

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, 2020

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, of no nominal value 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:

4,391,163 Ordinary Shares, of no nominal value per share, as of December 31, 2020 and 5,193,663 Ordinary Shares, of no nominal value per share, as of March 30, 2021.

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 with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act.

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

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

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

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

Item 17 Item 18

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

Yes No

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into all effective Registration Statements filed by us under the Securities Act of 1933, as amended, to the extent not superseded by documents or reports subsequently filed or furnished.

Forward Looking Statements

This Annual Report on Form 20-F of BOS Better Online Solutions Ltd. (sometimes referred to herein as, “BOS”, the “Company”, “we”, “us” or “our”) 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, 2020, 2019 and 2018, and the selected consolidated balance sheet data as of December 31, 2020 and 2019, 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, 2017 and 2016, and the consolidated balance sheet data as of December 31, 2018, 2017 and 2016 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, 2020, 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 year ended December 31, 2016 was 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,	2016	2017	2018	2019	2020
Revenues	27,427	28,932	32,650	33,817	33,551
Cost of revenues	22,112	22,587	25,907	27,159	27,433
Gross profit	5,315	6,345	6,743	6,658	6,118
Operating expenses:					
Research and development	-	-	-	-	112
Sales and marketing	3,111	3,389	3,705	4,064	3,922
General and administrative	1,498	1,870	1,834	2,255	1,747
Impairment of intangible assets	-	-	-	356	517
Impairment of goodwill	-	-	-	614	471
Total operating expenses	4,609	5,259	5,539	7,289	6,769

Operating income (loss)	706	1,086	1,204	(631)	(651)
Other Income					39
Financial expense, net	(339)	(297)	(255)	(330)	(348)
Income (loss) before taxes on income	367	789	949	(961)	(960)
Taxes on income (tax benefit)	7	16	(41)	(48)	-
Net income (loss)	360	773	990	(913)	(960)
Basic and diluted net income (loss) per share	\$ 0.14	\$ 0.24	\$ 0.28	(0.23)	(0.22)
Weighted average number of shares used in computing basic net income (loss) per share	2,587	3,171	3,500	4,053	4,298
Weighted average number of shares used in computing diluted net income (loss) per share	2,593	3,171	3,500	4,059	4,298

Consolidated Balance Sheet Data:	2016	2017	2018	2019	2020
Cash and Cash Equivalents	1,286	1,533	1,410	339	1,036
Working Capital (*)	6,099	7,342	7,637	7,632	7,621
Total Assets	18,144	21,407	20,111	25,199	23,028
Short-term banks loan and current maturities of long-term bank loans	400	505	467	664	815
Long-term liabilities	2,943	2,809	2,168	2,952	2,250
Shareholders' equity	8,584	10,218	11,511	12,557	11,869
(*) Working capital comprises of:					
Current assets	12,716	15,722	14,069	17,322	16,530
Less: current liabilities	6,617	8,380	6,432	9,690	8,909
	6,099	7,342	7,637	7,632	7,621

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, 2020, we had \$2.0 million in long-term bank debt (including current maturities of \$815,000) and no short-term bank loans.

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

Some of the factors are beyond our control, such as economic conditions in the markets where we operate or intend to operate, changes in our customers' demand for products that we sell, and pressure from existing and new competitors. Also, because 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.

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

As of December 31, 2020, we had an accumulated deficit of \$70.7 million. We had a net loss of \$960,000 in 2020, and \$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.

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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, 2020, we had \$1.2 million in long term debt to Bank Beinleumi, net of current maturities of \$0.8 million.

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 rely on certain key suppliers.

Most of our sales rely on products of certain key suppliers, which we represent on a non-exclusive basis. 33% of our Supply Chain Solutions division purchases in the year 2020 were sourced from five key suppliers, 51% of our Intelligent Robotics division purchases in the year 2020 were sourced from five other key suppliers and 41% of our RFID division purchases in the year 2020 were sourced from five other key suppliers (including a software supplier).

In the year 2019, 42% of our Supply Chain Solutions division purchases were sourced from five key suppliers and 43% of our Intelligent Robotics and RFID purchases were sourced from five 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.

In particular, 17% of our Supply Chain Solutions division purchases in the year 2020 were sourced from Positronics Manufacturing Company, which we represent in Israel. These purchases amounted to \$2.5 million. Positronics has recently announced that it has been acquired by Amphenol Corporation. A disruption in our business relationship with Positronic could have a material adverse effect on the business, financial condition and results of operations of our Supply Chain Solutions division.

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, mainly our CEO, Eyal Cohen and our President Zelicovsky. 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
- Potential inability to retain, integrate and motivate key management, marketing, technical sales and customer support personnel.

During 2019 and 2020, the Company recorded an impairment loss of Goodwill and Intangible assets related to the acquisition of Imdecol's business operations in the amount of \$1,085 thousand and \$873 thousand, respectively. For further information see Note 8 to the Consolidated Financial Statements for the year ended December 31, 2020.

The success of our Intelligent Robotics division depends on our ability to penetrate the US market

Since our acquisition of Imdecol's business operations, which comprises our Intelligent Robotics divisions, we have recorded substantial losses of several million dollars. We believe that our ability to turn around this business depends on our successful penetration of the US market. We were not able to successfully achieve this goal in 2020 and there is no assurance that we will do so in 2021. Failure to timely generate substantial revenues for the Intelligent Robotics division from the US market would have a material adverse effect on our business and financial results.

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 recorded on our financial statements as of December 31, 2020 amounted to \$15,000, 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 and India. A decline in our sales to the Far East or India would have a material adverse effect on our business and financial results.

In 2020, revenues derived from the sales of our Supply Chain Solutions division to the Far East and India accounted to \$5.8 million, or 17.3 % of our total revenues. Sales to the Far East and India could decline due to changes in market demand or for political reasons. Should our sales to the Far East or India, be subject to substantial declines, our business and financial results will be adversely affected.

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

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

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

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

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

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

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

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

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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.

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.

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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 2020 and 2019, the NIS appreciated against the dollar by approximately 6.9% and approximately 7.8%, respectively. 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 2020 there was annual deflation in Israel of 0.7%. In 2019, the inflation rate in Israel was 0.6%. In 2018 the inflation rate was 0.8% and in 2017 there was annual deflation of 0.4%. In 2016, annual deflation was 0.2%. Therefore, the U.S. dollar cost of our Israeli operations decreased in 2018 and 2016, and increased in 2020, 2019 and 2017. 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. Since January 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 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.

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 under your own particular factual circumstances.

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

Our balance sheet contains a significant amount of goodwill and other amortizable intangible assets in long-term assets, totaling about \$4.72 million at December 31, 2020. 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 \$1,000,000, remain available as of March 31, 2021. 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. At December 31, 2020, the Company doesn't anticipate to further utilize this equity line.

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, 2020 through March 15, 2021, the daily closing price of our Ordinary Shares in Nasdaq has ranged from \$1.99 to \$3.99 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.

Future sales of our Ordinary Shares, whether by us or our shareholders, could cause our stock price to decline.

If our existing shareholders sell, or indicate an intent to sell, substantial amounts of our Ordinary Shares in the public market, the trading price of our Ordinary Shares could decline significantly. Similarly, the perception in the public market that our shareholders might sell Ordinary Shares could also depress the market price of our Ordinary Shares. A decline in the price of our Ordinary Shares might impede our ability to raise capital through the issuance of additional Ordinary Shares or other equity securities. In addition, the issuance and sale by us of additional Ordinary Shares or securities convertible into or exercisable for our Ordinary Shares, or the perception that we will issue such securities, could reduce the trading price for our Ordinary Shares as well as make future sales of equity securities by us less attractive or not feasible. The sale of Ordinary Shares issued upon the exercise of our outstanding options and warrants could further dilute the holdings of our then existing shareholders.

Our Ordinary Shares may be delisted from the Nasdaq Stock Market as a result of our failure to meet the Nasdaq Capital Market 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.

We rely on the foreign private issuer exemption for certain corporate governance requirements under the Nasdaq Stock Market Rules. This may afford less protection to holders of our Ordinary Shares.

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

On December 16, 2020, our general meeting of shareholders approved an increase of 2,000,000 Ordinary Shares in the Company's authorized share capital and the cancellation of the nominal value of the Ordinary Shares. Following such approval, the Company's authorized share capital is 8,000,000 Ordinary Shares, of no nominal value.

We operate our business through three divisions:

- **Our Intelligent Robotics Division** offers comprehensive technological solutions for increasing productivity in industrial and logistics processes.

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.

- **Our RFID Division** offers comprehensive turn-key solutions for Automatic Identification and Data Collection (AIDC), combining a mobile

infrastructure with software application of manufacturers that we represent. The division also offers on-site inventory count services in the fields of apparel, food, convenience and pharma, asset tagging and counting services for corporate and governmental entities.

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.

- **Our 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.

4B. Business Overview

Effective January 1, 2020, BOS manages its business in three reportable segments: the Intelligent Robotics Division, the 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 customers include, among others, SodaStream International Ltd., Tessy Plastics Inc., Phoenix Paper Packaging Mexico S. de R.L. de C.V. The Company's RFID Division customers include Shufersal Ltd., Hamashbir Lazarchan Ltd., Fox Vizel Ltd., The Central Company for Sales and Distribution Ltd. and Gotex Brands and Tnuva Ltd.

BOS' Product Offerings

Intelligent Robotics Division

The Intelligent Robotics Division offers comprehensive technological solutions for increasing productivity in industrial and logistic processes.

The Intelligent Robotics Division has expertise in the manufacturing of In-Mould Labelling ("IML") robotic systems and in Downstream Automation. In-Mould labelling is the use of paper or plastic labels during the manufacturing of containers by blow molding, injection molding, or thermoforming processes. The label is an integral part of the final product, which is then delivered as a pre-decorated item.

Downstream Automation is the process starting after the injection mould process ends through the packing of the mould. This process includes takeout of the mould from the injection/blow machine, vision inspection and assembly (in case of several moulds, also stacking, sleeving, and placing into a box). There are currently more than 500 installations of our IML robots worldwide (including installation of Imdecol Ltd. prior to our acquisition of its business operations).

In 2020, 8.0 % of our revenues were attributed to sales generated from the Company's Intelligent Robotics Division.

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.

The RFID division offers comprehensive turn-key solutions for Automatic Identification and Data Collection (AIDC), combining a mobile infrastructure with software application of manufacturers that we represent. The division also offers on-site inventory count services in the fields of apparel, food, convenience and pharma, asset tagging and counting services for corporate and governmental entities.

The Company's RFID Division purchases equipment of leading global manufacturers. Such manufacturers include Zebra Technologies Corp., DLog GmbH, Honeywell International Inc., Tadbik Ltd., Bibliotheca RFID Library Systems AG and Unique Technology Europe BV.

Specifically, the Company's 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 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
- 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 2020, 37% of our revenues were attributed to sales generated from the Company's RFID Division.

Supply Chain Solutions Division

The Company's Supply Chain Solutions division offers electro-mechanical components, mainly to customers in the aerospace, defense and other industries worldwide and is a supply chain service provider for aviation customers that prefer to consolidate their component acquisitions through a supplier that is able to provide a comprehensive solution to their components-supply needs.

These services of the Supply Chain division 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., Powell Electronics, Positronic Global Connector Solutions, Sensata Technologies Inc., Integrated Power Designs, Inc., Netpower, Switchcraft Inc., First Sensor A.G., Fema Electronics Corporation, SGC Technologies Inc. and Civue Optotech Inc.

In 2020, 55% of our revenues were attributed to sales of the Supply Chain Solutions division.

Marketing, Distribution and Sales

Intelligent Robotics Division

The Company markets its solutions primarily through a combination of direct sales and sales agents. In 2020, we established a sales office with a dedicated U.S. sales manager.

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 Division

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)

	2020	%	2019	%	2018	%
Israel	24,369	72	\$ 23,493	69	\$ 22,990	70
Far East	3,831	11	\$ 5,055	15	\$ 3,800	12
India	2,375	7	\$ 3,624	11	\$ 4,209	13
America	2,449	8	\$ 901	3	\$ 1,189	4
Europe	527	2	\$ 744	2	\$ 462	1
Total Revenues	33,551	100	\$ 33,817	100	\$ 32,650	100

Sales by quarters

	2020	%	2019	%	2018	%
Q1	7,467	22	\$ 7,763	23	\$ 8,291	25
Q2	7,478	22	\$ 8,786	26	\$ 7,552	23
Q3	8,180	24	\$ 7,914	23	\$ 7,714	24
Q4	10,426	32	\$ 9,354	28	\$ 9,093	28
Total Revenues	33,551	100	\$ 33,817	100	\$ 32,650	100

Sales by divisions

	2020	%	2019	%	2018	%
Intelligent Robotics Division	\$ 2,502	8	\$ 826	3	\$ -	-
RFID Division	\$ 12,455	37	\$ 13,241	39	\$ 14,445	44
Supply Chain Division	\$ 18,594	55	\$ 19,750	58	\$ 18,205	56
Intercompany	-	-	\$ -	-	\$ -	-
Total Revenues	\$ 33,551	100	\$ 33,817	100	\$ 32,650	100

Competition

Intelligent Robotics Division

Our Intelligent Robotics Division primary target market is the US market. Main competitors in this territory include Muller Technology CO Inc., Beck Automation AG, Pagès Group SAS and Ilseman GMBH.

RFID Division

The 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 RFID market are eWave mobile Ltd., Danner 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 Division

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 (most of which were installed prior to our acquisition of Imdecol), 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 division 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/Rosh Ha’ain	2,831	Through April 2023 (excluding extension options)

Our average monthly rental fees for the year 2020 and for the year 2019 amounted to \$29,000 and \$25,000, 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.

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 three reportable divisions: the Intelligent Robotics Division, the RFID Division and the Supply Chain Division.

Revenues

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. However, there were no significant changes to the timing or pattern of revenue recognition of 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 a 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 and services that will be transferred to the customer.

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

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

The Company transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognizes revenue over time, if any of the following criteria is met: a. The customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs, b. The Company's performance creates or enhances an asset (for example, work in process) that the customer controls as the asset is created or enhanced, or c. The Company's performance does not create an asset with an alternative use and the Company has an enforceable right to payment for performance completed to date. If none of the above criteria for satisfying a performance obligation over time are met, the performance obligation is considered as satisfied at a point in time (such as upon shipment of a completed robotics and automation project).

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. With respect to 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 direct sale to customers of products such as electro-mechanical components and Automatic Identification Data Capture hardware manufactured by third parties. Revenues from sales of products are recognized at the point of time when the control of the product is transferred on to the customer, mostly upon delivery to the customer, either at the Company's premises, to the customer's carrier or 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 renewal 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: a. 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, b. 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 deferred and recognized over time, on a straight-line basis over the contract's period, as the services are mostly 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. Revenues from robotics and automation projects are recognized at a point in time and upon shipment of the completed project, as the control of such project is not eligible to be considered as transferred over time.

Robotics and automation projects' 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.

4. Deferred revenues include unearned amounts received from customers but not yet recognized as revenues.

Costs and Operating Expenses

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

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

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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 2020 inventory write-offs amounted to \$103.

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, 2020 the remaining intangible assets were comprised mainly of customer relationship.

During the years ended December 31, 2020 and December 31, 2019 the Company recognized an impairment loss related to intangible assets in an amount of \$517, and \$356, respectively. For further information, see Note 8 to the Consolidated Financial Statements for the year ended December 31, 2020.

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 unit. As required by ASC 350, the Company chooses either to perform a qualitative assessment whether a goodwill impairment test is necessary or proceeds directly to the 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 goodwill impairment test. If the Company determines otherwise, no further evaluation is necessary.

With respect to goodwill impairment tests performed before the adoption of ASU 2017-04, when the Company decided or was required to perform the two-step goodwill impairment test, in the first step, or "Step 1", the Company compared the fair value of each reporting unit to its carrying value. If the fair value exceeded the carrying value of the net assets, goodwill was considered not to be impaired, and the Company was not required to perform further testing. If the carrying value of the net assets exceeded the fair value, then the Company was required to perform the second step, or "Step 2", of the impairment test in order to determine the implied fair value of goodwill. In such circumstances, an impairment loss was recorded for the excess, if any, of the carrying value of the goodwill allocated to the reporting unit over its implied fair value.

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.

Commencing upon the adoption of ASU 2017-04 (which eliminated Step 2 from the goodwill impairment, when the Company decides or is required to perform the goodwill impairment test, the Company compares the fair value of the reporting unit to its carrying value and an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, if any.

