

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, 2023

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:

5,748,018 Ordinary Shares, of no nominal value per share, as of December 31, 2023 and 5,748,018 Ordinary Shares, of no nominal value per share, as of March 15, 2024.

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

Yes  No

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

Yes  No

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

Yes  No

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

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use

the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

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

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

Item 17  Item 18

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

Yes  No

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

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### **Forward Looking Statements**

This Annual Report on Form 20-F 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 Dagesh Inventory Counting and Maintenance 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 effect of the war against the Hamas and other terrorist organization, the 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: [Reserved]**

#### **3B. Capitalization and Indebtedness**

Not applicable.

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

Not applicable.

### 3D. Risk Factors

The following risk factors, in addition to other information contained or incorporated by reference in this Form 20-F, should be considered carefully. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The risks described below are not the only risks facing our Company. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also adversely affect our business, financial condition, results of operation and liquidity. The trading price of our Ordinary Shares could decline due to any of these risks, and you may lose all or part of your investment.

#### **Risks relating to our financial results and capital structure:**

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

As of December 31, 2023, we had an accumulated deficit of \$67.1 million. We had a net income of \$2.06 million in 2023 and a net income of \$1.28 million in 2022 and a net income of \$451,000 in 2021. 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;
- Our ability to access additional debt or equity financing to finance our growth, which may be difficult, depending on the conditions in the capital markets;
- increased demand for existing products and demand for new products; and
- controlling costs.

There can be no assurance that we will be able to meet our challenges and resume profitable operations in the future or that the level of historic sales will continue in the future.

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*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 two bank for our credit facilities.*

We rely on the First International Bank of Israel (“Bank Beinleumi”) and Bank Leumi to provide all of the bank credit facilities to our subsidiaries. As of December 31, 2023, we had \$1.15 million in long term debt to Bank Leumi and Bank Beinleumi, net of current maturities of \$0.17 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. 36% of our Supply Chain Solutions division purchases in the year 2023 were sourced from five key suppliers, 24% of our Intelligent Robotics division purchases in the year 2022 were sourced from five other key suppliers and 51% of our RFID division purchases in the year 2023 were sourced from five other key suppliers (including a software supplier).

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In particular, 15% of our Supply Chain Solutions division purchases in the year 2023 were sourced from Positronics Manufacturing Company, which we represent in Israel. These purchases amounted to \$3.3 million. 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.

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.

***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 Avidan 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 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, 2023, amounted to \$287,000, 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.

***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.

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.

***Existing and proposed Israeli legal requirements in respect of minimum wage and work and rest hours may increase our labor related expenses.***

In April 2023, the mandatory minimum wage in Israel was raised by approximately 5%, to NIS 5,571.75 per month for 182 monthly hours (NIS 30.61 per hour). In addition, the minimum wage in Israel is supposed to be raise again on April 2024 to NIS 5,880 per month. 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 quarterly results of operations.

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

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

Similarly, we are exposed to the risk that the NIS, after adjustment for inflation in Israel, will appreciate in relation to the U.S. dollar. In that event, the dollar-measured costs of our operations in Israel will increase and our dollar-measured results of operations will be adversely affected.

In 2023 and 2022, the NIS depreciated against the dollar by approximately 3% and 13%, respectively. In 2021, 2020 and 2019 the NIS appreciated against the dollar by approximately 3.3%, 6.9% and 7.8%, respectively. In 2018, the NIS depreciated against the dollar by approximately 8.1%. In 2023 the inflation rate in Israel was 3%, in 2022 the inflation rate in Israel was 5.3% and in 2021 the inflation rate in Israel was 2.4%. In 2020 there was annual deflation in Israel of 0.7%. In 2019, the inflation rate in Israel was 0.6% and in 2018 the inflation rate was 0.8%. Therefore, the U.S. dollar cost of our Israeli operations decreased in 2018, and increased in 2023, 2022, 2021, 2020 and 2019. 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.

The existence of inflation in the economy has resulted in, and may continue to result in, higher interest rates and capital costs, increased costs of labor, fluctuations in foreign currency exchange rates, and other similar effects. As a result of inflation, we have experienced, and may continue to experience, cost increases, which could materially and adversely affect our business, results of operations, and financial condition. 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, and expose us to liability which would negatively materially affect our reputation and materially harm our business.***

We are subject to a number of legal requirements, contractual obligations and industry standards regarding security, data protection and privacy and any failure to comply with these requirements, obligations or standards could have an adverse effect on our reputation, business, financial condition and operating

results. In conducting our business, we routinely collect and store sensitive data, including personal information and proprietary technology and information owned by our customers. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy. 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. In this regard, in 2022, the Company learned that it suffered a limited cybersecurity breach in 2020 pursuant to which an unauthorized party accessed and extracted data by exploiting a vulnerability affecting certain of the Company's software. The deficient software was subsequently replaced in 2020 in an unrelated upgrade and, to the Company's knowledge, after conducting an investigation, the breach has not reoccurred and did not result in the release of any material company or customer information.

