded or must otherwise be returned by the YA II upon the insolvency, bankruptcy or reorganization of the Debtor, or otherwise, all as though such payment had not been made or value received.

8. **Successors and Assigns.** This Guaranty shall be binding upon each Guarantor, its successors and assigns, and shall inure to the benefit of and be enforceable by the YA II and the YA II’s shareholders, officers, directors, agents, successors and assigns.

9. **Amendments and Waivers.** No amendment or waiver of any provision of this Guaranty nor consent to any departure by each Guarantor therefrom shall be effective unless the same shall be in writing and signed by the YA II. No failure on the part of the YA II to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any

other right.

10. **Notices.** All notices and other communications called for hereunder shall be made in writing and, unless otherwise specifically provided herein, shall be deemed to have been duly made or given when delivered by hand or mailed first class mail postage prepaid or, in the case of telecopied notice, when transmitted, receipt confirmed, addressed as follows: if to any Guarantor, at the address or e-mail address set forth below, and if to the YA II, at 1012 Springfield Avenue, Mountainside, New Jersey 07092, or at such address as either party may designate in writing.

11. **Governing Law; Consent to Jurisdiction.** This Guaranty is intended to take effect as a sealed instrument and shall be governed by, and construed in accordance with, the laws of the State of New York (excluding the laws applicable to conflicts or choice of law). Each of the parties consents to the jurisdiction of the state courts of the State of New York and the U.S. District Court for the District of New York sitting in Manhattan, in connection with any dispute arising under this Note and hereby waives, to the maximum extent permitted by law, any objection, including any objection based on forum non conveniens to the bringing of any such proceeding in such jurisdictions.

IN WITNESS WHEREOF, each Guarantor has caused this Guaranty to be executed and delivered as a sealed instrument as of the date appearing on page one.

**B.O.S. Better Online Solutions Ltd.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_

**BOS-Odem Ltd.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_

EX-12.1 5 f20f2019ex12-1\_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, 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: March 31, 2020

/s/ Eyal Cohen  
Eyal Cohen

**Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.**

I, Hagit Vizner, 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: March 31, 2020

/s/ Hagit Vizner

Hagit Vizner

Chief Financial Officer

**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, 2019 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/ Hagit Vizner

Hagit Vizner

Chief Financial Officer

By: /s/ Eyal Cohen

Eyal Cohen

Chief Executive Officer

Date: March 31, 2020

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We have issued our report dated March 31, 2020, 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, 2019. 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. 333-233113 and 333-223158) and Forms S-8 (File No. 333-228344, 333-179253, 333-160414, 333-148318, 333-136957 and 333-110696).

Tel Aviv, Israel  
March 31, 2020