The Company operates in three operating-based segments: the Intelligent Robotics division, the RFID division and the Supply Chain Solutions division. The Company's goodwill was related to two different reporting units: the RFID division segment and the Intelligent Robotics, each of which represents a whole separate reporting unit.

RFID Division:

Under the RFID Division segment there is one reporting unit with an allocated goodwill amount of approximately \$ 4.6 thousand. The Company performed

an impairment analysis as of December 31, 2020 and 2019, using the income approach and concluded that the fair value of such reporting unit exceeds its carrying value and accordingly the analysis did not result in an impairment loss of goodwill with respect to such unit. The most significant assumptions used for the income approach for the 2020 impairment test were five years of projected net cash flows, estimated weighted average cost of capital and a long-term growth rate.

Intelligent Robotics Division:

Under the Intelligent Robotics segment (which comprises of the Imdecol business acquired in 2019) there is one reporting unit with an allocated goodwill amount of approximately \$ 471 thousand (before the impairment loss recorded in the year ended December 31, 2020).

The Company performed an impairment analysis as of December 31, 2020 and 2019, using the income approach and concluded that the carrying value of such reporting unit exceeds its fair value. The analysis resulted in an impairment loss of goodwill with respect to such unit in an amount of \$471 and \$614, respectively.

The most significant assumptions used for the income approach for the 2020 impairment test were five years of projected net cash flows, estimated weighted average cost of capital and a long-term growth rate.

d. Revenue Recognition:

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

Legal Contingencies

As of December 31, 2020, the Company is not party to any legal proceedings.

- a. 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 claimed that the Company misrepresented the physical status of the sold premises. The Company rejected 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. In July 2020 the parties reached a settlement agreement, which received court approval, pursuant to which the claim was dismissed against a payment of NIS 70,000 (\$21,773) to the Plaintiff.
- b. 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 then 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.

5A. Operating Results

Comparison of 2020 to 2019

Consolidated revenues for the year 2020 amounted to \$33.6 million compared to \$33.8 million in the year 2019. The Supply Chain division's revenues decreased to \$18.6 million in the year 2020 from \$19.8 million in the year 2019, as a result of a decrease of 30% in the sales to the Far East and India in the year 2020 as compared to the year 2019. The slowdown in the revenues of the Supply Chain division from the Far East and India is due to the gradual ending of several long term contracts with customers in those areas, while no significant contracts were renewed. Revenues of our Intelligent Robotics division increased from \$826,000 in year 2019 to \$2.5 million in year 2020, and we expect this trend of growth to continue in year 2021 as well. The Intelligent Robotics division recognizes revenues upon delivery of a completed project, which may take about six months to complete, and may cause fluctuations in annual revenues, depending upon the timing of particular projects. Sales of our RFID division decreased by 6% to \$12.5 million in the year 2020, which we believe resulted from a slowdown in commercial activity due to the COVID pandemic.

Gross profit for 2020 was \$6.12 million (a gross margin of 18.0%) as compared to \$6.66 million (a gross margin of 19.6%) for 2019. The decrease in the gross profit margin was attributed to a gross loss of the Intelligent Robotics division in the amount of \$871 as compared to a breakeven in year 2019. The gross loss of the Intelligent Robotics division is a result of wrong pricing and poor production performance. Since the date of the acquisition of the Intelligent Robotic division we have implemented controls on pricing and improved the production process. We believe these actions will lead to a gross profit in this division in year 2021.

Sales and Marketing expenses of year 2020 amounted to \$3.92 million compared to \$4.1 million in year 2019. Although the acquisition of the Intelligent Robotic division was in the second half of year 2019, the sales and marketing expenses in year 2020 remained roughly the same as year 2019 due to reduction in the sales expenses of the RFID division.

General and administrative expenses decreased to \$1.74 million in 2020 from \$2.25 million in 2019. The decrease in expenses was primarily due to the non-reoccurrence in year 2020 of the following expenses from the year 2019:

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

During the years ended December 31, 2020 and December 31, 2019 the Company recognized an impairment loss related to intangible assets and goodwill of the Intelligent Robotics division in an amount of \$988,000 and \$970,000, respectively.

Financial expenses increased to \$348,000 in year 2020 from \$330,000 in year 2019.

Net loss for year 2020 was \$960,000 as compared to a net loss of \$913,000 in 2019. The basic and diluted net loss per share in 2020 was \$0.22, compared to a basic and diluted net loss per share of \$0.23 in 2019.

For a discussion of our financial statements for the year 2018 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 2020 and 2019, the NIS depreciated against the dollar by approximately 6.9% and approximately 7.8%, respectively, while in 2018 the NIS depreciated against the dollar by approximately 8.1%. 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 year ended December 31, 2020 there was annual deflation in Israel of 0.7%. 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 increased in 2020, 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 25% in 2016 and 24% in 2017. Commencing 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, 2020, the Company had net loss of \$960,000 as compared to net loss of \$913,000 in the year 2019 and net income of \$990,000 in the year 2018. In the year ended December 31, 2020, the Company generated a positive cash flow from operating activities amounting to \$1,058,000 as compared to a negative cash flow from operating activities amounting to \$915,000 in 2019 and a positive cash flow from operating activities amounting to \$743,000 in 2018. The Company's cash and cash equivalents amounted to \$1,036,000 as of December 31, 2020. The Company had a positive working capital of \$7,621,000, \$7,632,000 and \$7,637,000, as of December 31, 2020, December 31, 2019, and December 31, 2018, 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, 2020, we had \$1.2 million in long-term debt (net of current maturities of \$815,000) 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 was 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 at the time of exercise 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.

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.

On January 4, 2021 the Company entered into a definitive agreement with institutional investors for the purchase and sale of 800,000 Ordinary Shares and 720,000 Warrants at a combined purchase price of \$2.50 in a registered direct offering, which resulted in gross proceeds of \$2 million. The Warrants have an exercise

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 million. In addition, the Company issued to the investors 240,000 warrants with an exercise price of \$3.30 per ordinary share. The warrants are 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.

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, 2021, \$1,000,000 has been drawn on this equity line for which the Company has issued an aggregate of 396,138 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, 2021). The 2017 SEDA will expire on May 8, 2021 and the Company does not anticipate that it will utilize the remaining \$1,000,000 available under it.

On December 16, 2020, our general meeting of shareholders approved an increase of 2,000,000 Ordinary Shares in the Company's authorized share capital and the cancellation of the nominal value of the Ordinary Shares. Following such approval, the Company's authorized share capital is 8,000,000 Ordinary Shares, of no nominal value.

We have in-balance sheet financial instruments and off-balance sheet contingent commitments. Our on-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, 2020, our trade receivables' and trade payables' aging days were 100 and 98 days, respectively. The fair value of our financial instruments is similar to their book value. Our off-balance sheet contingent commitments consist of: (a) royalty commitments that are directly related to our future revenues, (b) lease commitments of our premises and vehicles, and (c) directors' and officers' indemnities, in excess of the proceeds received from liability insurance which we obtain.

The Company had working capital of \$7,621,000 as of December 31, 2020. 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 \$1,058,000 in 2020 and \$(915,000) in 2019 and \$743,000 in 2018.

Net cash provided by (used in) investment activities in year 2020 amounted to \$71,000. Net cash used in investment activities in 2019 amounted to \$(2,220,000) and included \$1,895,000 of consideration for the acquisition of the business operations of Imdecol. Net cash used in investment activities in 2018 amounted to \$(689,000).

Net cash used in financing activities in 2020 amounted to \$532,000. 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).

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 division.

5D. Trend Information

BOS' vision is to become a leading manufacturer and integrator of automation systems for industrial and logistics processes. We anticipate that the contribution of the Intelligent Robotics division to our revenues will increase as we expand our business in the United States. The RFID division's revenues are expected to grow as a result of expanding its technological product offering to logistic processes in the Israeli market, with the technological support from the Intelligent Robotics division. We further expect that the trend of a decrease in the revenues of the Supply Chain division that we saw through the years 2018-2020 will continue. The reason for this downwards trend is the gradual ending of several long-term contracts with customers in India and the Far East while no significant contracts were renewed.

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, 2020, 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 ⁽¹⁾	\$ 2,031	\$ 815	\$ 1,216	\$ -	\$ -
Accrued severance pay ⁽²⁾	364	-	-	-	364
Operating lease – facilities and cars ⁽³⁾	957	363	450	144	-
Purchase obligation for service and inventory	7,178	7,038	140	-	-
Total	\$ 10,530	\$ 8,216	\$ 1,806	\$ 144	\$ 364

(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

- (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 (*) ⁽¹⁾	55	Chairman of the Board of Directors (Class C)
Ms. Odelia Levanon (*) ⁽²⁾	56	Director (Class B)
Mr. Michael Osborne ⁽³⁾	49	Director (Class A)
Mr. Yaron Eldad(*) ⁽⁴⁾		Chairman of Audit and Compensation Committees (Class A)
Mr. Eyal Cohen	50	Chief Executive Officer and Director (Class B)
Mr. Avidan Zelicovsky	50	President
Mr. Moshe Zeltzer	40	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.
- (4) Mr. Eldad was appointed by the Board of Directors of the Company to serve as a director until the next annual meeting of the shareholders of the Company pursuant to Article 16.3 of the Company's Articles of Association.

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.

Mr. Yaron Eldad joined our Board of Directors in January 2021 and was appointed Chairman of the Audit Committee and Compensation Committee. Since 2010, Mr. Eldad has been serving as the CEO and CFO of Yamba Group Ltd, an international trading company specializing in consumer electronic products. From 2008 until 2010, Mr. Eldad has served as the CFO at Recoly NV, and from 1995 until 2008 as the CFO at e-SIM Ltd. Mr. Eldad holds a Master's Degree in Business Administration (strategic management) from the Hebrew University, an M.A in law from the Bar Ilan University, and a B.A in Economics and Accounting from the Ben Gurion University. The Company's Board has determined that Mr. Eldad is an independent director and a financial expert in accordance with the SEC and Nasdaq rules.

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 (IUCC). 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. 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.

Mr. Moshe Zeltzer was nominated as the Company's CFO on February 19, 2021, Prior to joining the Company, during the years 2018-2020, Mr. Zeltzer was a controller at Eltek Ltd. (Nasdaq: ELTK). Between the years 2012 and 2018, Moshe served as a controller at Metropolinet Ltd. and between the years 2007-2012 was an auditor with BDO Israel. Mr. Zeltzer holds a B.A. in Economics and Business Administration from the Ariel University and an Accounting Certificate from the Bar-Ilan University and is a Certified Public Accountant.

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, 2020. Directors who are also executive officers do not receive director fees.

	Salaries, Directors' fees, stock-based compensation, Commissions and Bonus (in thousands)	Pension, Retirement and Similar benefits (in thousands)
All directors and officers as a group (then 11 persons).	<u>\$ 577</u>	<u>\$ 93</u>

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 Compensation Policy was approved by a Compensation Majority on December 16, 2020.

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 are entitled to receive annual compensation of NIS 29,270 (approximately \$9,104), paid on a quarterly basis, and an additional NIS 2,175 (approximately \$676) 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 of options to purchase 7,500 Ordinary Shares. The options shall be granted to those directors elected or re-elected by the shareholders 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.

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.

Chairman

On December 2020 our shareholders approved a grant of 20,000 options to purchase Ordinary Shares to the Company's Chairman, Mr. Ziv Dekel. The grant of options is in addition to the monetary compensation Mr. Ziv Dekel receives as a director, and which was approved by the shareholders in October 2019.

The options were granted pursuant to the Company's 2003 Share Option Plan and have the following terms:

- Exercise price: the weighted average closing price of the Ordinary Shares on the NASDAQ during the 20 trading days preceding the Grant Date.
- 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 grant date, provided that Mr. Dekel is still serving as the Chairman at the applicable vesting date.
- The options shall expire on the fifth anniversary of the Grant Date and shall be exercisable during that period as long as the Chairman holds office, or within 90 days following termination of his position, with certain exceptions in the case of the death or disability.

Executive Officers

Pursuant to Amendment 20, any arrangement between a company and its chief executive officer, or CEO, or its Chief Financial Officer, or CFO, 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, with respect to the CEO, 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 respect of the year ended December 31, 2020 and to date:

CEO, Mr. Eyal Cohen:

Monthly Salary:

A gross monthly base salary of NIS 44,472 (approximately \$13,000) linked to an increase in the CPI, plus customary benefits, which include managers' insurance, education fund, car expenses and long-term disability insurance.

Bonus:

On March 29, 2021, our Board approved a special bonus of two monthly salaries (a total of NIS88,944 or approximately \$26,000) to Mr. Cohen for personal achievement, in accordance with our Compensation Policy.

The entire bonus to Mr. Cohen shall paid by issuance of 7,188 shares of the Company. The price per share is 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 bonus by the Board.

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 Directors may reduce any bonus payable to the Co-Chief Executive Officer and Chief Financial Officer by up to 20%, at its discretion.

Options:

Mr. Cohen was not granted any options in 2020.

CFO, Ms. Hagit Vizner:

Monthly Salary:

A gross monthly base salary of NIS 18,000 (approximately \$5,200).

Options:

Ms. Hagit Vizner was granted 15,000 options to purchase Ordinary Shares under the following terms:

- Exercise price: the weighted average closing price of the Ordinary Shares on the NASDAQ during the 20 trading days preceding the grant date.
- 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 Ms. Vizner is still engaged with the Company at the applicable vesting date.

- The options shall expire on the fifth anniversary of the date of grant.

On February 10, 2021 Ms. Vizner stepped down from her position as the Company's CFO and as a result the options that were granted to her expired.

CFO, Mr. Moshe Zeltzer:

Mr. Moshe Zeltzer was nominated as the Company's CFO on February 19, 2021.

Monthly Salary:

A gross monthly base salary of NIS 25,000 (approximately \$7,300) linked to an increase in the CPI, plus customary benefits, which include managers' insurance, education fund, car expenses and long-term disability insurance.

On February 19, 2021 the Company's Board of Directors approved a grant to Mr. Zeltzer of options to purchase 20,000 of the Company's Ordinary Shares, on the following terms:

- Exercise price: the weighted average closing price of the Ordinary Shares on the Nasdaq during the 20 trading days preceding the grant date.
- 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 date.

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 \$13,000) linked to an increase in the CPI, plus customary benefits, which include managers' insurance, education fund, car expenses and long-term disability insurance.

Bonus:

On March 29, 2021, our Board approved a special bonus of two monthly salaries (NIS 88,944 or approximately \$ 26,000) to Mr. Zelicovsky for personal achievement, in accordance with our Compensation Policy.

Options:

Mr. Zelicovsky was not granted any options in 2020.

For additional information on the compensation of our directors and management see our proxy statement filed with the SEC under Form 6-K on November 4, 2020.

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.

At the December 16, 2020 annual shareholders meeting, the director elected upon the lapse of his term was 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, Eldad, 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.

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 Yaron Eldad, Odella Levanon and Ziv Dekel. The chairperson of the audit committee is Yaron Eldad.

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. Yaron Eldad 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 Yaron Eldad, Ziv Dekel and Odalia Levanon. The chairperson of the compensation committee is Yaron Eldad.

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 Israel's consulting arm, serves as our internal auditor.

Duties of Shareholders

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

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

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

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

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

Israeli Securities Authority Administrative Enforcement:

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

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

6D. Employees

As of March 15, 2021, we had 88 employees, of whom 87 are located in Israel and one is located in the USA. Of these 88 employees: 10 employees are in general and administrative positions, 15 employees are in marketing and sales, 21 employees are employed as technicians, 6 employees are employed as engineers, 9 employees are in the manufacturing department and 27 employees are in operating activities.

In addition, the Company employs temporary employees who provide inventory counting services, in a number which fluctuates according to the particular projects, and customarily increases towards year end. We believe that our relations with our employees are satisfactory. We have not experienced a collective labor dispute or a strike.

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

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

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

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

6E. Share Ownership

The beneficial ownership of our ordinary shares is determined in accordance with the rules of the SEC. Under these rules, a person is deemed to be a beneficial owner of a security if that person has or shares voting power, which includes the power to vote or to direct the voting of the security, or investment power, which includes the power to dispose of or to direct the disposition of the security. For purposes of the table below, we deem ordinary shares issuable pursuant to options that are currently exercisable or exercisable within 60 days as of March 15, 2021 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 5,193,663 ordinary shares outstanding as of March 15, 2021.

As of March 15, 2021 shares and options held by our officers and directors, then consisting of 6 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	74,160	1.4%
Avidan Zelicovsky	President	-	0%
Ziv Dekel	Chairman	15,988	0.3%
Yaron Eldad	Director	-	0%
Michael Osborne	Director	4,500	0.1%
Odelia Levanon	Director	5,349	0.1%

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.