Although we have invested in measures to reduce these risks and conducted related tests 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. See "Item 16K-Cybersecurity" for more information on our policies and procedures for identification and management of risks from cyber 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. Furthermore, we cannot be sure that our insurance policies with respect to cyber risk will adequately cover or include the damages or losses (whether direct or consequential) resulting from successful cyber attacks or if we will be able to renew such insurance.

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***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, sanctions 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.***

We are currently operating in a period of economic uncertainty and cannot predict the timing, strength, or duration of any economic downturn. To the extent unfavorable conditions in the national and global economy persist, we may experience 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.

The global COVID-19 pandemic affected economic activity worldwide and led, among other things, to a disruption in the global supply chain, a decrease in global transportation, and restrictions on travel and work that were announced by the State of Israel and other countries worldwide. As a result of the COVID-19 pandemic, we had experienced a reduction in inbound and outbound international delivery routes, which have caused, delays in receipt and shipment of goods.

In particular, the Company relies, with respect to some of its products, on manufacturers in China. The adverse effects of the COVID-19 on our business with China have subsided in 2023, however the return of the pandemic and any related measures taken by the authorities may adversely affect our future results of operations, cash flows and financial condition.

***Environmental, social and governance matters may impact our business and reputation.***

Increasingly, in addition to the importance of their financial performance, companies are being judged by their performance on a variety of environmental, social and governance, or ESG, matters, which are considered to contribute to the long-term sustainability of companies' performance.

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A variety of organizations measure the performance of companies on such ESG topics, and the results of these assessments are widely publicized. In addition, investment in funds that specialize in companies that perform well in such assessments are increasingly popular, and major institutional investors have publicly emphasized the importance of such ESG measures to their investment decisions. Topics taken into account in such assessments include, among others, the company's efforts and impacts on climate change and human rights, ethics and compliance with law, and the role of the company's board of directors in supervising various sustainability issues. In addition to the topics typically considered in such assessments, in the healthcare industry, issues of the public's ability to access a company's medicines are of particular importance.

In light of this increased focus on ESG matters, there can be no certainty that we will manage such issues successfully, or that we will successfully meet society's expectations as to our proper role. Any failure or perceived failure by us in this regard could have a material adverse effect on our reputation and on our business, share price, financial condition, or results of operations, including the sustainability of our business over time.

***We may be obligated to indemnify our directors and officers.***

The Company has agreements with its directors and senior officers which provide, subject to Israeli law, indemnification by the Company for its directors and senior officers for: (a) monetary liability imposed upon a director or officer in favor of a third party by a judgment, including a settlement or an arbitral award confirmed by the court, as a result of an act or omission of such person in his or her capacity as a director or officer of the Company, (b) reasonable litigation expenses, including attorney's fees, incurred by a director or officer (A) pursuant to an investigation or a proceeding commenced against him or her by a competent authority, provided that (i) it was terminated without the filing of an indictment and without having a monetary charge imposed in lieu of criminal proceedings (as

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

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

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

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

Our balance sheet contains a significant amount of goodwill and other amortizable intangible assets in long-term assets, totaling about \$5.4 million at December 31, 2023. 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.

***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 investors, 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.

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#### **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, 2023, through March 16, 2024, the daily closing price of our Ordinary Shares in Nasdaq has ranged from \$2 to \$4.14 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.

On October 7, 2023, Hamas launched a series of coordinated attacks from the Gaza Strip onto Israel. On October 8, 2023, Israel formally declared war on Hamas, and the armed conflict is ongoing as of the date of this filing. Following the attack by Hamas on Israel's southern border, Hezbollah in Lebanon also launched missile, rocket and shooting attacks against Israeli military sites, troops and Israeli towns in northern Israel.

The intensity and duration of Israel's current war against Hamas is difficult to predict, as are such war's economic implications on the Company's business and operations and on Israel's economy in general. These events may be intertwined with wider macroeconomic indications of a deterioration of Israel's economic standing that may involve a downgrade in Israel's credit rating by rating agencies (such as the recent downgrade by Moody's of its credit rating of Israel from A1 to A2, as well as the downgrade of its outlook rating from "stable" to "negative"), which may have a material adverse effect on the Company and its ability to effectively conduct its operations.

Following Hamas' attack on Israel and Israel's security cabinet declaration of war against Hamas, the Houthi movement, which controls parts of Yemen, launched a number of attacks on marine vessels traversing the Red Sea, which marine vessels were thought to either be in route towards Israel or to be partly owned by Israeli businessmen. The Red Sea is a vital maritime route for international trade traveling to or from Israel. As a result of such disruptions, we may experience in the future delays in supplier deliveries, extended lead times, and increased cost of freight, increased insurance costs, purchased materials and manufacturing labor costs. The risk of ongoing supply disruptions may result in delayed deliveries of our products and may also have adverse impact on economic conditions in Israel.