2003 Plan

In May 2003 the Company's shareholders approved the adoption of the 2003 Israeli Stock Option Plan or the Plan. 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 December 2017, the shareholders approved an increase of the pool of shares reserved for issuances under the Plan, to 500,000 Ordinary Shares. 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 (ii) an amendment of the Plan allowing for the grant of Ordinary Shares in addition to options.

Under the Plan, the terms and conditions of the options 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, 2021, we had 180,500 options outstanding under the Plan (of which 49,668 are exercisable) with the exercise prices as set forth below:

Exercise Price Per Share \$	Number of Options Outstanding
\$ 2.118	74,166
\$ 2.131	7,167
\$ 2.176	10,000
\$ 2.388	41,667
\$ 2.433	7,500

\$	2,775	20,000
\$	3,195	20,000
	Total	180,500

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.

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To the Company's knowledge, Todd M. Felte owns 845,700 Ordinary Shares, representing as of March 15, 2021, 16.3% of the issued and outstanding Ordinary Shares⁽¹⁾. As of March 15, 2021, 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, 2018	December 31, 2019	December 31, 2020	March 15, 2021
Todd M. Felte ⁽¹⁾	N/A	N/A	845,700	845,700

(1) According to a 13G report from January 25, 2021 which contained information with respect to Mr. Felte's share ownership as of December 31, 2020.

As of March 15, 2021, there were 53 record holders of Ordinary Shares, of which 8 were registered with addresses in the United States, representing approximately 96% 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

Intercompany Payments

During each of the years 2019 and 2020 the Company charged each of its subsidiaries, Odem and Dimex, \$350,000 for their share of corporate overhead.

Since January 2018 until March 15, 2021, the Company has raised \$4.2 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.

On December 16, 2020, the Companies shareholders approved the Companies Compensation Policy which stipulates that the Company may purchase directors' and officers' liability insurance at a coverage of up to \$5 million per event and per period, irrespective of the cost of the annual premium.

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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
2020	\$ 9,182,000	27%
2019	\$ 10,324,000	31%
2018	\$ 9,660,000	30%

Legal Proceedings

As of December 31, 2020 The Company is not party to any legal proceedings

a. 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 claimed that the Company misrepresented the physical status of the sold premises. The Company rejected 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 February 17, 2020 the parties reached a settlement agreement, which received court approval, pursuant to which the claim was dismissed against a certain payment of NIS 70,000 to the Plaintiff.

b. 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.

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 December 2020, to increase the Company's authorized share capital and to cancel the nominal value of the Ordinary Shares. Corresponding amendment were effected in the Company's Memorandum of Association ("**Memorandum**").

Set forth below is a summary of certain provisions of our Memorandum and Articles of Association. This summary is not complete and should be read

1. Objects of the Company:

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

2. Provisions related to the directors of the Company:

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

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

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

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

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

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 number of shares held by them.

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.

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 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.

YOU ARE URGED TO CONSULT YOUR OWN TAX ADVISORS AS TO THE ISRAELI OR OTHER TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF OUR ORDINARY SHARES OR ADSs, INCLUDING, IN PARTICULAR, THE EFFECT OF ANY FOREIGN, STATE OR LOCAL TAXES.

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 holders or purchasers of our ordinary shares in light of their particular circumstances, or certain types of holders or purchasers of our ordinary shares subject to special tax treatment. Examples of this kind of investor 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.

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 Israeli 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.

General Corporate Tax Structure in Israel

Israeli companies are generally subject to corporate tax on their taxable income at a flat rate. Effective January 2018 and thereafter, the Israeli corporate tax rate is 23%.

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 Israeli residents, 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 equivalent to the increase of the relevant asset's purchase price 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". Inflationary surplus is currently not subject to tax in Israel.

Taxation of Israeli Residents Shareholders

Generally, 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 individual shareholder is considered a "substantial shareholder" the time of sale or at any time during the 12-month period preceding such sale, such gain will be taxed at the rate of 30%. A "substantial shareholder" is generally a person who alone or together with such person's relative or another person who collaborates with such person on a permanent basis, holds, directly or indirectly, at least 10% of any "means of control" in the company. "Means of control" generally include the right to vote, receive profits, receive assets upon liquidation, nominate a director or an executive officer, or order someone who holds any of the aforesaid rights how to act, regardless of the source of such right. Real capital gain derived by an Israeli resident corporation is generally subject to the corporate tax rate (currently 23%).

Non-Israeli residents, both companies and individuals, are generally 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, among other conditions, 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.

Additionally, a sale of securities by a non-Israeli resident may be exempt from Israeli capital gains tax under the provisions of an applicable tax treaty. For example, 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, (ii) the capital gains from such sale, exchange or disposition can be attributed to a permanent establishment in Israel, (iii) the capital gains arising from such sale, exchange or disposition is attributed to real estate located in Israel; (iv) the capital gains arising from such sale, exchange or disposition is attributed to royalties, or (v) such Treaty U.S. Resident is an individual and was present in Israel for 183 days or more during the relevant taxable year. In any 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.

Regardless of whether shareholders may be liable for Israeli income tax on the sale of our ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at the source. Therefore, shareholders may be required to demonstrate that they are exempt from tax on their capital gains in order to avoid withholding at the time of sale.

Taxation of Dividends Paid on our Ordinary Shares

The following discussion refers to dividends paid on our ordinary shares. We cannot assure you that, in the event we declare a dividend, we will designate the profits that we distribute in a way that will reduce shareholders' tax liability.

Taxation of Israeli Residents Shareholders on Receipt of Dividends

Israeli resident individuals are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares. The tax rate generally applicable to such dividends is 25%, or 30% for an individual shareholder that is considered a substantial shareholder (described above) at any time during the 12-month period preceding such distribution. Israeli resident companies are generally exempt from income tax from dividends sourced from income produced or accrued in Israel, received directly or indirectly from another company that is subject to Israeli corporate tax.

Taxation of Non-Israeli Residents Shareholders on Receipt of Dividends

Non-Israeli residents, both companies and individuals, are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares, at the rate of 25%, or 30% for a shareholder that is considered a substantial shareholder (described above) at any time during the 12-month period preceding such distribution. Such dividends are generally subject to Israeli withholding tax at a rate of 25% if the shares are registered with a nominee company (whether or not the recipient is a significant shareholder). The tax will be withheld at source, unless a different rate is provided in a treaty between Israel and the shareholder's country of residence (subject to the receipt in advance of a valid tax certificate from the Israel Tax Authority allowing for a reduced tax rate).

Under the U.S.-Israel Tax Treaty, the following withholding rates will apply with respect to dividends distributed by an Israeli resident company to a U.S. resident entitled to claim the benefits of the Treaty: (i) if the U.S. resident is a corporation which holds during that portion of the taxable year which precedes the date of payment of the dividend and during the whole of its prior taxable year (if any), at least 10% of the outstanding voting shares of the Israeli resident paying corporation and not more than 25% of the gross income of the Israeli resident paying corporation for such prior taxable year (if any) consists of certain type of interest or dividends — the withholding tax rate is 12.5%, (ii) if both the conditions mentioned in (i) above are met and the dividend is paid from an Israeli resident company's income which was entitled to a reduced tax rate applicable to an Approved Enterprise or Benefited Enterprise — the withholding tax rate is 15% if a certificate for a reduced withholding tax rate would be provided in advance from the Israel Tax Authority and (iii) in all other cases, the withholding tax rate is 25%.

A non-Israeli resident who receives a dividend derived from or accrued in Israel, from which tax was withheld at source, is generally exempt from the duty to file tax returns in Israel with respect to such income, provided that the recipient is not otherwise required to file a tax return in Israel.

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.

Surtax

Subject to the provisions of an applicable tax treaty, individuals who are subject to tax in Israel (whether any such individual is an Israeli resident or non-Israeli resident) are also subject to an additional tax at a rate of 3% on annual income (including, but not limited to, dividends, interest and capital gain) exceeds NIS 651,600 for 2020 and NIS 647,640 for 2021.

Estate and Gift Tax

Israeli law presently does not impose estate or gift taxes.

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

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

U.S. Holders of Ordinary Shares

Taxation of distributions on Ordinary Shares

Subject the discussion below under “Tax consequences if we are a passive foreign investment company,” a distribution paid by us with respect to our Ordinary Shares, including the amount of any non-U.S. taxes withheld, to a U.S. holder will be treated as dividend income to the extent that the distribution does not exceed our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. Dividends that are received with respect to Ordinary Shares by U.S. holders that are individuals, estates or trusts generally will be taxed at preferential tax rates (currently a maximum rate of 20%), 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 and includes an exchange information program. 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.

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, a U.S. holder may apply to the computation of foreign tax credits relating to “qualified disposition 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; which is usually the cost to the U.S. holder of 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 (currently a maximum of 20%). 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. An accrual method 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) may 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.

Net Investment Income Tax

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

Tax consequences if we are a passive foreign investment company

For U.S. federal income tax purposes, we will be considered a passive foreign investment company, or PFIC, for any taxable year in which, after applying certain look-through rules, 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. For this purpose, cash is considered to be an asset which produces passive income. Passive income includes dividends, interest, royalties, rents annuities and the excess of gains over losses from the disposition of certain assets which produce 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.

Based on an analysis of our income, assets and market capitalization, we believe that we were not a PFIC for our taxable year ended December 31, 2020. However, there can be no assurance that the IRS will agree with our position or that the IRS could not successfully challenge our position. 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. It is difficult to make accurate predictions of our future income, assets, activities and market capitalization, including fluctuations in the price of our Ordinary Shares which are relevant to this determination. There can be no assurance that we will not become a PFIC for the current taxable year ending December 31, 2021 or in a future taxable year.

If we are a PFIC, a U.S. holder of our Ordinary Shares could be subject to increased tax liability upon the sale or other disposition (including gain deemed recognized if the Ordinary Shares are used as security for a loan) of its Ordinary Shares or upon the receipt of distributions that are treated as “excess distributions”, which could result in a reduction in the after-tax return to such U.S. holder. In general, an excess distribution is the amount of distributions received during a taxable year that exceed 125% of the average amount of distributions received by a U.S. holder in respect of the Ordinary Shares during the preceding three taxable years, or if shorter, during the U.S. holder’s holding period prior to the taxable year of the distribution. Under these rules, the distributions that are excess distributions and any gain on the disposition of Ordinary Shares would be allocated ratably over the U.S. holder’s holding period for the Ordinary Shares. The amount allocated to the current taxable year and any taxable year prior to the first taxable year in which we were a PFIC would be taxed as ordinary income. The amount allocated to each of the other taxable years would be subject to tax at the highest marginal rate in effect for the applicable class of taxpayer for that taxable year, and an interest charge for the deemed deferral benefit would be imposed on the resulting tax allocated to such other taxable years. The tax liability with respect to the amount allocated to taxable years prior to the year of the disposition or distribution cannot be offset by net operating losses. In addition, holders of stock in a PFIC may not receive a “step-up” in basis on shares acquired from a decedent. Furthermore, if we are a PFIC, each U.S. holder generally will be required to file an annual report with the IRS.

As an alternative to the tax treatment described above, a U.S. holder could elect to treat us as a “qualified electing fund” (“QEF”), in which case the U.S. holder would be required to include in income, for each taxable year that we are a PFIC, its pro rata share of our ordinary earnings as ordinary income and its pro rata share of our net capital gains as capital gain, subject to a separate election to defer payment of taxes where such deferral is subject to an interest charge. There is no assurance we will provide such information as the IRS may require in order for U.S. holders to report income and gain under a QEF election, if we are a PFIC. 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.

As an alternative to making a QEF election, a U.S. holder of PFIC stock which is “marketable stock” (e.g., “regularly traded” on the Nasdaq Stock Market) may in certain circumstances avoid certain of the tax consequences generally applicable to holders of stock in a PFIC by electing to mark the stock to market as of the beginning of such U.S. holder’s holding period for the Ordinary Shares. As a result of such election, in any taxable year that we are a PFIC, a U.S. holder generally would be required to report gain or loss to the extent of the difference between the fair market value of the Ordinary Shares at the end of the taxable year and such U.S. holder’s tax basis in its Ordinary Shares at that time. Any gain under this computation, and any gain on an actual disposition of the Ordinary Shares in a year in which we are a PFIC, would be treated as ordinary income. Any loss under this computation, and any loss on an actual disposition of the Ordinary Shares in a year in which we are a PFIC, generally would be treated as ordinary loss to the extent of the cumulative net-mark-to-market gain previously included. Any remaining loss from marking Ordinary Shares to market will not be allowed, and any remaining loss from an actual disposition of Ordinary Shares generally would be capital loss. A U.S. holder’s tax basis in its Ordinary Shares is adjusted annually for any gain or loss recognized under a mark-to-market election. There can be no

assurances that there will be sufficient trading volume for the Ordinary Shares to be considered “regularly traded” or that our Ordinary Shares will continue to trade on the Nasdaq Stock Market. Accordingly, there are no assurances that the Ordinary Shares will be marketable stock for these purposes. As with a QEF election, a mark-to-market election is made on a shareholder-by-shareholder basis, applies to all Ordinary Shares held or subsequently acquired by an electing U.S. holder and can only be revoked with consent of the IRS (except to the extent the Ordinary Shares no longer constitute “marketable stock”).

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 very complex. U.S. holders are strongly 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. 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 current 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, 2019 and 2020, and during the periods then ended, the impact on the Company's financial statements of these forward contracts amounted to an income of \$47,000, and an 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 was \$47 in each of the years 2019 and 2020.

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.

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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, 2019 and December 31, 2020:

	2020	2019
Israel and others	\$ 7,998,000	\$ 8,052,000
India	636,000	1,394,000
Americas	390,000	322,000
Far East	38,000	237,000
Europe	110,000	58,000
	<u>\$ 9,172,000</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 \$27 in year 2021.

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.

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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, 2020. 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, 2020, 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, 2020, 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. Yaron Eldad, 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 2019 and 2020.

The table below summarizes the audit and other fees paid and accrued by the Company and its consolidated subsidiaries to Grant Thornton during 2019 and 2020. 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, 2020		Year Ended December 31, 2019	
	Amount	Percentage	Amount	Percentage
Audit Fees – Grant Thornton ⁽¹⁾	\$ 75,000	88%	\$ 75,000	89%
All Other Fees – Grant Thornton ⁽²⁾	\$ 10,000	12%	\$ 9,335	11%
Total	\$ 85,000	100%	\$ 84,335	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) Other fees are fees for professional services other than audit fees.

Audit Committee’s pre-approval policies and procedures:

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

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

Not applicable.

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 2020.

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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Item 19: Exhibits

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

1.1*	Memorandum of Association, as amended.
1.2*	Articles of Association, as amended.
2.1*	Description of Securities.
4.1	Form of Indemnification Agreement between the Company and its officers and directors, as amended (incorporated by reference to Exhibit B of the Company’s Proxy Statement on Form 6-K, filed on June 4, 2018).
4.2	The Company’s Israeli 2003 Share Option Plan (incorporated by reference to the Company’s Annual Report on Form 20-F filed on April 1, 2019)
4.3	Summary of Economic Terms: Request by BOS-Odem Ltd. for NIS Loan from the First International Bank of Israel, Overdraft Terms on the Current Account at the First International Bank of Israel, Request by BOS-Dimex Ltd. for NIS Loan from the First International Bank of Israel; Letter of Undertaking to First International Bank of Israel (translated from Hebrew) (incorporated by reference to the Company Annual Report on Form 20-F filed on March 29, 2018).
4.4	Standby Equity Distribution Agreement with YA II PN Ltd. dated May 8, 2017 (incorporated by reference to the Company’s report on Form 6-K, filed on May 9, 2017).
4.5	Form of Subordination Letters of the Company of BOS-Dimex Ltd. and of BOS-Odem Ltd. dated January 14, 2016 (translated from Hebrew) (incorporated by reference to the Company’s Annual Report on Form 20-F filed on April 21, 2016).
4.7	Compensation Policy for Directors and Officers (incorporated by reference to the Company’s Proxy Statement on Form 6-K filed on November 4, 2020).