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.

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. In connection with the Israeli security cabinet's declaration of war against Hamas and possible hostilities with other organizations, several hundred thousand Israeli military reservists were drafted to perform immediate military service. Certain of our employees in Israel have been called, and additional employees may be called, for service in the current or future wars or other armed conflicts with Hamas and others, and such persons may be absent for an extended period of 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.

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 were key reasons for the reduction in the RFID division revenues for the year 2023 as compared to year 2022, but did not have a material effect on our business and results of operations as a whole. 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. In January 2024 the International Court of Justice, or ICJ, issued an interim ruling in a case filed by South Africa against Israel in December 2023, making allegations of genocide amid and in connection with

the war in Gaza, and ordered Israel, among other things, to take measures to prevent genocidal acts, prevent and punish incitement to genocide, and take steps to provide basic services and humanitarian aid to civilians in Gaza. There are concerns that companies and businesses will terminate, and may have already terminated, certain commercial relationships with Israeli companies following the ICJ decision. This may materially and adversely impact our ability to sell and provide our products and services.

In addition, prior to the Hamas attack in October 2023, the Israeli government pursued extensive reforms to Israel's judicial system. In response to such initiatives, many individuals, organizations and institutions, both within and outside of Israel, have voiced concerns that the proposed reforms may negatively impact the business environment in Israel including due to increased currency fluctuations, downgrades in credit rating, increased interest rates, increased volatility in securities markets, and other changes in macroeconomic conditions. The risk of such negative developments has increased in light of the recent Hamas attacks and the war against Hamas declared by Israel, regardless of the proposed changes to the judicial system and the related debate. For instance, recently, the Moody's rating agency has lowered Israel's credit rating from A1 to A2. This, and any further negative developments should they occur may have an adverse effect on our business, our results of operations and our ability to raise additional funds, if deemed necessary by our management and board of directors.

***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.

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

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

***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](http://www.boscom.com). Our commercial websites are: Supply Chain Division - [www.odem.co.il](http://www.odem.co.il); Intelligent Robotics Division - [www.imdecol.com](http://www.imdecol.com) and RFID Division - [www.dimex.co.il](http://www.dimex.co.il). The information contained on, or linked from, our websites is not a part of this report. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers, such as we, that file electronically, with the SEC at [www.sec.gov](http://www.sec.gov).

In May 2022, the Company purchased 546 sqm of offices, 495 sqm of warehouses and nine parking spots in Rishon Le Zion, Israel. The purchased real-estate is part of the facilities BOS has been leasing. The purchase price was NIS 6.5 million (approximately \$1.9 million).

On December 15, 2022, our general meeting of shareholders approved an increase of 3,000,000 Ordinary Shares in the Company's authorized share capital. Following such approval, the Company's authorized share capital is 11,000,000 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 take advantage of the increasing demand for improvements in the productivity of industrial and logistic processes.

- **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.

On March 10, 2022, the Company announced that its RFID division, BOS-Dimex, acquired the assets of Dagesh Inventory Counting and Maintenance Ltd, or Dagesh, which provides inventory-counting services in Israel, mainly for retail stores.

In consideration for the acquisition, BOS agreed to pay Dagesh a total amount of NIS 2.7 million (approximately \$828,000) as follows:

- At closing, the Company paid NIS 2.15 million;
- NIS 150,000 was paid in April 2023;
- NIS 306,267 was paid as an earn out payment, in April 2023; and
- NIS 100,000 shall be paid in March 2024.

The consideration includes payment of earn-out through February 28, 2023, which eventually was higher by NIS 123,000 (approximately \$35,000) than initially estimated. As a result, the total consideration increased from \$793,000 to \$828,000. This increase was recorded as expenses in year 2022, under general and administrative.

- **Our Supply Chain Division** – offers mainly 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 and government 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, Flextronics (Israel) Ltd., and IMI systems Ltd. The Company's RFID Division customers include Shufersal Ltd., Hamashbir Lazarchan Ltd., Fox Vixel Ltd., The Central Company for Sales and Distribution Ltd and Tnuva Ltd.

##### **BOS' Product Offerings**

The Intelligent Robotics Division offers custom-made machines for industrial automation, assembly of products and packing that provide comprehensive technological solutions that increase productivity in industrial and logistic processes.

In 2023, 3.9% of our revenues were attributed to sales generated from the Company's Intelligent Robotics Division.

Towards the end of 2021 the Company has begun to shift the focus of its Intelligent Robotics division from the US markets to the Israeli market. In the Israeli market, the Company targets customers which have extensive automation needs and that could place ongoing orders. In 2023, 98% of the revenues of the Intelligent Robotics division were from the Israeli market.

#### 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 and Honeywell International Inc.

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;

- **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' demands.

- **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 2023, 31% 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, Positronic Global Connector Solutions, Sensata Technologies Inc., Integrated Power Designs, Inc., Netpower, Switchcraft Inc., First Sensor A.G., Fema Electronics Corporation, Yeebo Group, SGC Technologies Inc., Fischer Connectors SA and Civue Optotech Inc.

In 2023, 65% 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.

#### *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)*

|                       | 2023             |            | 2022          |            | 2021             |            |
|-----------------------|------------------|------------|---------------|------------|------------------|------------|
|                       | \$               | %          | \$            | %          | \$               | %          |
| Israel                | 38,125           | 86         | 34,295        | 82         | 25,662           | 77         |
| Far East              | 1,331            | 3          | 2,239         | 5          | 3,494            | 10         |
| India                 | 1,726            | 4          | 1,225         | 3          | 1,701            | 5          |
| America               | 1,433            | 3          | 2,825         | 7          | 2,032            | 6          |
| Europe                | 1,513            | 4          | 622           | 2          | 555              | 2          |
| Rest of the world     | 51               |            | 305           | 1          | 190              |            |
| <b>Total Revenues</b> | <b>\$ 44,179</b> | <b>100</b> | <b>41,511</b> | <b>100</b> | <b>\$ 33,634</b> | <b>100</b> |

#### *Sales by quarters*

|                       | 2023             |            | 2022             |            | 2021             |            |
|-----------------------|------------------|------------|------------------|------------|------------------|------------|
|                       | \$               | %          | \$               | %          | \$               | %          |
| Q1                    | 12,141           | 27         | 10,789           | 26         | 7,328            | 22         |
| Q2                    | 11,337           | 26         | 10,350           | 25         | 9,229            | 27         |
| Q3                    | 9,814            | 22         | 9,045            | 22         | 7,998            | 24         |
| Q4                    | 10,941           | 25         | 11,327           | 27         | 9,079            | 27         |
| <b>Total Revenues</b> | <b>\$ 44,233</b> | <b>100</b> | <b>\$ 41,511</b> | <b>100</b> | <b>\$ 33,634</b> | <b>100</b> |

#### *Sales by divisions*

|                               | 2023  |   | 2022 |   | 2021  |   |
|-------------------------------|-------|---|------|---|-------|---|
|                               | \$    | % | \$   | % | \$    | % |
| Intelligent Robotics Division | 1,742 | 4 | 961  | 2 | 1,576 | 5 |

|                       |    |        |     |    |        |     |    |        |     |
|-----------------------|----|--------|-----|----|--------|-----|----|--------|-----|
| RFID Division         | \$ | 13,713 | 31  | \$ | 15,318 | 37  | \$ | 13,192 | 39  |
| Supply Chain Division | \$ | 28,845 | 66  | \$ | 25,232 | 61  | \$ | 19,008 | 57  |
| Intercompany          | \$ | (121)  | 1-  | \$ | -      | -   | \$ | (142)  | -1  |
| Total Revenues        | \$ | 44,179 | 100 | \$ | 41,511 | 100 | \$ | 33,634 | 100 |

## Competition

### *Intelligent Robotics Division*

Our Intelligent Robotics Division primary target market is the Israeli market. Main competitors in this territory include GBM Automation and Robotics Ltd and Automatica Ltd.

### *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. and Globe Tag Ltd.

### *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 provider of comprehensive solutions to enterprises that improve inventory control and increase productivity of production and logistics processes. The Company operates through three divisions that offer services, equipment and custom-made automatic machines.

## 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 | 1,475                | Through September 2028 (excluding extension options) |
|               | 1,029                | Owned  |

Our average monthly rental fees for the year 2023 and for the year 2022 amounted to \$12,000 and \$24,000, respectively.

### **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

## Overview

BOS is a global provider of comprehensive solutions to enterprises comprised of services, equipment and custom-made automatic machines that improve inventory control and increase productivity of production and logistic processes. BOS manages its business in three reportable divisions: the Intelligent Robotics Division, the RFID Division and the Supply Chain Division.

## Key measures of our performance

BOS, through its three divisions, provides products and services for enterprises that improve the efficiency of inventory production and control.



The Supply Chain division provides a kit of electro-mechanical components for its client. It buys all parts directly from the manufacturers that we represent or in the open market.

The RFID division product offering includes: (i) sale of Automatic Identification Data Capture Equipment (AIDC), which we buy from distributors. This equipment comprises ruggedized handheld computers, barcodes, and RFID scanners and printers. In most cases, the equipment is sold with a service contract for repairs; (ii) sale of software licenses and implementation of Warehouse Management Systems (“WMS”) of Mantis Informatics Israel Ltd.; and (iii) provision of inventory counting services for retail stores and warehouses.