4.8	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. (incorporated by reference to the Company's Annual Report on Form 20-F filed on March 31, 2020)
4.9	Securities Purchase Agreement dated May 16, 2019, by and among B.O.S Better Online Solutions Ltd. and the Investors listed therein (incorporated by reference to the Company's Registration Statement on Form F-3 filed on August 8, 2019).
4.10	Securities Purchase Agreement dated December 30, 2020 by and among B.O.S Better Online Solutions Ltd. and the Investors listed therein and Form of Warrant (incorporated by reference to the Company's Report on Form 6-K filed on January 4, 2021).
8.1	List of subsidiaries (incorporated by reference to the Company Annual Report on Form 20-F filed on March 29, 2018).
11	Code of Ethics (incorporated by reference to the Company's Annual Report on Form 20-F filed on April 14, 2014).
12.1*	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
12.2*	Certification by Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
13.1*	Certification by 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.
23.1*	Consent of Fahn Kanne & Co. Grant Thornton Israel.
101*	The following financial information from the Company's Annual Report on Form 20-F for the year ended December 31, 2020, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Operations for the years ended December 31, 2020, 2019 and 2018; (ii) Consolidated Balance Sheets at December 31, 2020 and 2019; (iii) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2020, 2019 and 2018; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019 and 2018; and (v) Notes to Consolidated Financial Statements, tagged as blocks of text.

* Filed herewith.

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 30, 2021

**B.O.S. BETTER ONLINE SOLUTIONS LTD.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2020
IN U.S. DOLLARS
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of B.O.S Better Online Solutions Ltd. and subsidiaries (the "Company") as of December 31, 2020 and 2019, 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, 2020, 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, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, 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 audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding 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.

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Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of this critical audit matter does not alter in any way our opinion on the Financial Statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Goodwill impairment analysis

Refer to Note 2j, and Note 8 to the consolidated financial statements. As of December 31, 2020, the Company performed goodwill impairment analysis with respect to goodwill balance with a total carrying amount of US \$5.15 million that was allocated to two separate reporting units. As disclosed by management, goodwill is assigned to reporting units and tested for impairment at least annually, and whenever events or changes in circumstances indicate that the carrying amount of goodwill may not be recoverable. Management determined the fair value of its reporting units using the income approach, which utilizes a discounted cash flow model. The impairment test was based on a valuation performed by management with the assistance of a third party. Judgments and assumptions used in the discounted cash flow model included future revenues, operating income, short-term and long-term growth rates, weighted average cost of capital, interest, capital expenditures, cash flows, and market conditions. We identified the goodwill impairment analysis as a critical audit matter.

The principal considerations for our determination that the goodwill impairment assessment is a critical audit matter are the high degree of auditor judgment, effort and subjectivity in performing procedures and evaluating management's fair value estimate, which included five years of projected net cash flows, estimated weighted average cost of capital and a long-term growth rate for the two reporting units. Given the subjective nature and judgment applied by management, auditing these estimates required a high degree of auditor judgment and an increased extent of effort including the use of specialists.

Our audit procedures related to the annual goodwill impairment analysis of the reporting units included the following, among others:

- We obtained an understanding, evaluated the design and tested the operating effectiveness of key internal controls over financial reporting relating to management's goodwill impairment tests, including controls over management forecasts of future revenue, short-term and long-term growth rates, operating income margins, and the determination of the discount rate.
- We evaluated the appropriateness of the discounted cash flow model; tested the completeness, accuracy and relevance of underlying data used in the model; and evaluated the reasonableness of significant assumptions used by management, including revenue growth rates, discount rate and terminal growth rate. Our evaluation involved evaluating whether the assumptions used by management were reasonable considering (i) the current and past performance of the reporting units, (ii) the consistency with external market and industry data, and (iii) the consistency of the assumptions used with evidence obtained in other areas of the audit.
- We utilized a valuation specialist to assess the appropriateness of the impairment methodology used and to assist us with testing key inputs and discount rate assumptions in the discounted cash flow model.

/s/ FAHN KANNE & CO. GRANT THORNTON ISRAEL

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

Tel-Aviv, Israel
March 30, 2021

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CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31	
	2020	2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,036	\$ 339
Restricted cash deposits	140	240
Trade receivables (net of allowance for doubtful accounts of \$15 and \$32 at December 31, 2020 and 2019, respectively)	9,172	10,063
Other accounts receivable and prepaid expenses	1,311	1,273
Inventories	4,871	5,407
Total current assets	16,530	17,322
LONG-TERM ASSETS	59	155
PROPERTY AND EQUIPMENT, NET	956	1,257
OPERATING LEASE RIGHT-OF-USE ASSETS, NET	767	720
OTHER INTANGIBLE ASSETS, NET	40	598
GOODWILL	4,676	5,147
Total assets	\$ 23,028	\$ 25,199

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

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CONSOLIDATED BALANCE SHEETS

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

	December 31	
	2020	2019
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term loans	\$ 815	\$ 664
Operating lease liabilities, current	557	551
Trade payables	5,492	6,503
Employees and payroll accruals	985	1,007
Deferred revenues	601	517
Advances net of inventory in progress	68	29
Accrued expenses and other liabilities	391	419
Total current liabilities	8,909	9,690
LONG-TERM LIABILITIES:		
Long-term loans, net of current maturities	1,216	2,041
Operating lease liabilities, non-current	367	289
Long-term deferred revenues	303	319
Accrued severance pay	364	303
Total long-term liabilities	2,250	2,952
COMMITMENTS AND CONTINGENT LIABILITIES		
SHAREHOLDERS' EQUITY:		
Share capital:		
Ordinary Shares: Authorized; 8,000,000 and 6,000,000 shares at December 31, 2020 and 2019, respectively; Issued and outstanding; 4,391,163 and 4,257,790 shares at December 31, 2020 and 2019, respectively and additional paid-in capital	82,827	82,545
Accumulated other comprehensive loss	(243)	(233)
Accumulated deficit	(70,715)	(69,755)
Total shareholders' equity	11,869	12,557
Total liabilities and shareholders' equity	\$ 23,028	\$ 25,199

March 29, 2021

Date of approval of the financial statements

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

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands

	Year ended December 31,		
	2020	2019	2018
Revenues	\$ 33,551	33,817	\$ 32,650
Cost of revenues	27,433	27,159	25,907
Gross profit	6,118	6,658	6,743
Operating costs and expenses:			
Research and development	112	-	-
Sales and marketing	3,922	4,064	3,705
General and administrative	1,747	2,255	1,834
Impairment of intangible assets	517	356	-
Impairment of goodwill	471	614	-
Total operating costs and expenses	6,769	7,289	5,539
Operating (loss) income	(651)	(631)	1,204
Other income	39		
Financial expenses, net	(348)	(330)	(255)
Income before taxes on income (loss)	(960)	(961)	949
Taxes on income (tax benefit)	-	(48)	(41)
Net income (loss)	\$ (960)	(913)	\$ 990
Basic and diluted net income (loss) per share	\$ (0.22)	(0.23)	\$ 0.28
Shares (in thousands) used in calculation of earnings per share:			
Basic	4,298	4,053	3,500
Diluted	4,298	4,059	3,500

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 COMPREHENSIVE INCOME (LOSS)

U.S. dollars in thousands

	Year ended December 31,		
	2020	2019	2018
Net income (loss)	\$ (960)	(913)	\$ 990
Cash flow hedging instruments:			
Change in unrealized gains and losses	(57)	53	(76)
Gain (loss) in respect of derivative instruments designated for cash flow hedge, net of taxes	47	47	(37)
Other comprehensive income (loss)	(10)	100	(113)
Comprehensive income (loss)	\$ (970)	(813)	\$ 877

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, 2018	3,356,689	\$ 80,270	\$ (220)	\$ (69,832)	\$ 10,218
Issuance of Ordinary Shares in connection with Standby Equity Distribution Agreement (see Note 16.a.1)	197,025	372	-	-	372
Expenses underlying shelf registration		(23)			(23)
Share-based compensation expense (see Note 16.a.2)	-	67	-	-	67
Other comprehensive loss	-	-	(113)	-	(113)
Net income	-	-	-	990	990
Balance at December 31, 2018	3,553,714	\$ 80,686	\$ (333)	\$ (68,842)	\$ 11,511
Issuance of Ordinary Shares in connection with a Standby Equity Distribution Agreement (see Note 16.a.1)	158,023	465	-	-	465
Share based compensation expenses (see Note 16.a.2)	20,858	143	-	-	143
Issuance of Ordinary shares related to a Securities Purchase Agreement, net (see Note 16.a.3)	400,000	935	-	-	935
Exercise of options	125,195	316	-	-	316
Other comprehensive income	-	-	100	-	100
Net loss	-	-	-	(913)	(913)
Balance at December 31, 2019	4,257,790	\$ 82,545	\$ (233)	\$ (69,755)	\$ 12,557
Issuance of Ordinary Shares in connection with a Standby Equity Distribution Agreement (see Note 16.a.1)	41,090	23	-	-	23
Share based compensation expense (see Note 16.a.2)	7,665	77	-	-	77
Expenses underlying shelf registration	-	(41)	-	-	(41)
Warrants underlying loan agreement (see Note 16.a.4)	-	30	-	-	30
Exercise of options	84,618	193	-	-	193
Other comprehensive loss	-	-	(10)	-	(10)
Net loss	-	-	-	(960)	(960)
Balance at December 31, 2020	4,391,163	82,827	(243)	(70,715)	11,869

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2020	2019	2018
<u>Cash flows from operating activities:</u>			
Net income (loss)	\$ (960)	(913)	\$ 990
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	310	971	289
Impairment of goodwill and intangible assets	988	356	-
Loss (Gain) from sale and disposal of property and equipment	18	(10)	-
(Gain) from sale of shares	(57)	-	-
Interest and Currency fluctuation of loans	153	213	(225)
Severance pay, net	61	2	15
Share-based compensation expense	65	81	67
Decrease (Increase) in trade receivables, net	891	(1,970)	1,180
Decrease (Increase) in other accounts receivable and other assets	(30)	(357)	84
Decrease (Increase) in inventories	575	(2,125)	366
Increase (decrease) in trade payables	(1,011)	2,397	(1,845)
Increase (decrease) in employees and payroll accruals, advances deferred revenues, accrued expenses and other liabilities	55	440	(178)
Net cash provided by (used in) operating activities	1,058	(915)	743
<u>Cash flows from investing activities:</u>			
Purchase of property and equipment	(84)	(335)	(689)
Proceeds from sale of property and equipment	98	10	-
Proceeds from sale of shares	57	-	-
Acquisition of Imdecol (Appendix B)	-	(1,895)	-

Net cash provided by (used in) investing activities	71	(2,220)	(689)
Cash flows from financing activities:			
Proceeds from issuance of shares, net	102	1,498	377
Proceeds from exercise of options	193	316	-
Proceeds from short and long-term loans	774	737	-
Repayment of short and long-term loans	(1,601)	(579)	(469)
Net cash provided by (used in) financing activities	(532)	1,972	(92)
Increase (decrease) in cash, cash equivalents and restricted cash	597	(1,163)	(38)
Cash, cash equivalents and restricted cash at the beginning of the year	579	1,742	1,780
Cash, cash equivalents and restricted cash at the end of the year	\$ 1,176	579	\$ 1,742

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,		
	2020	2019	2018
Supplemental disclosure of cash flow activities:			
(a) Net cash paid during the year for:			
Interest	\$ 98	98	\$ 91
Taxes	\$ -	31	\$ 15
(b) Non-cash activities:			
Prepaid expenses related to Standby Equity Distribution Agreement (see Note 16a.1)	\$ 77	35	\$ 28
Operating lease right-of-use assets	-	1,176	-
Operating lease liabilities	\$ 410	1,176	-

Appendix B: Net cash used to pay for the acquisition of Imdecol (see Note 3):

	June 1, 2019
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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**B.O.S. BETTER ONLINE SOLUTIONS LTD.
AND ITS SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL

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

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

- b. The Company has three operating segments: the Intelligent Robotics segment, the RFID Division segment, and the Supply Chain Solutions segment (see Note 19).

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. BOS-Dimex comprises the 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.
- c. On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. The outbreak has reached all of the regions in which we do business, and governmental authorities around the world have implemented numerous measures attempting to contain and mitigate the effects of the virus, including travel bans and restrictions, border closings, quarantines, shutdowns, limitations or closures of non-essential businesses, and social distancing requirements.

The global spread of COVID-19 and actions taken in response have caused and may continue to cause disruptions and/or delays in our supply chain and shipments, and caused significant economic and business disruption to our customers and vendors.

The extent of the impact of COVID-19 on our business and results of operations will depend on future developments, which are highly uncertain, including the duration and severity of the outbreak, the effects of subsequent waves of COVID-19, the ability to maintain our supply chain and restrictions on our business and personnel that may be imposed by governmental rules and regulations implemented to contain or treat COVID-19.

Management is monitoring and assessing the impact of the COVID-19 pandemic daily, including recommendations and orders issued by government and public health authorities.

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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 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 with respect to the impairment analysis 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 and all of its subsidiaries 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.

- 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.

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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 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- 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 2020 and 2019, inventory write-offs amounted to \$103 and \$91, 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)
Machines	7-33	
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.

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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 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, 2020 the remaining intangible assets were comprised mainly of customer relationships.

During the years 2020 and 2019 the Company recognized an impairment loss related to intangible assets in an amount of \$517 and \$356, respectively. For further information see Note 8 below.

For year ended on December 31, 2018, 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 unit. As required by ASC 350, the Company chooses either to perform a qualitative assessment whether a goodwill impairment test is necessary or proceeds directly to the 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 goodwill impairment test. If the Company determines otherwise, no further evaluation is necessary.

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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 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

With respect to goodwill impairment tests performed before the adoption of ASU 2017-04, when the Company decided or was required to perform the two-step goodwill impairment test, in the first step, or "Step 1", the Company compared the fair value of each reporting unit to its carrying value. If the fair value exceeded the carrying value of the net assets, goodwill was considered not to be impaired, and the Company was not required to perform further testing. If the carrying value of the net assets exceeded the fair value, then the Company was required to perform the second step, or "Step 2",

of the impairment test in order to determine the implied fair value of goodwill. In such circumstances, an impairment loss was recorded for the excess, if any, of the carrying value of the goodwill allocated to the reporting unit over its implied fair value.

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.

Commencing upon the adoption of ASU 2017-04 (which eliminated Step 2 from the goodwill impairment, when the Company decides or is required to perform the goodwill impairment test, the Company compares the fair value of the reporting unit to its carrying value and an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, if any.

The Company operates in three operating-based segments: the Intelligent Robotics division, the RFID division and the Supply Chain Solutions division. The Company's goodwill was related to two different reporting units: the RFID division segment and the Intelligent Robotics, each of which represents a whole separate reporting unit.

RFID Division:

Under the RFID Division segment there is one reporting unit with an allocated goodwill amount of approximately \$ 4.6 thousand. The Company performed an impairment analysis as of December 31, 2020 and 2019, using the income approach and concluded that the fair value of such reporting unit exceeds its carrying value and accordingly the analysis did not result in an impairment loss of goodwill with respect to such unit. The most significant assumptions used for the income approach for the 2020 impairment test were five years of projected net cash flows, estimated weighted average cost of capital and a long-term growth rate.

Intelligent Robotics Division:

Under the Intelligent Robotics segment (which comprises of the Imdecol business acquired in 2019, see Note 3) there is one reporting unit with an allocated goodwill amount of approximately \$ 471 thousand (before the impairment loss recorded in the year ended December 31, 2020).

The Company performed an impairment analysis as of December 31, 2020 and 2019, using the income approach and concluded that the carrying value of such reporting unit exceeds its fair value. The analysis resulted in an impairment loss of goodwill with respect to such unit in an amount of \$471 and \$614, respectively.

The most significant assumptions used for the income approach for the 2020 impairment test were five years of projected net cash flows, estimated weighted average cost of capital and a long-term growth rate.

See also Note 8.

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 2020, 2019 and 2018 amounted to \$379, \$315 and \$ 210, respectively.

l. Revenue recognition:

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. 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

The Company transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognizes revenue over time, if any of the following criteria is met: a. The customer simultaneously receives and consumes the benefits provided by the Company’s performance as the company performs, b. The Company’s performance creates or enhances an asset (for example, work in process) that the customer controls as the asset is created or enhanced, or c. The Company’s performance does not create an asset with an alternative use and the Company has an enforceable right to payment for performance completed to date. If none of the above criteria for satisfying a performance obligation over time are met, the performance obligation is considered as satisfied at a point in time (such as upon shipment of a completed robotics and automation project).

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. With respect to 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 direct sale to customers of products such as electro mechanical components and Automatic Identification Data Capture hardware manufactured by third parties. Revenues from sales of products are recognized at the point of time when the control of the product is transferred on to the customer, mostly upon delivery to the customer, either at the Company’s premises, to the customer’s carrier or to the customer’s 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 renewal 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: a. 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, b. The Company’s promise to transfer the goods or service to the customer is separately identifiable from other promises in the contract.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 deferred and recognized over time, on a straight-line basis over the contract’s period, as the services are mostly time-based support services.

Revenues from a robotics and automation project are recognized at a point in time and upon shipment of the completed project, as the control of such project is not eligible to be considered as transferred over time.