The Intelligent Robotic division provides custom-made mechanical automation (“Robots”) for the industrial and logistic processes. Our Robots are based on our mechanical design, metal sheets that are manufactured for the specific robot, and the integration of off-the-shelf components and other robots.

We generate revenues and deliver services principally through our sales team.

Our revenues are influenced by several factors, including, among other things, (i) the capital expenditure budgets of end-users and potential end-users, all of which may be significantly influenced by macroeconomic factors, and (ii) the lead time of our products, especially under the current global shortage of components.

## Costs of revenues

Costs of revenues consist primarily of the cost of products we purchase. Costs of products also include labor costs of the production team in the Intelligent Robotic division, technicians in the RFID division, warehouse staff, rent and other facilities expenses and depreciation.

For the year ended December 31, 2023, a hypothetical 1% rise in products prices that we buy would have caused an approximate \$294,000 increase in costs of revenues in our Consolidated Statements of Operations and comprehensive loss. As to wages and related benefits, a 10% increase in wages due to wage inflation would have caused an approximate \$40,000 increase in costs of revenues in our Consolidated Statements of Operations. During 2023, we faced trends of inflation in commodities prices and wages costs and we are reflecting these costs in our price list. For further information, please see “Item 11. Quantitative And Qualitative Disclosures About Market Risk” in this annual report.

## Gross profit

The gross profit and gross margin for our products are influenced by a number of factors. The most important of these is the mix of our products sold. Second is the gross profit loss of the Intelligent Robotic division through the years 2019 and 2023. If we are able to reduce the gross profit loss and then achieve a gross profit from this division, it will significantly improve our gross profit. We also seek to reduce our cost of revenues by improving our ability to use less costly components, better management of our inventories levels, and increasing manufacturing efficiencies in the production of our Robots.

## Operating expenses

Our operating expenses for 2023 consisted mainly of selling, general and administrative expenses.

Our selling, general and administrative expenses include employee compensation and employee-related expenses for marketing, sales and other sales-operation positions, and for managerial and administrative functions, including executive officers, accounting, legal, information technology and human resources. This category of expenses also covers commissions, advertising and promotions expenses, professional service fees, respective depreciation, amortization expenses related to certain intangible assets, as well as associated overhead.

Commissions consist of sales-based commissions to independent sales agents and internal sales personnel. Commission rates vary, depending on the geographic location of the agent, type of products sold, and the degree of achievement of certain performance targets. Our advertising and promotion expenses consist primarily of media advertising costs, trade and consumer marketing expenses, which aim to strengthen the leadership of our brand in key vertical markets.

Facilities costs that are included in our selling, general and administrative expenses include an allocated portion of the occupancy costs for our facilities where sales, marketing and administrative personnel are located. Professional service fees for accounting and legal services are also included in selling, general and administrative expenses.

## Legal Contingencies

None.

## 5A. Results of Operation

### Comparison of 2023 to 2022

Consolidated revenues for the year 2023 amounted to \$44.2 million compared to \$41.5 million in the year 2022.

The Supply Chain division's revenues are mainly from the Israeli defense segment. This division's revenues grew by 14% in the year 2023, to \$28.8 million in the year 2023 from \$25.2 million in the year 2022. This growth reflects the ability of the Supply Chain division to provide electronic components sourced from secondary suppliers that were unavailable from the original manufacturers due to the shortage that year.

Revenues of our Intelligent Robotics division increased from \$1 million in year 2022 to \$1.7 million in year 2023. 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 10% to \$13.7 million in the year 2023 due to the slowdown in the Israeli civilian sector.

Gross profit for 2023 was \$9.2 million (a gross margin of 20.8%) as compared to \$9.1 million (a gross margin of 21.8%) for 2022. The increase in the gross profit was primarily due to an increase in gross profit of the Supply Chain division to \$5.8 million in 2023, due to the increase in sales of this division as compared to a gross profit of \$5.4 million in year 2022, which was partially offset by a decrease in the gross profit of the RFID division due to its decreased sales in 2023.

Sales and Marketing expenses of year 2023 amounted to \$4.89 million compared to \$4.92 million in year 2022.

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General and administrative expenses decreased to \$1.8 million in 2023 from \$2.1 million in 2022. The decrease in expenses was primarily due to reduced payroll expense and bad debt expenses.

Financial expenses decreased to \$441,000 in year 2023 from \$647,000 in year 2022. The decrease was due mainly to currency differences expenses that amounted to \$39,000, in year 2023 as compared to currency differences expenses of \$341,000 in year 2022. Due to the increase in the interest rate in 2023, the interest expenses increased from \$306,000 in year 2022 to \$402,000 in 2023.

Net profit for year 2023 was \$2.01 million as compared to a net profit of \$1.28 million in 2022. The basic and diluted net loss per share in 2023 were \$0.35 and \$0.34, respectively, compared to a basic and diluted net loss per share of \$0.23 and \$0.23 in 2022.