Robotics and automation project’s 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.

4. Deferred revenues include unearned amounts received from customers but not yet recognized as revenues.

m. Income taxes:

The Company and its subsidiaries account for income taxes in accordance with ASC 740, “Income Taxes” (“ASC 740”). ASC 740 prescribes the use of the liability method whereby deferred tax assets and liability account balances are determined based on the differences between the financial reporting and the tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected

to reverse. The Company and its subsidiaries provide a valuation allowance, if necessary, to reduce deferred tax assets to the amounts that are more likely than not to be realized. Interest expense and potential penalties related to income taxes are included in the tax expense line of the Company's Consolidated Statements of Operations.

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

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

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

The trade receivables of the Company are derived from sales to customers located primarily in Israel, the Far East, Europe and America. The Company generally does not require collateral however a significant part of the Company's customers outside of Israel are insured against customer nonpayment, through the Israeli Credit Insurance Company Ltd.

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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 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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, in order to reflect the expected credit losses on accounts receivable balances. Judgment is required in the estimation of the allowance for doubtful accounts and the Company evaluates the collectability of its accounts receivable based on a combination of factors including, among other things, the past experience with the customers, the length of time that the balance is past due using an aging schedule, the customer's current ability to pay and its creditworthiness using all available information about the credit risk of such customer taking into consideration the current business environment. If the Company becomes aware of a customer's inability to meet its financial obligations, a specific allowance is recorded to reduce the net receivable to the amount reasonably believed to be collectible from such customer.

Accounts receivable are written off against the allowance for uncollectible accounts when the Company determines amounts are no longer collectible.

The expenses (income) related to the allowance for doubtful accounts for the years ended December 31, 2020, 2019 and 2018 is \$16, \$1 and \$17, 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, 2018, the gains or losses required to be recognized in earnings for hedge ineffectiveness were insignificant.

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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) are 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

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 479,167, 413,373 and 196,750 for the years ended December 31, 2020, 2019, and December 31, 2018, 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. Forfeitures are 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 2020, 2019 and 2018 was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Year ended December 31,		
	2020	2019	2018
Risk-free interest	0.51%	1.52%	2.73%
Dividend yields	0	0	0
Volatility	45%	55%	55%
Expected option term	3.5 years	3.5 years	3.5 years
Forfeiture rate	0%	0%	0%

Until December 31, 2018 the Company applied ASC 505-50, *“Equity-Based Payments to Non-Employees”* (“ASC 505”) with respect to options and warrants issued to non-employees, which required 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 certain reporting units that include goodwill and intangible assets at fair value on a nonrecurring basis. These items are adjusted to fair value when they are considered to be impaired (see Note 8). As of December 31, 2020 the Company measured the fair value of reporting unit goodwill at a total carrying amount of US\$ 4.67 million that was allocated to one reporting unit. The evaluation provided an impairment in an amount of \$471 (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 \$ 0 and \$ 13 as of December 31, 2020 and 2019, 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 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment"

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-04").

ASU 2017-04 eliminated Step 2 from the goodwill impairment test, to simplify the subsequent measurement of goodwill. In accordance with the new guidance, 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 is 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The amendments also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary.

The amendments were applied by the Company, on a prospective basis with respect to goodwill impairment tests that were performed subsequent to January 1, 2020.

The adoption of ASU 2017-04 impacted the goodwill impairment test that was performed as of December 31, 2020.

For further information see Note 8.

Accounting Standards Update 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"

In June 2016, The FASB has issued Accounting Standards Update (ASU) No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13").

The ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations.

ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates.

Many of the loss estimation techniques applied today are still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances.

ASU 2016-13 requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and

judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements.

In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration.

The Company adopted ASU 2016-13 effective January 1, 2020 using a modified retrospective approach. Accordingly, the Company was required to recognize the cumulative effect of initially applying the guidance as an adjustment to opening accumulated deficit for the incremental increase in its allowance for credit losses (i.e. the allowance for doubtful accounts) as of January 1, 2020 as compared to the allowance for bad debts as of December 31, 2019. However, it was determined that the adoption did not have significant effect on the allowance for doubtful accounts.

The Company intends to continue to actively monitor the impact of COVID-19 pandemic on expected credit losses, if any.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- u. Accounting pronouncements not yet adopted:

Accounting Standards Update 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes ("ASU 2019-12")

In December 2019, The FASB has issued Accounting Standards Update (ASU) No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes ("ASU 2019-12").

ASU 2019-12 is intended to simplify the accounting for income taxes by removing certain exceptions (such as (1) the incremental approach for intra-period tax allocation when there is a loss from continuing operations and income or a gain from other items; (2) exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment; (3) exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary; and (4) exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year) and by updating accounting requirements around certain other topics such as franchise taxes, goodwill recognized for tax purposes, the allocation of current and deferred tax expense among legal entities, and other minor changes.

ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted.

The Company is assessing what impact ASU 2019-12 will have on its condensed consolidated financial statements.

- V. Research and development costs

Research and development costs (other than computer software related expenses) are expensed as incurred.

- W. Reclassification

Certain comparative figures have been reclassified to conform to the current year presentation. Such reclassifications did not have any significant impact on the Company's equity, net income or cash flows.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- X. Leases

The Company entered into several non-cancelable lease agreements for real estate (mainly offices, warehouses and base sites), and vehicles for use in its operations, which are classified as operating leases.

Lease accounting policy applied until December 31, 2018 (prior to the adoption of ASC Topic 842):

Operating lease agreements were not reflected in the balance sheets of the Group. Such agreements were reflected as an expense over the lease term on a straight-line basis.

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

The Company 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 Company determines if an arrangement is a lease at inception. Under the new guidance, arrangements meeting the definition of a lease are classified as operating or financing leases. A classification of a lease is determined based on the following criteria:

1. The lease transfers ownership of the underlying asset to the lessee by the end of the lease term.

2. The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise.
3. The lease term is for the major part of the remaining economic life of the underlying asset (Generally, 75% or more of the remaining economic life of the underlying assets).
4. The present value of the sum of the lease payments and any residual value guaranteed by the lessee equals or exceeds substantially all of the fair value of the underlying asset (Generally, 90% or more of the fair value of the underlying asset).
5. The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.

If any of these five criteria is met, the lease is classified as a finance lease. Otherwise, the lease is classified as an operating lease.

Leases are recorded on the consolidated balance sheet as both a right of use asset and a lease liability, calculated by discounting fixed lease payments over the lease term at the rate implicit in the lease or the Company's incremental borrowing rate. Lease liabilities are increased by interest and reduced by payments each period, and the right of use asset is amortized over the lease term. For operating leases, interest on the lease liability and the amortization of the right of use asset results in straight-line rent expense over the lease term. Variable lease expenses are recorded when incurred.

In calculating the right of use asset and lease liability, the Company elects to combine lease and non-lease components.

The Company also elected the short-term lease recognition exemption for all leases that qualify (leases with a term shorter than 12 months). For those leases, right-of-use assets or lease liabilities are not recognized and rent expense is recognized on a straight-line basis over the lease term.

The Company had no material capital leases throughout the reporting periods.

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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 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 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 shall have been paid by August 2020, according to certain conditions which have not met.

The Imdecol acquisition expenses amounted to approximately \$138.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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)	-
Total acquisition price	\$ 1,895
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
Goodwill (4)	1,085

(1) The performance of the acquired business up to August 2020 has not met 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. Those contracts have not been completed yet.
- (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. 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 goodwill was allocated to the acquired operations as it was determined to represent a separate reporting unit and commencing 2020 is also recognized as an operating segment (the Intelligent Robotics segment). During the years ended December 31, 2020 and 2019, the Company recognized an impairment loss in an amount of \$ 471 and \$614, respectively with respect to such reporting units and accordingly as of December 31, 2020 the balance of the goodwill is 0.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 4:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31	
	2020	2019
Government authorities	\$ 26	\$ 129
Advances to suppliers	580	568
Derivatives (See Note 11)	-	13
Prepaid expenses	488	482
Accrued income	146	22
Other	71	59
	<u>\$ 1,311</u>	<u>\$ 1,273</u>

NOTE 5:- INVENTORIES:

	December 31	
	2020	2019
Raw materials	\$ 116	\$ 120
Inventory in progress	1,299	1,285
Finished goods	4,389	4,906
Net – advances from customers	(933)	(904)
	<u>\$ 4,871</u>	<u>\$ 5,407</u>

NOTE 6:- LONG TERM ASSETS

	December 31	
	2020	2019
Prepaid expenses related to SEDA (see Note 16.a.1)	\$ -	\$ 77
Other	59	78
	<u>\$ 59</u>	<u>\$ 155</u>

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NOTE 7:- PROPERTY AND EQUIPMENT, NET:

	December 31,	
	2020	2019
Cost:		
Computers and software	\$ 1,164	\$ 1,396
Machines	572	403
Office furniture and equipment	495	490
Leasehold improvements	1,118	1,100

Motor Vehicles	375	456
	<u>\$ 3,724</u>	<u>\$ 3,845</u>
Accumulated Depreciation:		
Computers and software	\$ 1,115	\$ 1,251
Machines	527	331
Office furniture and equipment	357	338
Leasehold improvements	535	458
Motor Vehicles	234	210
	<u>\$ 2,768</u>	<u>\$ 2,588</u>
Property and equipment, net	<u>\$ 956</u>	<u>\$ 1,257</u>

Depreciation expenses amounted to \$270, \$277 and \$232 for the years ended December 31, 2020, 2019 and 2018, respectively. Additional equipment was purchased in an amount of \$ 84, \$ 342 and \$ 687 for the years ended December 31, 2020, 2019 and 2018, respectively

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NOTE 8:- GOODWILL AND OTHER INTANGIBLE ASSETS, NET

A. Other Intangible Assets:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>	<u>Weighted average amortization period</u>
Cost:			
Brand name	946	946	4.1
Customer list	2,450	2,450	2.5
Software	111	111	3
Customer relationship*	728	728	7
Backlog	<u>90</u>	<u>90</u>	
	<u>4,325</u>	<u>4,325</u>	
Accumulated amortization:			
Brand name	946	946	
Customer list	2,450	2,450	
Software	111	111	
Customer relationship*	688	130	
Backlog	<u>90</u>	<u>90</u>	
	<u>4,285</u>	<u>3,727</u>	
Amortized cost	<u>\$ 40</u>	<u>\$ 598</u>	

(*) Due to the decline in the results of the acquired Imdecol business (See Note 3) and the current expectation of management for its future anticipated performance, the Company performed during the year ended December 31, 2020, an impairment analysis of the intangible assets which relate directly to its operations. Based on such analysis the Company recorded an impairment charge further described below:

In order to determine the fair value of such intangible assets, the Company, based on a valuation performed by the management, utilized the "Relief from Royalties" valuation method. Accordingly, certain assumptions and judgments were made in order to determine the future income from which royalties will be derived from and in order to determine the appropriate rate of royalties and rate of discount.

As a result of the above, the Company recorded an impairment loss in an amount of \$ 517, with respect to customer relationship that was recorded under "impairment of intangible assets" in the consolidated statement of operations.

During the year ended December 31, 2019, the Company recorded an impairment loss in an amount of \$ 356 with respect to intangible assets.

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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.

B. The changes in the carrying amount of goodwill for the years ended December 31, 2020 and 2019 are as follows:

	<u>Goodwill</u>
Balance as of January 1, 2019	4,676
Changes during 2019	
Acquisition of Imdecol	1,085
Impairment of Goodwill (See Note 2j) (*)	(614)
Balance as of January 1, 2020	
Balance as of January 1 and December 31, 2019	5,147
Changes during 2020	
Acquisition of Imdecol	
Impairment of Goodwill (See Note 2j) (**)	(471)
Balance as of December 31, 2020	<u>\$ 4,676</u>

(*) Due to difficulties to implement Imdecol's business following its acquisition (See Note 3) and the expectation of management for its future performance and following the annual impairment analysis performed as of December 31, 2019, the Company recorded a goodwill impairment in an amount of \$ 614, in connection with a certain reporting unit (which consist of the acquired Imdecol business). The impairment was based on a valuation performed by the management using the assistance of a third party appraiser in accordance with the income approach. The significant assumptions used for the assessment were a discount rate of 14.18% and a long-term growth rate of 2%.

(**) Due to the decline in the actual results of the acquired Imdecol business (See Note 3) and the current expectation of management for its future performance and following the annual impairment analysis performed as of December 31, 2020, the Company recorded. On December 31, 2020, a goodwill impairment in the total amount of \$ 471 in connection with a certain reporting unit (which consists of the acquired Imdecol business). The impairment was based on a valuation performed by the management using the assistance of a third party appraiser in accordance with the income approach. The significant assumptions used for the assessment were a discount rate of 14.18% and a long-term growth rate of 2%.

NOTE 9:- CURRENT MATURITIES OF LONG TERM LOANS

	Loan currency	Weighted interest rate as of December 31, 2020 %	December 31	
			2020	2019
Short term loans				
Current maturities	NIS	3.32%	815	664
			<u>815</u>	<u>664</u>

As of December 31, 2020, the Company and its subsidiaries had an unutilized short term credit line in the amount of \$1,482, bearing an annual interest of 3.14%.

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NOTE 10:- ACCRUED EXPENSES AND OTHER LIABILITIES:

	December 31	
	2020	2019
Professional services	118	149
Accrued expenses related to retirement cost of CO-CEO	-	72
Tax accruals	12	3
Agent Fees	202	93
Other	59	102
	<u>\$ 391</u>	<u>\$ 419</u>

NOTE 11:- DERIVATIVES INSTRUMENTS:

From 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,		
	2020	2019	2018
Derivatives designated as cash flow hedging instruments:			
Cost of revenues	\$ (26)	(25)	\$ 18
Sales and marketing	\$ (15)	(16)	\$ 13
General and administrative	\$ (6)	(6)	\$ 6
Total expenses (income)	<u>\$ (47)</u>	<u>(47)</u>	<u>\$ 37</u>

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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, 2020 and 2019:

Description	December 31, 2020			
	Fair Value	Level 1	Level 2	Level 3
Derivative asset	\$ -		\$ -	
	\$ -		\$ -	
Description	December 31, 2019			
	Fair Value	Level 1	Level 2	Level 3
Derivative asset	\$ 13	-	\$ 13	-
	\$ 13	-	\$ 13	-

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- DEFERRED REVENUES:

	December 31	
	2020	2019
Advanced payments from customers	267	210
Service contracts	544	483
Other	93	143
	904	836
Less- long term deferred revenue related to service contract	(303)	(319)
	\$ 601	\$ 517

NOTE 14:- 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, 2020 %	December 31,	
		2020	2019
NIS	3.33%	\$ 2,031	\$ 2,705
Less - current maturities		815	664
		\$ 1,216	\$ 2,041

- (1) In October 2017, the Company and its Israeli subsidiaries entered into an agreement with Bank Beinleumi for the provision of credit facilities.

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, 2020, the Company met the covenants set forth in the agreement.

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

**December 31,
2020**

Payment schedule	
2021	815
2022	667
2023	549
Total	<u>\$ 2,031</u>

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NOTE 15- 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, 2020, the Company has an outstanding contingent obligation to pay royalties to the OCS, including interest, in the amount of approximately \$ 3,603, 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:

a. As of December 31, 2020, the Company is not 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 claimed the Company misrepresented the physical status of the sold premises. The Company rejected 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. In July 2020 the parties reached a settlement agreement, which received court approval, pursuant to which the claim was dismissed against a certain payment of NIS 70,000 (\$21,773) to the Plaintiff.

b. 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 then 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 16- SHAREHOLDERS' EQUITY

a. Ordinary Shares:

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

On May 8, 2017 the Company entered into a Standby Equity Distribution Agreement ("SEDA"), with YA II PN Ltd. ("YA"), for the sale of up to \$2,000 of its Ordinary Shares to YA during a four-year period beginning on March 1, 2018, 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 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 SEDA, the Company issued 67,307 ordinary shares to YA as a commitment fee. The fair value of such shares was approximately \$ 140 and was accounted for as prepaid expenses and amortized to equity by December 31, 2020, as the Company doesn't anticipate to further utilize this equity line.

During the year 2020, the Company issued to YA 41,090 Ordinary Shares, for a total amount of \$100, net of amortization of the remaining balance of the commitment fee which amounted to \$77.

During the year 2019, the Company issued to YA 158,023 Ordinary Shares, for a total amount of \$465, net of amortization of commitment fee in the amount of \$ 35.

During the year 2018, the Company issued to YA 197,025 Ordinary Shares, for a total amount of \$377, net of amortization of commitment fee in the amount of \$ 23.

As of March 15, 2021, \$1,000,000 has been drawn on this equity line for which the Company has issued an aggregate of 396,138 Ordinary Shares.

2. Share-based compensation expense:

In the years 2018 and 2020, the Company issued to its directors and officers 248,000 options to purchase Ordinary Shares and recorded an expenses in amount of \$210.

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 or, in case of grants to the Chief Executive Officer or Directors, 20 trading days preceding the approval of the grant by the shareholders.

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 officer or director is still holding its office at the applicable vesting date.

The options shall expire on the fifth anniversary of the grant date.

On February 25, 2019 and on March 31, 2020, the Company issued to its officers 20,858 Ordinary Shares (equivalent to \$62) and 7,665 Ordinary shares (equivalent to \$12), respectively, as a bonus, which was approved by the Board of Directors and shareholders.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 16:- SHAREHOLDERS' EQUITY (Cont.)

3. 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 in 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.
4. 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 is paid in 12 monthly installments of principal and interest starting from March 2020. 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 at the time of exercise 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 recorded financial expenses in the amount of \$30 that reflects the fair market value of the warrants. As of December 31, 2020 the entire balance of the loan was repaid.
5. At the Annual General Meeting of shareholders held on July 18, 2018, it was approved to increase the Company's authorized share capital by 2,000,000 Ordinary Shares, from 4,000,000 authorized shares to 6,000,000 authorized shares.

At the Annual General Meeting of shareholders held on December 16, 2020, it was approved to increase the Company's authorized share capital by 2,000,000 Ordinary Shares, from 6,000,000 authorized shares to 8,000,000 authorized shares. In addition, it was approved to cancel the Company's Ordinary Shares' nominal value, so that following such cancellation, the authorized share capital of the Company will be comprised of 8,000,000 Ordinary Shares of no nominal value each, ranking pari passu in all respects.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 16:- SHAREHOLDERS' EQUITY (Cont.)

b. Warrants to shareholders

The Company's outstanding warrants to shareholders as of December 31, 2020 are as follows:

Outstanding and exercisable warrants	Weighted average exercise price of outstanding warrants	Weighted average Remaining contractual life (years)
400,000	3.23	1.65

c. Stock option plans:

In May 2003 the Company's shareholders approved the adoption of the 2003 Israeli Stock Option Plan or the Plan. 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 December 2017, the shareholders approved an increase of the pool of shares reserved for issuances under the Plan, to 500,000 Ordinary Shares. 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 (ii) an amendment of the Plan allowing for the grant of Ordinary Shares in addition to options.

Under the Plan, the terms and conditions of the options 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.

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NOTE 16:- SHAREHOLDERS' EQUITY (Cont.)

As of December 31, 2020 there are 222,472 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.

A summary of the Company's employee and director stock option activity and related information for the year ended December 31, 2020, is as follows:

	2020		2019		2018	
	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	246,874	\$ 2.26	320,875	\$ 2.59	314,125	\$ 3.39
Changes during the year:						
Granted	45,000	\$ 2.55	95,000	\$ 2.13	108,000	\$ 2.39
Exercised	(84,618)	\$ 2.29	(125,195)	\$ 2.52	-	\$ -
Forfeited	(36,756)	\$ 2.38	(43,806)	\$ 3.65	(101,250)	\$ 4.85
Outstanding - year end	170,500	\$ 2.30	246,874	\$ 2.26	320,875	\$ 2.59
Vested and expected to vest	95,834	\$ 2.23	148,498	\$ 2.41	167,874	\$ 2.90
Exercisable at year end	48,834	\$ 2.26	79,372	\$ 2.38	157,874	\$ 2.89

During the years 2020, 2019, and 2018, stock-based compensation expense related to employees and directors stock options amounted to \$65, \$81 and \$67, 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, 2020, 2019 and 2018 was \$2.31, \$1.97 and \$ 2.58, respectively. The weighted-average grant-date fair value of unvested options as of December 31, 2020 was \$2.86. The aggregate intrinsic value of the outstanding options in each of the years ended December 31, 2020, 2019 and 2018 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 years ended December 31, 2020 and 2019, exercised options amounted to a total of 84,618 and 125,195, respectively. No options were exercised during the year ended on December 31, 2018. As of December 31, 2020 and 2019, there were a total of \$85 and \$155, 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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NOTE 16:- SHAREHOLDERS' EQUITY (Cont.)

Options granted to employees and directors that are outstanding as of December 31, 2020 broken into exercise prices, are as follows:

Exercise Price	Options outstanding as of December 31, 2020	Weighted average remaining contractual life (years)	Options exercisable as of December 31, 2020	Weighted average Remaining Contractual life of options exercisable (years)
2.118	74,166	3.83	15,834	3.83
2.131	7,167	1.93	7,167	1.93
2.176	10,000	4.08	-	4.08
2.287	2,500	3.07	2,500	3.07
2.388	41,667	2.54	23,333	2.54
2.494	15,000	4.75	-	4.75
2.775	20,000	4.96	-	4.96
Grand Total	170,500	3.65	48,834	2.90

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

NOTE 17:- TAXES ON INCOME:

- a. Corporate tax rates in Israel

Taxable income of the Company is subject to a corporate tax rate of 23% in 2018, 2019 and 2020.

- b. Loss carry forward:

The Company and its Israeli subsidiaries have accumulated losses for Israeli income tax purposes as of December 31, 2020, in the amount of approximately \$ 31,924. 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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NOTE 17:- TAXES ON INCOME (Cont.)

	December 31	
	2020	2019
Net operating loss carry forward (1)	\$ 7,343	\$ 7,658
Net capital loss carry forward (1)	5,427	5,427
Allowances and provisions	149	129
Intangible assets, net	(9)	(393)
	<u>12,910</u>	<u>12,821</u>
Valuation allowance (2)	\$ (12,910)	\$ (12,821)
Net deferred tax Liability	\$ -	\$ -

- (1) See Note 17b.

- (2) In the years 2020 and 2019, the Company has provided valuation allowances on deferred tax assets that result 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 2020 was due to an increase of net capital loss carry forward.

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

	Year ended December 31,		
	2020	2019	2018
Current	\$ -	31	\$ 19
Other	-	(79)	(60)
	<u>\$ -</u>	<u>(48)</u>	<u>\$ (41)</u>
Domestic	\$ -	(52)	\$ (44)
Foreign	-	4	3
	<u>\$ -</u>	<u>(48)</u>	<u>\$ (41)</u>

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NOTE 17:- TAXES ON INCOME (Cont.)

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

	Year ended December 31,		
	2020	2019	2018
Domestic	\$ (966)	(980)	\$ 877
Foreign	6	19	72
	<u>\$ (960)</u>	<u>(961)</u>	<u>\$ 949</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 2015.

Ruby-Tech Inc., a U.S. subsidiary, has final tax assessments through 2015 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, 2020 and 2019, 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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NOTE 18:- SUPPLEMENTARY INFORMATION TO STATEMENTS OF OPERATIONS

- a. Financial expenses, net:

	Year ended December 31,		
	2020	2019	2018
Financial income:			
Interest income	\$ -	-	\$ -
foreign currency differences gains	-	26	-
	<u>-</u>	<u>26</u>	<u>-</u>
Financial expenses:			
In respect of interest loans and bank fees	(275)	(245)	(192)
Expenses regarding warrants granted underlying loan agreement with YA (see Note 16)	(30)	-	-
Other (mainly foreign currency differences)	(43)	(111)	(63)
	<u>(348)</u>	<u>(356)</u>	<u>(255)</u>
	<u>\$ (348)</u>	<u>(330)</u>	<u>\$ (255)</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,		
		2020	2019	2018
1. Numerator:				
	Income (loss)	\$ (960)	(913)	\$ 990
	Net income (loss) available to Ordinary shareholders	\$ (960)	(913)	\$ 990
2. Denominator (in thousands):				
	Basic weighted average Ordinary shares outstanding (in thousands)	4,298	4,053	3,500
	Diluted weighted average Ordinary shares outstanding (in thousands)	4,298	4,059	3,500
	Basic and diluted income (loss) per share	\$ (0.22)	(0.23)	\$ 0.28

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NOTE 19:- SEGMENTS AND GEOGRAPHICAL INFORMATION:

The Company manages its business in three 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 2020, 2019 and 2018 were as follows:

	RFID Division	Intelligent Robotics	Supply Chain Solutions	Intercompany	Consolidated
2020					
Revenues	\$ 12,455	\$ 2,502	\$ 18,594	\$ -	\$ 33,551
Gross profit	\$ 3,265	\$ (871)	\$ 3,724	\$ -	\$ 6,118
Operating Income (Loss)	\$ 941	\$ (2,722)	\$ 1,130	\$ -	\$ (651)
Balance of other intangible assets related to segment	\$ 40				\$ 40
Balance of Goodwill related to segment	\$ 4,676	\$ -	\$ -	\$ -	\$ 4,676
2019					
Revenues	\$ 13,241	\$ 826	\$ 19,750	\$ -	\$ 33,817
Gross profit	\$ 2,906	\$ 2	\$ 3,750	\$ -	\$ 6,658
Operating Income (Loss)	\$ (126)	\$ (1,642)	\$ 1,137	\$ -	\$ (631)
Balance of other intangible assets related to segment	\$ 60	\$ 538	\$ -	\$ -	\$ 598
Balance of Goodwill related to segment	\$ 4,676	\$ 471	\$ -	\$ -	\$ 5,147
2018					
Revenues	\$ 14,445	\$ -	\$ 18,205	\$ -	\$ 32,650
Gross profit	\$ 3,371	\$ -	\$ 3,372	\$ -	\$ 6,743
Operating Income (Loss)	\$ 308	\$ -	\$ 896	\$ -	\$ 1,204
Balance of other intangible assets related to segment	\$ 81	\$ -	\$ -	\$ -	\$ 81
Balance of Goodwill related to segment	\$ 4,676	\$ -	\$ -	\$ -	\$ 4,676

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NOTE 19:- SEGMENTS AND GEOGRAPHICAL INFORMATION (Cont.)

- b. The following presents total revenues for the years 2020, 2019 and 2018 based on the location of customers, and long-lived assets based on major geographic areas in which the Company operates:

		Year ended December 31,					
		2020		2019		2018	
		Total revenues	Long-lived assets *	Total revenues	Long-lived assets *	Total revenues	Long-lived assets *
Israel	\$	24,369	956	23,493	\$ 1,257	\$ 22,990	\$ 1,108
Far East		3,831	-	5,055	-	3,800	-
India		2,375	-	3,624	-	4,209	-

America	2,449	-	901	-	1,189	-
Europe	527	-	744	-	462	-
	<u>\$ 33,551</u>	<u>956</u>	<u>33,817</u>	<u>\$ 1,257</u>	<u>\$ 32,650</u>	<u>\$ 1,108</u>

(*) 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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NOTE 20:- 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, 2020:

	<u>Classification on the Balance Sheet</u>	<u>Year ended December 31, 2020</u>
Assets :		
Operating lease assets	Operating lease right of use assets, net	767
Liabilities:		
current		
Operating lease liabilities	Operating lease liabilities, current	557
Long term		
Operating lease liabilities	Operating lease liabilities, non-current	367
Remaining Lease Term		
Vehicles		0.36 - 2.09 years
Facilities rent		0.32-5.75 years
Weighted Average Discount Rate		
Vehicles		<u>3.5%</u>
Facilities rent		<u>3.5%</u>

The following table reconciles the undiscounted future minimum lease payments (displayed by year and in the aggregate) under non-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, 2020:

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NOTE 20:- LEASES (Cont.)

future lease payments are:

2021	363
2022	213
2023	125
2024	112
2025	102
2026	42
	<u>957</u>

Expense under operating leases was \$0.97 million for the year ended December 31, 2020. 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:

	<u>Year ended December 31, 2020</u>
Operating cash out flows from operating lease	<u>157</u>

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

NOTE 21:- 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:

1. iDnext's monthly fee increased from NIS 33,000 (\$9,898) to NIS 53,000 (\$15,896) and a bonus of 15% from the net profit of a certain product line, effective from January 1, 2018.
2. Three employees of BOS-Dimex transferred to be employed by iDnext for a monthly consideration of NIS 35,000 (\$10,497).
3. Mr. Harel was appointed as a director to BOS-Dimex's Board of Directors in June 2018.

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

Expenses incurred according to the agreement with iDnext are as follows:

	Year ended December 31,		
	2020	2019	2018
Monthly fees	\$ -	49	\$ 183
Bonus	-	10	49
Payments for employees	-	33	39
Total	\$ -	92	\$ 271

NOTE 22:- SUBSEQUENT EVENTS:

On January 4, 2021 the Company entered into a definitive agreement with several institutional investors for the purchase and sale of 800,000 Ordinary Shares and 720,000 Warrants to purchase Ordinary Shares at a combined purchase price of \$2.50 in a registered direct offering with a total gross amount of \$2,000 or \$1,840 net of issuance expenses. The Warrants have an exercise price of \$2.75 per share, are immediately exercisable and have a five-year term

EX-1.1 2 f20f2020ex1-1_bosbetter.htm MEMORANDUM OF ASSOCIATION, AS AMENDED

Exhibit 1.1

(translated from Hebrew)

MEMORANDUM OF ASSOCIATION

1. The company's name – B.O.S Better On-Line Solutions Ltd.
2. The objects for which the company is formed:
 - (a) The development of sophisticated interfaces for IBM mainframe computers.
 - (b) The export of hi-tech products to Europe and the USA.
 - (c) The sale of the said products on the domestic market.
 - (d) Research, development and manufacture of products in the sphere of communication networks.
 - (e) To prepare, write, publish, update, collect together, import, export, market and sell books, brochures, collections, procedures and any ancillary material whatsoever on the matters set out above and on any other matter as the company deems fit.
 - (f) To provide training and teaching in the scope of any courses whatsoever in the branches set out above and on other matters directly or indirectly connected with the said branches and on any other matters as the company deems fit.
 - (g) To design, develop, manage, purchase, take on short or long lease, sell and grant on short lease and otherwise market any data, computer, control and communication services whatsoever.
 - (h) To purchase or otherwise acquire and obtain rights in and rights to use or exploit all manner of patents, patent rights, invention rights, copyrights, licenses, protections and concessions (hereinafter together referred to as "patent rights") which might, in the company's opinion, be of benefit to it and to protect, extend and renew them and to exercise patent rights, work pursuant thereto, exploit them and produce any benefit therefrom, to make agreements or transactions in respect of the use or exploitation of patent rights or the production of benefit therefrom and to grant licenses and rights in connection therewith.

- (i) To carry on business as general merchants, importers, exporters and agents of all manner of machinery, appliances, equipment and materials connected with the branches of work set out above.

- (j) To enter into partnership with partnerships, companies, cooperative societies and other bodies corporate, public or private holders of capital or with any other entity for the purpose of establishing enterprises and for the purpose of engaging in agencies, consultancy, and manufacturing in the branches set out above.
- (k) To carry on all branches of investment and financing business, to invest funds in industry, commerce, banks and financial institutions, in housing and construction enterprises, agriculture, development enterprises, transportation, shipping, aviation and in any other investments whatsoever, whether by way of purchase or against collateral of shares, share stock, debentures, debenture stock, promissory notes, value notes, covenants or securities of any type or without any collateral, as the company's management deems fit and beneficial.
- (l) To encourage, seek, direct, supervise, initiate, broke, finance and manage the transfer of capital and capital investments in Israel and from overseas to Israel and generally to engage in the business of investors, investments and finance and produce benefit therefrom as the company's management deems fit.
- (m) To promote, construct, erect, develop, plan, implement, manage, operate, finance, encourage and improve in Israel or overseas all manner of economic, industrial, agricultural and commercial enterprises, businesses and undertakings and to engage in any business as brokers, promoters and founders of corporations, companies, enterprises, holders of capital, concessionaires, contractors, property owners, merchants, agents and attorneys in order to do or perform any act or transaction which might directly or indirectly assist the achievement of any object as the company deems fit.
- (n) To lend any funds and give advances or credit, to accept funds and securities and any valuables whatsoever, to guarantee the debts and contracts of such persons, companies and corporations and on such terms as the company deems fit and in particular the persons and companies with whom the company maintains business relations and to accept from those to whom the company lends funds or grants credit or guarantees all manner of guarantees and securities as aforesaid and to redeem them on such terms as the company deems fit.
- (o) To purchase, take on long lease or by barter, to take on short lease or otherwise acquire and hold for the company any property or beneficial interest, all manner of land, buildings, rights, privileges, concessions, licenses, machinery, plant, merchandise and all manner of movable or immovable property which are needed by the company or suitable for the purposes of its business.