For a discussion of our financial results for the year 2021 see item 5A included in our annual report on Form 20-F for the year ended December 31, 2021, which was filed with the U.S. Securities and Exchange Commission on March 31, 2022.

### 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 2023, the NIS depreciated against the dollar by approximately 3%. In 2022, the NIS depreciated against the dollar by approximately 13%. In 2021, 2020 and 2019, the NIS appreciated against the dollar by approximately 3.3%, 6.9% and 7.8%, respectively, while in 2018 the NIS depreciated against the dollar by approximately 8.1%. In 2023 the inflation rate in Israel was 3% and in 2022 the inflation rate in Israel was 5.3%. In 2021 there was annual inflation in Israel of 2.4%. In the years 2020 and 2019, the deflation and inflation rate in Israel was 0.7% and 0.6%, respectively. Therefore, the U.S. dollar cost of our Israeli operations increased in 2023, 2022, 2021 and 2020. 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

Commencing January 1, 2018, the corporate tax rate is 23%.

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### 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, 2023, the Company had net profit of \$2.06 million as compared to net profit of \$1.28 million in the year 2022 and a net profit of \$451,000 in the year 2021. In the year ended December 31, 2023, the Company generated a positive cash flow from operating activities amounting to \$1.83 million as compared to a positive cash flow from operating activities amounting to \$1.28 million in 2022 and a positive cash flow from operating activities amounting to \$9,000 in 2021. The Company's cash and cash equivalents amounted to \$2.56 million as of December 31, 2023. The Company had a positive working capital of \$11,137,000, \$9,379,000 and \$9,118,000, as of December 31, 2023, December 31, 2022 and December 31, 2021, 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, 2023, we had \$1.15 million in long-term debt (net of current maturities of \$170,000) and no short term bank loans.

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.

In August 2022, the Company's wholly owned subsidiary, BOS-Dimex Ltd., received a loan in the amount of \$1.28 million (NIS 4,500,000) from Bank Leumi in order to finance the purchase by the Company of the warehouse and office space in Rishon Lezion.

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, except for the loan to purchase our warehouse and office space, 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 price of \$2.75 per Ordinary Share and an expiration date of January 5, 2026.

In October 2022, the Company extended the expiration date to November 16, 2025 of 300,000 warrants with an exercise price of \$3.30 per ordinary share, which were issued in 2019 in connection with an equity financing.

In May 2022, the Company completed the sale of 450,000 Ordinary Shares and 225,000 warrants at a combined purchase price of \$990,000 in a registered direct offering with several investors. The warrants have an exercise price of \$2.20 per Ordinary Share, are immediately exercisable and will expire in five years.

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, 2023, our trade receivables' and trade payables' aging days were 103 and 95 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 \$11,114,000 as of December 31, 2023. 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 operating activities increased to \$1,829,000 in 2023 from \$1,283,000 in year 2022, corresponding with the increase in the net income to \$2,005,000 in year 2023 from \$1,276,000 in year 2022.

Net cash used in investment activities in year 2023 amounted to \$772,000, attributed to the purchase property and equipment in the amount of \$341,000 and to the acquisition of Proteus and Microwave assets in the amount of \$431,000 (see note 3 to the financial statement). Net cash used in investment activities in 2022 amounted to \$(3,091,000), used mainly for purchasing property and equipment in the amount of \$2,427,000 (see note 7 to the financial statements). Net cash used in investment activities in 2021 amounted to \$(379,000).

Net cash used by financing activities in 2023 amounted to \$389,000, attributed mainly to the repayment of short and long term bank loans in the amount of \$584,000. Net cash provided by financing activities in 2022 amounted to \$1,584,000, attributed mainly to proceeds from short and long term bank loans in the amount of \$1,356,000 and to proceeds from issuance of shares in the amount of \$912,000. Net cash provided by financing activities in 2021 amounted to \$1,311,000, attributed mainly to proceeds from issuance of shares in the amount of \$1,841,000.

## **5C. Research and Development**

Our research and development is attributed to the Intelligent Robotics division and consists of the engineering resources required to develop custom-made automation concepts for potential customers. Research and development expenses were \$158,000 for the year ended December 31, 2023, compared to \$166,000 for the year ended December 31, 2022.

## **5D. Trend Information**

BOS' vision is to become a leading integrator of comprehensive technological solutions that improve the control over and the productivity of inventory production and logistics processes. BOS' solutions comprise of services, equipment, software and custom-made automatic machines. BOS operates through three divisions: RFID, Supply Chain and Intelligent Robotics.

During 2023, we significantly expanded our portfolio of RFID solutions, and we expect this will yield revenue growth in 2024, disregarding any potential adverse effects associated with the current war situation in Israel.

We expect that in 2024, the market will return to buying electronic components from official distributors. In addition, in 2023, the Supply Chain division

The Intelligent Robotic division is transitioning from the Israeli civilian sector to the Israeli defense sector. During 2023 and the first quarter of year 2024, we have established a business connection with a leading Israeli defense customer, and we believe this will promote continued growth of this division in 2024.