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- (p) To do any legal act which a corporation may legally do.

3. The members' liability is limited.

4. The Company's authorized capital is divided into 8,000,000 ordinary shares of no nominal value each. (*amended May 2003, May 2006, December 2009, December 2012, January 2015, July 2018 and December 2020*).

We the undersigned are desirous of becoming incorporated in accordance with this memorandum of association and each agree to take the number of shares in the company's capital as appearing against our respective names.

<u>Subscribers' Names</u>	<u>I.D. number</u>	<u>Address</u>	<u>Description</u>	<u>No. of shares taken</u>	<u>Signature</u>
1. Israel Gad	5009749	Moshav Yaad	Electronic Engineer	55 ordinary class A shares 55 ordinary class B shares	-
2. Yael Gal	5044063	Moshav Yaad	Computer Engineer	45 ordinary class A shares 45 ordinary class B shares	-

(*Note: class A and B shares since abolished and shareholdings have changed)

Dated this 5th day of November 1990

Witness to the foregoing signatures:

(Signed)
Doran Goshen, Adv.

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EX-1.2.3 f20f2020ex1-2_bosbetter.htm ARTICLES OF ASSOCIATION, AS AMENDED

Exhibit 1.2

B.O.S BETTER ON-LINE SOLUTIONS LTD.

ARTICLES OF ASSOCIATION

IN ACCORDANCE WITH THE COMPANIES LAW, 5759-1999

1. **The Company's Name**

The Company's name is "B.O.S Better On-Line Solutions Ltd".

2. **The Company's Objects**

The Company's object is to engage in any legal business.

3. **Interpretation**

- 3.1 Everything mentioned in the singular shall include the plural and vice versa, and everything mentioned in the masculine shall include the feminine and vice versa.
- 3.2 Unless these articles include special definitions for certain terms, every word and expression herein shall bear the meaning attributed thereto in the Companies Law, 5759-1999 (hereinafter referred to as the “**Companies Law**”), unless the context otherwise admits.
- 3.3 For the avoidance of doubt, it is expressed that in respect of matters regulated in the Companies Law such that it is possible to qualify the arrangements in respect thereof in articles, and these articles do not include in respect thereof provisions different from those of the Companies Law - the provisions of the Companies Law shall apply in respect thereof.

4. **The Company’s Share Capital and the Rights Attached to Shares**

- 4.1 The Company’s authorized capital is divided into 8,000,000 ordinary shares of no nominal value each. (*amended May 2003, May 2006, December 2009, December 2012, January 2015, July 2018 and December 2020*).
- 4.2 The ordinary shares shall vest the holders thereof with -
- 4.2.1 an equal right to participate in and vote at the Company’s general meetings, whether an Annual Meeting or a Special Meeting, and each of the shares in the Company shall entitle its holder, present at the general meeting and participating in the vote, himself, by proxy or through a voting instrument, to one vote; (*amended October 2019*)
- 4.2.2 an equal right to participate in a distribution of dividends, whether in cash or by way of bonus shares, in a distribution of assets or in any other distribution, pro rata to the nominal value of the shares held by them;
- 4.2.3 an equal right to participate in a distribution of the Company’s surplus assets on winding up pro rata to the nominal value of the shares held by them.
- 4.3 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 authorised share capital. With regard to computing the limit of the authorised capital, securities convertible or exercisable into shares shall be deemed to have been converted or exercised on the date of their issue. The board of directors may delegate such authority as permitted by law. (*amended May 2006*)
-

5. **Limited Liability**

The shareholders’ liability for the Company’s debts shall be limited to the full amount (nominal value plus premium) they are required to pay the Company for the shares and not yet paid by them.

6. **Joint Shareholders and Share Certificates**

- 6.1 Where two or more persons are listed in the shareholders’ register as the joint holders of a share, each of them may give binding receipts for any dividend or other monies in connection with such share.
- 6.2 A shareholder who is listed in the shareholders’ register may receive from the Company, without payment, within three months of the allotment or registration of the transfer, one share certificate bearing a seal in respect of all the shares registered in his name, which shall specify the number of shares. In the case of a jointly held share, the Company shall issue one share certificate to all the joint shareholders, and the delivery of such a certificate to one of the joint shareholders shall be deemed delivery to all of them.
- Each share certificate shall bear the signature of at least one director together with the Company’s stamp or its printed name.
- 6.3 A share certificate which has been defaced, destroyed or lost may be renewed in reliance upon proof and guarantees as required by the Company from time to time.

7. **The Company’s Reliefs in relation to Shares Not Paid in Full**

- 7.1 If the consideration which the shareholder undertook to pay the Company for his shares or any part thereof is not paid at the time and on the terms prescribed in the shares’ allotment terms and/or in the payment call mentioned in paragraph 7.2 below, the Company may, pursuant to the board of directors’ resolution, forfeit the shares whose consideration has not been paid in full. The shares shall be forfeited, provided that the Company has sent the shareholder written warning of its intention to forfeit his shares, at least seven days from the date of receiving the warning if the payment is not effected during the period specified in the warning letter.
- The board of directors may, at any time prior to the date on which a share forfeited is sold, re-allotted or otherwise transferred, cancel the forfeiture on such terms as it deems fit.
- The shares forfeited shall be held by the Company as dormant shares or shall be sold to another.
- 7.2 If pursuant to the issue terms of shares there is no fixed date for payment of any part of the price payable therefor, the board of directors may from time to time make calls for payment on the shareholders in respect of the monies not yet paid for the shares held by them, and every shareholder shall be liable to pay the Company the amount of the call made on him on the date specified as aforesaid, provided that he receives 14 days’ notice of the date and place for payment (hereinafter referred to as “call”). The notice shall state that non-payment on the date specified or prior thereto at the place specified might result in the forfeiture of the shares in relation to which the call was made. A call may be cancelled or postponed to another date, as resolved by the board of directors.
- 7.3 In the absence of another provision in the shares’ allotment terms, a shareholder shall not be entitled to receive dividend or to exercise any right as a shareholder in respect of shares not yet paid up in full.
- 7.4 Persons who are joint holders of a share shall be jointly and severally liable for payment of the amounts due to the Company in respect of the share.
- 7.5 The provisions of this paragraph are not such as to derogate from any other relief available to the Company vis-a-vis a shareholder who has not paid his debt to the Company in respect of his shares.

8. **Transfer of Shares**

- 8.1 The Company’s shares may be transferred.

8.2.1 a due share transfer instrument is furnished to the Company at its registered office together with the certificates relating to the shares to be transferred, if issued. The transfer instrument shall be signed by the transferor and a witness verifying the transferor's signature. In the case of a transfer of shares which are not fully paid up on the date of the transfer, the transfer instrument shall also be signed by the transferee and a witness verifying the transferee's signature; or

8.2.2 the Company is given a court order to amend the registration; or

8.2.3 it is proved to the Company that the legal conditions for transmission of the right to the share have been fulfilled.

8.3 A transfer of shares which are not fully paid up requires the approval of the board of directors, which may refuse to grant its approval in its absolute discretion and without giving grounds therefor.

8.4 The transferee shall be deemed the shareholder in relation to the shares being transferred from the moment his name is listed in the shareholders' register.

9. **Alteration to Capital**

9.1 The general meeting may increase the Company's authorized share capital by creating new shares of an existing class or of a new class, as determined in the general meeting's resolution.

9.2 The general meeting may cancel authorized share capital which has not yet been allotted, provided that the Company has not undertaken, including conditionally, to allot the shares.

9.3 The general meeting may, subject to the provisions of any law:

9.3.1 consolidate and re-divide its share capital, or any part thereof, into shares of a nominal value greater than that of the existing shares;

9.3.2 sub-divide its existing shares, or any of them, or its share capital, or any part thereof, into shares of a nominal value smaller than that of the existing shares;

9.3.3 reduce its share capital and any capital redemption reserve fund in such manner and on such terms and conditions and with the receipt of such approval as the Companies Law requires.

10. **Alteration of the Rights Attached to Classes of Shares**

10.1 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 regarding general meetings shall apply, mutatis mutandis, to a general meeting of the holders of a particular class of shares.

10.2 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.

11. **General Meetings**

11.1 The Company's resolutions on the following matters shall be passed at the general meeting -

11.1.1 alterations to the articles;

11.1.2 the exercise of the board of directors' powers when the board of directors is unable to function;

11.1.3 the appointment and dismissal of the Company's auditor;

11.1.4 the appointment and removal of directors, including independent and external directors, provided however, that appointment or removal of directors shall only be made by the Annual Meeting; (*amended October 2019*)

11.1.5 the approval of acts and transactions requiring the general meeting's approval pursuant to the provisions of the Companies Law and any other law;

11.1.6 increasing and reducing the authorized share capital;

11.1.7 a merger as defined in the Companies Law.

12. **Convening General Meetings** (*amended October 2019*)

12.1 An Annual Meeting shall be convened at 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 shareholder meetings shall be referred to as "**Special Meetings**".

12.2 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 pursuant to these articles and discuss all the other matters which must be discussed at the Company's Annual Meeting, pursuant to these articles or the Companies Law, as well as any other matter determined by the board of directors.

12.3 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 (a "**Requisition**"):

- 12.3.1 two directors or one quarter of the directors holding office; and/or
- 12.3.2 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
- 12.3.3 one or more shareholders holding at least 5% of the voting rights in the Company.

- 12.4 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.
- 12.5 Where 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 pursuant to paragraph 12.6 below and subject to the law.
- 12.6 Notice to the Company's members 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 general meeting to any member, or the non-receipt of notice sent to such member, shall not invalidate the proceedings at such general meeting.

13. **The Discussion at the General Meetings**

- 13.1 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. (*amended August 2004*)
- 13.2 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 (hereinafter referred to as "the adjourned meeting".)

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- 13.3 The quorum for the commencement of the adjourned meeting shall be any number of participants.
- 13.4 The board of directors' chairman shall serve as the general meeting's chairman. If the board of directors' chairman is not present at the meeting within 15 minutes of the time fixed therefor or if he refuses to chair the meeting, the chairman shall be elected by the general meeting.
- 13.5 A general meeting at which a quorum is present may resolve to adjourn the meeting to another place and time determined by it, and in such case notices and invitations in respect of the adjourned meeting shall be given as provided in paragraph 12.6 above. The agenda of an adjourned Meeting shall include only the matters that were on the agenda of the meeting when it first convened.

14. **Voting at the General Meeting** (*amended October 2019*)

- 14.1 A shareholder of the Company may vote at the general meetings himself or through a proxy or a voting instrument.

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 general meeting, and subject to the law.
- 14.2 In every vote each shareholder shall have a number of votes according with the number of shares held by him.
- 14.3 A resolution at the general meeting shall be passed by an ordinary majority unless another majority is specified in the Companies Law or these articles.
- 14.4 The declaration of the general meeting's chairman that a resolution has been passed unanimously or by a particular majority, or that it has been defeated or not passed by a particular majority, shall constitute prima facie proof of that stated therein.
- 14.5 If the votes at a general meeting are tied, the chairman of the general meeting shall not have an additional or deciding vote, and the resolution that was put to the vote shall be defeated.
- 14.6 The Company's shareholders may, in respect of any matter on the general meeting's agenda, vote at a general meeting (including a class meeting) through a voting instrument, provided that the board of directors does not, subject to any law, rule out the possibility of voting through a proxy instrument on such matter in its resolution to convene the general meeting.

If the board of directors prohibits voting through a voting instrument, the fact that the possibility of voting through a voting instrument has been ruled out shall be stated in the notice of the general meeting pursuant to paragraph 12.6 above.
- 14.7 A shareholder may state the way in which he is voting in the voting instrument and send it to the Company's registered office at least 48 hours prior to the general meeting's commencement. A voting instrument in which a shareholder states the way in which he is voting, which reaches the Company's registered office at least 48 hours prior to the general meeting (including the adjourned meeting), shall be deemed presence at the general meeting for the purpose of constituting the quorum as provided in paragraph 13.1 above. (*amended May 2003*)
- 14.8 A proxy shall be appointed in a written instrument signed by the appointor. A corporation shall vote through its representatives who shall be appointed by a document duly signed by the corporation.
- 14.9 Voting in accordance with the terms and conditions of a proxy instrument shall be legal even if prior thereto the appointor dies or becomes legally incapacitated, is wound up, becomes bankrupt, cancels the proxy instrument or transfers the share in relation to which it was given, unless written notice is received at the office prior to the general meeting that the shareholder has died, become legally incapacitated, been wound up, become bankrupt, cancelled the appointment instrument or transferred the share as aforesaid.
- 14.10 The proxy instrument and the power of attorney or a copy certified by an attorney shall be deposited at the Company's registered office at least 48 hours prior to the time fixed for the general meeting or the adjourned meeting at which the person mentioned in the document intends voting pursuant thereto.

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- 14.11 A shareholder of the Company shall be entitled to vote at general meetings of the Company through a number of proxies appointed by him, provided that each proxy is appointed in respect of different parts of the shares held by the shareholder. There shall not be any impediment to any proxy as aforesaid voting differently at general meetings of the Company.
- 14.12 If a shareholder is legally incapacitated, he may vote by his board of trustees, receiver, natural guardian or other legal guardian, and they may vote themselves or by proxy or through a voting instrument.
- 14.13 Where two or more persons are the joint holders of a share, in a vote on any matter the vote of the person whose name appears first in the shareholders' register as the holder of such share shall be accepted, himself or by proxy, and he is entitled to give the Company voting instruments.

15. **The Board of Directors**

The board of directors shall delineate the Company's policy and supervise the performance of the Managing Director's duties and actions. Any power of the Company which has not been vested in another organ pursuant to the Companies Law or the articles may be exercised by the board of directors.

16. **Appointment and Dismissal of Directors** (amended May 2003, May 2006 and October 2019)

- 16.1 The number of directors in the Company (including, if required by law external directors) shall be determined from time to time by the Annual Meeting, provided that it shall not be less than four nor more than seven.
- 16.2 Subject to the provisions of section 16.3 below, the Company's directors shall be elected only at the Annual Meeting, and shall hold office until the end of the next Annual Meeting or until they cease to hold office pursuant to the provisions of the articles. If at an Annual Meeting of the Company new directors in the minimum amount specified pursuant to the articles are not elected, the directors who held office until such time shall continue to hold office, until they are replaced by the Company's Annual Meeting.
- 16.3 The board of directors shall be divided into three classes, such that each class of directors consists, as nearly as possible, of one-third of the total number of directors constituting the entire board of directors.

At the first election of directors implementing the classified board structure, the term of the directors included in the class A shall be one year, the term of the directors included in class B shall be two years, and the term of the directors included in class C shall be three years.

At each Annual Meeting the election or re-election of directors following the expiration of the term of office of the directors of that class of directors, will be for a term of office that expires on the third Annual Meeting following such election or re-election, so that each year the term of office of only one class of directors will expire. Each director will hold office until the Annual Meeting for the year in which his or her term expires, unless they are removed pursuant to section 16.7 below.

In addition to the provisions of paragraph 16.2 above, the board of directors may by unanimous vote appoint a director instead of a director whose office has been vacated and/or one additional director, subject to the maximum number of directors on the board of directors as provided in paragraph 16.1 above. The appointment of a director by the board of directors shall be valid until the next Annual Meeting or until he ceases to hold office pursuant to the provisions of the articles.

- 16.4 A director whose term of office has come to an end may be re-elected only by the Annual Meeting.
- 16.5 The office of a director shall commence on the date of his appointment by the Annual Meeting and/or the board of directors or on a later date if specified in the appointment resolution of the Annual Meeting and/or board of directors.

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- 16.6 The board of directors shall elect a board of directors' chairman from amongst its members. If a chairman is not elected or if the chairman is not present at the end of 15 minutes from the time fixed for the Annual Meeting, the directors present shall elect one of their number to chair such meeting, and the person chosen shall conduct the meeting and sign the discussion minutes.

The board of directors' chairman shall not be the Company's CEO save on fulfillment of the conditions mentioned in section 121(c) of the Companies Law.

- 16.7 The Annual Meeting, by a vote of 60% of the shares voted (excluding abstentions) may remove any director from his office before the end of his term of office, whether the director was appointed by it by virtue of paragraph 16.2 above or by the board of directors by virtue of paragraph 16.3 above, provided that the director is given a reasonable opportunity to state his case before the Annual Meeting.

- 16.8 Where the office of a director is vacated, the remaining directors may continue to act so long as their number has not fallen below the minimum specified in the articles. Where the number of directors has fallen below the aforementioned minimum, the remaining directors may only act in order to fill the place of the director which has been vacated as mentioned in paragraph 16.3 above or in order to convene an Annual Meeting of the Company, and until the Annual Meeting is convened as aforesaid they may act to manage the Company's business only in respect of matters that cannot bear delay. The initial term of the director elected by the shareholders as a replacement for a vacated director shall correspond to the balance of the term of such vacated director.

- 16.9 Every board of directors' member may appoint an alternate for himself, provided that such an appointment shall not be for a period exceeding one month, and that someone who was appointed as an alternate for another director and/or who is already serving as a director of the Company may not be appointed as an alternate, except as provided in section 237(d) of the Companies Law.

The appointment or termination of the office of an alternate shall be effected in a written document signed by the director who appointed him; however, in any event, the office of an alternate shall terminate if one of the events specified in paragraph 16.10 below befalls the alternate or if the office of the board of directors' member for whom he is acting as alternate is vacated for whatsoever reason.

An alternate shall be treated as a director and all the provisions of the law and these articles shall apply to him, save for the provisions regarding the appointment and/or dismissal of a director specified herein.

- 16.10 The office of a director shall be vacated in any one of the following cases:

16.10.1 he resigns from his office by a letter signed him and submitted to the Company which specifies the reasons for his resignation;

16.10.2 he is removed from his office by the Annual Meeting in accordance with the provisions of these articles;

- 16.10.3 he is convicted of an offence as provided in section 232 of the Companies Law;
- 16.10.4 pursuant to a court decision, as provided in section 233 of the Companies Law;
- 16.10.5 he is declared legally incapacitated;
- 16.10.6 he is declared bankrupt, and in the case of a corporation - it is resolved to wind it up voluntarily or a winding up order is given in respect thereof.
- 16.11 The terms of compensation of the board of directors' members shall be approved by the compensation committee, the board of directors and the general meeting, in this chronological order.
- 16.12 It is clarified that this Section 16, including any of its subsections, may be amended only by vote of 60% of the shares voted (excluding abstentions) at an Annual Meeting .

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17. **Board of Directors' Meetings** (amended December 2011; October 2019)

- 17.1 The board of directors shall convene in accordance with the Company's requirements and at least once every three months.
- 17.2 The board of directors' chairman may convene the board of directors at any time. In addition, the board of directors shall hold a meeting, on a matter that shall be detailed, in the following cases:
- 17.2.1 on the demand of two directors; however, if at such time the board of directors consists of five directors or less - on the demand of one director;
- 17.2.2 on the demand of one director if he states in his demand to convene the board of directors that he has learned of a matter involving the Company in which a prima facie contravention of the Law or an infringement of proper business procedure has been discovered;
- 17.2.3 a notice or report of the CEO obliges action by the board of directors;
- 17.2.4 the auditor has notified the board of directors' chairman of materials deficiencies in the audit of the Company's accounts.
- 17.3 Notice of a board of directors' meeting shall be sent to all its members at least three days prior to the date of the meeting. The notice shall be sent to the address of the director which was furnished to the Company in advance, and shall state the date, time and place of the meeting, and reasonable details of all the matters on the agenda.
- Notwithstanding the foregoing, in urgent circumstances, the board of directors may convene a meeting without notice, with a majority of the directors' agreement. (amended December 2011)
- 17.4 The quorum for the commencement of a board of directors' meeting shall be a majority of the members of the board of directors. If no quorum is present at the board of directors' meeting within half an hour of the time fixed for the meeting's commencement, the meeting shall be adjourned to another date decided upon by the board of directors' chairman, or in his absence by the directors present at the meeting, provided that three days' notice shall be given to all the directors of the date of the adjourned meeting. The quorum for the commencement of an adjourned meeting shall be any number of participants. Notwithstanding the foregoing, the quorum for discussions and resolutions at the board of directors on the auditor's dismissal or suspension shall be a majority of the board of directors' members.
- 17.5 The board of directors may hold meetings using any communications means, provided that all the directors participating may hear each other simultaneously.
- 17.6 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. In such a case, minutes of the resolutions (including the decision not to convene) shall be signed by the chairman of the board of directors, or alternatively, signatures of the directors shall be attached to the minutes. Instead of a director's signature, the chairman of the board or the corporate secretary may attach a signed memo regarding the oral vote of a director. Resolutions passed without convening, as aforementioned, shall be passed by an ordinary majority and shall have the same effect as resolutions passed at a duly convened meeting. (amended May 2006)

18. **Voting at the Board of Directors**

- 18.1 In a vote at the board of directors, each director shall have one vote.
- 18.2 The board of directors' resolutions shall be passed on a majority. The board of directors' chairman shall not have an additional or deciding vote and where the votes are tied, the resolution that was put to the vote shall be defeated.

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19. **Board of Directors' Committees**

- 19.1 The board of directors may establish committees and appoint members from the board of directors thereto (hereinafter referred to as "board of directors' committee"), and it may from time to time revoke such delegation or alter the composition of such committee. If board of directors' committees are established, the board of directors shall determine in their terms of authority whether certain powers of the board of directors will be delegated to the board of directors' committee such that a resolution of the board of directors' committee shall be deemed a resolution of the board of directors or whether a resolution of the board of directors' committee shall merely amount to a recommendation which is subject to the board of directors' approval, provided that powers to resolve on the matters specified in section 112 of the Companies Law shall not be delegated to a committee. If a committee merely has a recommendation role, the board of directors may also appoint to the committee members who are not directors. (amended May 2006)
- 19.2 The meetings and discussions of any board of directors' committee composed of two or more members shall be governed by the provisions of these articles regarding board of directors' meetings and the voting thereat, mutatis mutandis, so far as not superseded by the Companies Law, and subject to the board of directors' resolutions regarding arrangements for the committee's meetings (if any). (amended December 2011)

20. **Audit Committee**

- 20.1 The Company's board of directors shall appoint an audit committee from amongst its members. The number of members on the audit committee shall not be less than three and all the external directors shall be members thereof. The board of directors' chairman and any director employed by the Company or providing services to it on a permanent basis and/or a control owner or his relative shall not be appointed as members of the committee.
- 20.2 The duties of the audit committee shall be -
- 20.2.1 to detect deficiencies in the Company's business management, inter alia through consultation with the Company's internal auditor or with the auditor, and to propose to the board of directors ways of rectifying them;
- 20.2.2 to resolve whether to approve acts and transactions requiring the audit committee's approval pursuant to the Companies Law.

21. **Chief Executive Officer** (amended October 2019)

The Company's board of directors shall appoint a Chief Executive Officer ("CEO") and may appoint more than one CEO. The CEO shall be responsible for the routine management of the Company's affairs within the framework of the policy determined by the board of directors and subject to its guidelines.

22. **Exemption, Insurance and Indemnity** (amended May 2006 and December 2011)

- 22.1 The Company may exempt an Office Holder therein in advance for his liability, or any part thereof, for damage in consequence of a breach of the duty of care vis-a-vis it, except with respect to Distribution (as defined in the Companies Law).

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- 22.2 The Company may indemnify an Office Holder retroactively for an obligation or expense as specified in sub-paragraphs 22.2.1 22.2.2 and 22.2.3 below, imposed on him in consequence of an act or omission done in his capacity as an officer in the Company.
- 22.2.1 a monetary obligation imposed on him in favor of another person pursuant to a judgment, including a judgment given in settlement or an arbitrator's award that has been approved by a court;
- 22.2.2 reasonable litigation expenses, including advocates' professional fees, incurred by the Office Holder pursuant to an investigation or a proceeding commenced against him by a competent authority and that was terminated without an indictment and without having a monetary charge imposed on him in exchange for a criminal procedure (as such terms are defined in the Companies Law), or that was terminated without an indictment but with a monetary charge imposed on him in exchange for a criminal procedure in a crime that does not require proof of criminal intent or in connection with a financial sanction;
- 22.2.3 reasonable litigation expenses, including advocates' professional fees, incurred by the Office Holder or which he is ordered to pay by a court, in proceedings filed against him by the company or on its behalf or by another person, or in a criminal indictment in which he is acquitted, or in a criminal indictment in which he is convicted of an offence that does not require proof of criminal intent;
- 22.2.4 expenses, including reasonable litigation expenses and legal fees, incurred by an Office Holder as a result of a proceeding instituted against such Office Holder in relation to (A) infringements that may result in imposition of financial sanction pursuant to the provisions of Chapter H'3 under the Securities Law or (B) administrative infringements pursuant to the provisions of Chapter H'4 under the Securities Law or (C) infringements pursuant to the provisions of Chapter I'1 under the Securities Law; and
- 22.2.5 payments to an injured party of infringement under Section 52ND(a)(1)(a) of the Securities Law.
- 22.3 The Company may give an advance undertaking vis-a-vis an Office Holder to indemnify him in respect of an obligation or expense as specified in paragraph 22.2 above, provided that the undertaking specified in paragraph 22.2.1 is limited to types of events which in the board of directors' opinion may be anticipated, in light of the Company's activities, at the time of giving the indemnity undertaking, and to an amount or criteria which the board of directors determines is reasonable in the circumstances of the case, both to be specified in the Company's undertaking.
- 22.4 A company may enter into a contract to insure the liability of an Office Holder therein for an obligation imposed on him in consequence of an act or omission done in his capacity as an Office Holder therein, in any of the following cases:
- 22.4.1 a breach of the duty of care vis-a-vis the Company or vis-a-vis another person;
- 22.4.2 a breach of the duty of fidelity vis-a-vis the Company, provided that the Office Holder acted in good faith and had reasonable basis to assume that the act would not harm the Company;
- 22.4.3 a monetary obligation imposed on him in favor of another person.
- 22.4.4 (i) expenses, including reasonable litigation expenses and legal fees, incurred by the Office Holder as a result of a proceeding instituted against such Office Holder in relation to (A) infringements that may result in imposition of financial sanction pursuant to the provisions of Chapter H'3 under the Securities Law or (B) administrative infringements pursuant to the provisions of Chapter H'4 under the Securities Law or (C) infringements pursuant to the provisions of Chapter I'1 under the Securities Law and (ii) payments made to the injured parties of such infringement under Section 52ND(a)(1)(a) of the Securities Law.
- 22.5 Paragraphs 22.1 to 22.4 shall not apply in any of the following cases -
- 22.5.1 a breach of the duty of fidelity, save regarding insurance and indemnity provided that the Office Holder acted in good faith and had reasonable basis to assume that the act would not harm the Company;

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- 22.5.2 an intentional or rash breach of the duty of care, except where the breach was negligent only;
- 22.5.3 an act done with the intention of unlawfully producing a personal profit;
- 22.5.4 a fine imposed on an Office Holder.
- 22.6 Resolutions regarding the grant of exemption, insurance, indemnity or the grant of an undertaking to indemnify an Office Holder shall be passed

22.7 "Office Holder" in this section shall include directors and officers as defined in the Companies Law 1999.

23. **Internal Auditor**

- 23.1 The Company's board of directors shall appoint an internal auditor in accordance with the audit committee's proposal. Interested parties in the Company, officers in the Company, relatives of any of the foregoing and the auditor or someone on his behalf may not hold office as the Company's internal auditor.
- 23.2 The board of directors shall determine what officer shall be the organ to whom the internal auditor is subordinate, and in the absence of such a determination it shall be the board of directors' chairman.
- 23.3 The internal audit plan prepared by the auditor shall be submitted for the audit committee's approval; however, the board of directors may determine that the plan shall be submitted for the board of directors' approval.

24. **Auditor** (amended October 2019)

- 24.1 The Annual Meeting shall appoint an auditor for the Company. The auditor shall hold office until the end of the following Annual Meeting, or for a longer term as determined by the Annual Meeting, provided that his term of office shall not extend beyond the end of the third Annual Meeting following the one at which he was appointed.
- 24.2 The auditor's remuneration for the audit shall be determined by the board of directors. The board of directors shall report to the Annual Meeting on the auditor's remuneration.

25. **Signatory Rights**

- 25.1 The rights to sign on the Company's behalf shall be determined from time to time by the Company's board of directors.
- 25.2 The signatory on the Company's behalf shall sign together with the Company's stamp or its printed name.

26. **Dividend and Bonus Shares**

- 26.1 The Company's board of directors shall be the organ authorized to decide upon the distribution of a dividend and/or the distribution of bonus shares.
- 26.2 The shareholders who are entitled to dividend are the shareholders on the date of the resolution on the dividend or on a later date if another date is specified in the resolution on the dividend's distribution.
- 26.3 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 in accordance with 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.

- 26.4 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.

27. **Redeemable Securities**

The Company may, subject to any law, issue redeemable securities on such terms as determined by the board of directors, provided that the general meeting approves the board of directors' recommendation and the terms determined.

28. **Contributions**

The Company may contribute a reasonable sum of money for an worthy object, even if the contribution is not within the scope of business considerations conducive to the Company's profits.

29. **Accounts**

- 29.1 The Company shall keep accounts and draw up financial statements pursuant to the Securities Law and any other law.
- 29.2 The books of account shall be kept at the office or at such other place as the directors deem fit, and shall always be open for the directors' inspection.

30. **Notices**

- 30.1 Subject to any law, notice or any other document which the Company sends and which it may or is required to give pursuant to the provisions of these articles and/or the Companies Law shall be sent by the Company to any person personally, by mail in a letter addressed in accordance with the registered address of such shareholder in the shareholders' register or in accordance with any address which the shareholder specifies in a letter to the Company as the address for the sending of notices or other documents, or by facsimile in accordance with the number specified by the shareholder as the number for sending notices by facsimile. Should the Company publish notice in at least two Israeli daily newspapers, notice shall be deemed to have been given to any member whose address as registered in the Company's Register is in Israel.
- 30.2 Any notices which must be given to the shareholders shall be given, in relation to shares which are jointly held, to the person whose name appears first in the shareholders' register as the holder of such share, and any notice given in this manner shall be adequate notice to the holders of such share.
- 30.3 Any notice or other document that is sent shall be deemed to have reached its destination within three business days - if sent by registered mail and/or ordinary mail in Israel, and if delivered by hand or sent by facsimile, it shall be deemed to have reached its destination on the first business day following its receipt. When coming to prove the delivery, it shall be adequate to prove that the letter that was sent by mail containing the notice or document was correctly addressed and delivered to the post office as a stamped letter or as a stamped registered letter, and in respect of

a facsimile it is sufficient to furnish the transmission confirmation from the sending instrument.

30.4 Any entry effected in the ordinary way in the Company's register shall be deemed prima facie proof regarding the dispatch, as entered in such register.

30.5 Where it is necessary to give prior notice of a particular number of days or notice that is valid for any period, the date of delivery shall be taken into account in reckoning the number of days or the period.

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EX-2.1 4 f20f2020ex2-1_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, 2020, 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, of no nominal value 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 attached 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 8,000,000 ordinary shares, of no nominal value 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 and Election 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. Our articles of association provide for a classified board nomination mechanism, according to which, every year only a 1/3 of the Board members will be nominated and elected.

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.

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 our articles of association, 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 by 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 33% 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;

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- 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.

Our articles of association provides that directors shall be elected only at the Company's annual shareholders meeting, and not at a special meeting.

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.

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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.

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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 proposal was filed with the Israeli Registrar of Companies and at least 30 days have passed from the approval of the shareholders of each of the merging companies.

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EX-12.1 5 f20f2020ex12-1_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 30, 2021

/s/ Eyal Cohen
Eyal Cohen
Chief Executive Officer

EX-12.2 6 f20f2020ex12-2_bosbetter.htm CERTIFICATION

Exhibit 12.2

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

I, Moshe Zeltzer, 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 30, 2021

/s/ Moshe Zeltzer
Moshe Zeltzer
Chief Financial Officer

EX-13.1 7 f20f2020ex13-1_bosbetter.htm CERTIFICATION

Exhibit 13.1

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

In connection with the Annual Report on Form 20-F of B.O.S. Better Online Solutions Ltd., a company organized under the laws of the State of Israel (the "Company"), for the period ending December 31, 2020 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.

/s/ Moshe Zeltzer
Moshe Zeltzer
Chief Financial Officer

/s/ Eyal Cohen
Eyal Cohen
Chief Executive Officer

Date: March 30, 2021

EX-23.1 8 f20f2020ex23-1_bosbetter.htm CONSENT OF FAHN KANNE & CO. GRANT THORNTON ISRAEL

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated March 29, 2021, 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, 2020. 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. 333-249597, 333-233113 and 333-223158) and Forms S-8 (File No. 333-228344, 333-179253, 333-160414, 333-148318, 333-136957 and 333-110696).

/s/ FAHN KANNE & CO. GRANT THORNTON ISRAEL

FAHN KANNE & CO. GRANT THORNTON ISRAEL

Tel Aviv, Israel

March 30, 2021