## 5E. Critical Accounting Estimates

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
- contingency
- 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 2023 and 2022, inventory write down amounted to \$446 and \$0, respectively.

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

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

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

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

Intangible assets with finite lives are amortized using the straight-line basis over their useful lives, to reflect the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up. As of December 31, 2021, the remaining intangible assets were comprised mainly of customer relationship.

### 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, for goodwill impairment tests performed in fiscal years beginning after December 15, 2019) 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 \$ 4.9 million. The Company performed an impairment analysis as of December 31, 2023 and 2022, 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 2021 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:

As of December 31, 2021, the goodwill under the Intelligent Robotics segment (which comprises of the Imdecol business acquired in 2019) was entirely written off.

d. Revenue Recognition:

*Revenues*

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).

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 or services that will be transferred to the customer.

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

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

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.

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 services 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.

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. Revenues from robotics and automation projects are recognized at a point in time when the project is finally completed and the installation has been successfully carried out, as the control of such project is not eligible to be considered as transferred over time.
4. Deferred revenues include unearned amounts received from customers but not yet recognized as revenues.

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

### **6A. Directors and Senior Management**

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

| <b>Name</b>                        | <b>Age</b> | <b>Position</b>   |
|------------------------------------|------------|---|
| Mr. Ziv Dekel (*) <sup>(1)</sup>   | 60         | Chairman of the Board of Directors (Class C)            |
| Ms. Osnat Gur (*) <sup>(2)</sup>   | 53         | Director (Class A)                                      |
| Mr. Yaron Eldad (*) <sup>(3)</sup> | 57         | Chairman of Audit and Compensation Committees (Class B) |
| Mr. Eyal Cohen <sup>(1)</sup>      | 55         | Chief Executive Officer and Director (Class C)          |
| Mr. Avidan Zelicovsky              | 54         | President   |
| Mr. Moshe Zeltzer                  | 43         | Chief Financial Officer                                 |

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

(1) Elected for a 3-year term in 2022.

(2) Elected for a 3-year term in 2021.

(3) Elected for a 3-year term in 2023.

**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. Osnat Gur** joined our Board of Directors in October 2021. Ms. Gur brings extensive experience in the management of companies. Currently, Ms. Gur serves as the CEO of Oz Global B2B, a full-service global B2B marketing agency. She has served as the CEO of TAT, a technology company from 2014 through 2019 and as a director in the public company Maabarot Products Ltd during 2004-2015. From 2013 to 2015, Ms. Gur served as the CEO of Anlit Ltd a company that develops and produces high-quality children's dietary supplements and from 2012-2014 she served as the deputy to the CEO of Altman Health, a provider of dietary supplements. Ms. Gur holds an MA in Organizational Sociology from the Tel Aviv University, and a BA in Behavioral Sciences from Bar Ilan University.

**Mr. Eyal Cohen** was appointed as the Company's Chief Financial Officer in January 2007. In August 15, 2017, Mr. Cohen was appointed as the Company's Co-Chief Executive Officer, 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 Metropolitnet Ltd (Milgam Group), and between the years 2007-2012 he 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.

### **6B. Compensation**

The following table presents the total compensation paid to or accrued on behalf of all of our directors and officers as a group for the year ended December 31, 2023. Directors who are also executive officers do not receive director fees.

|  | Salaries,<br>Directors' fees,<br>stock-based<br>compensation,<br>Commissions<br>and Bonus<br>(in thousands) | Pension,<br>Retirement<br>and Similar<br>benefits<br>(in thousands) |
|--|---|---|
|--|---|---|

|   |        |        |
|---|--------|--------|
| All directors and officers as a group (then 6 persons). | \$ 744 | \$ 105 |
|---|--------|--------|

## 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. Recently, the Nasdaq Stock Market released a rule that implements the Securities and Exchange Commission's clawback rule mandated by Section 954 of the Dodd-Frank Act. Accordingly, the Company has amended its compensation policy to include clawback provisions consistent with the Nasdaq listing rules.

The form of Compensation Policy of the Company includes a clawback policy which complies with the Nasdaq listing rules was adopted by the shareholders on December 14, 2023.

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.

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.

#### *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, 2023 and to date:

#### CEO, Mr. Eyal Cohen:

##### *Monthly Salary:*

A gross monthly base salary of NIS 50,145 (approximately \$13,825) linked to an increase in the CPI, plus customary benefits, which include managers' insurance, education fund, car expenses and long-term disability insurance.

#### 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 30,000 effective as of October 2022 (approximately \$8,270) linked to an increase in the CPI, plus customary benefits, which include managers' insurance, education fund, car expenses and long-term disability insurance.

#### 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 54,984 (approximately \$15,159) linked to an increase in the CPI, plus customary benefits, which include managers' insurance, education fund, car expenses and long-term disability insurance.

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 3, 2022.

## **6C. Board Practices**

### **Directors:**

Our Board of Directors is currently comprised of 4 directors. The directors are elected by a simple majority at the annual shareholders' meeting. Pursuant to the Company's amended Articles of Association adopted by the shareholders on October 31, 2019, our Board of Directors is comprised of 3 classes, such that on each annual general meeting, approximately one-third of our directors are being nominated for election. At the October 2019 shareholders meeting the directors were elected for staggered periods ranging from one to three years, as follows: Class A shall serve an initial term of one year; Class B shall serve an initial term of two years; and Class C shall serve an initial term of three years.

Commencing upon the December 16, 2020 annual shareholders meeting, a 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, unless such director is elected as a replacement to a director who did not complete his or her term. In such case the replacement director is elected for the remaining period applicable to the director he or she is replacing.

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 determined that Messrs. Dekel, Eldad and Gur, 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 (ii) a transaction likely to have a material impact on the company's profitability, assets or liabilities, the office holder must also disclose any personal interest held by the office holder's spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of the foregoing ("relatives"), or by any corporation in which the office holder or a relative is a 5% or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager.

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

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

#### **Audit Committee:**

Under the Israeli Companies Law, the board of directors of any public company must appoint an audit committee. Our audit committee currently consists of Yaron Eldad, Osnat Gur 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 Osnat Gur. 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.

#### Board Diversity Matrix (As of March 15, 2024)

|  |               |             |                   |                                |
|--|---------------|-------------|-------------------|--------------------------------|
| Country of Principal Executive Offices:                  | Israel        |             |                   |                                |
| Foreign Private Issuer                                   | Yes           |             |                   |                                |
| Disclosure Prohibited under Home Country Law             | No            |             |                   |                                |
| Total Number of Directors                                | 4             |             |                   |                                |
|  | <u>Female</u> | <u>Male</u> | <u>Non-Binary</u> | <u>Did Not Disclose Gender</u> |
| <b>Part I: Gender Identity</b>                           |               |             |                   |                                |
| Directors  | 1             | 3           | 0                 | 0                              |
| <b>Part II: Demographic Background</b>                   |               |             |                   |                                |
| Underrepresented Individual in Home Country Jurisdiction | 0             |             |                   |                                |
| LGBTQ+   | 0             |             |                   |                                |
| Did Not Disclose Demographic Background                  | 0             |             |                   |                                |

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#### 6D. Employees

As of March 15, 2024, we had 83 employees, all located in Israel. Of these 83 employees: 10 employees are in general and administrative positions, 17 employees are in marketing and sales, 14 employees are employed as technicians, 6 employees are employed as engineers, 4 employees are in the manufacturing department and 32 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, 2024, 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 5,748,018 ordinary shares outstanding as of March 15, 2024.

As of March 15, 2024 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 | 183,475   | 3.19%   |
| Avidan Zelicovsky | President               | 13,333  | 0.23%   |
| Ziv Dekel         | Chairman                | 27,500  | 0.48%   |
| Yaron Eldad       | Director                | 7,500   | 0.13%   |
| Moshe Zeltzer     | Chief Financial Officer | 20,000  | 0.35%   |
| Osnat Gur         | Director                | 7,500   | 0.13%   |

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#### 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 certain 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 pool of shares reserved for issuances 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. In December 2022, the shareholders approved an increase of the pool of shares reserved for issuances under the Plan, by 300,000 to a total of 1,000,000 Ordinary Shares. On May 28, 2023, the Company's Board of Directors approved a 10 year extension to the Plan, according to which the Board of Directors may grant options under the Plan through May 31, 2033. Under Israeli law, the extension of the Plan does not require shareholder approval. However, the Plan was submitted to the Shareholders approval as required under the US Internal Revenue Code in order to allow grants of Incentive Stock Options, or ISOs, thereunder. In December 2023, the Company's shareholders did not approve the extension. As a result the Plan is in effect however the Company may not grant ISOs thereunder.

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 20, 2024, we had 300,833 options outstanding under the Plan (of which 156,666 are exercisable) with the exercise prices as set forth below:

| Exercise Price Per Share \$ | Number of Options Outstanding |         |
|-----------------------------|-------------------------------|---------|
| \$ 2.118                    | 13,333                        |         |
| \$ 2.176                    | 10,000                        |         |
| \$ 2.245                    | 87,500                        |         |
| \$ 2.433                    | 7,500                         |         |
| \$ 2.775                    | 20,000                        |         |
| \$ 3.195                    | 20,000                        |         |
| \$ 3.251                    | 7,500                         |         |
| \$ 3.252                    | 100,000                       |         |
| \$ 3.863                    | 30,000                        |         |
| \$ 4.022                    | 5,000                         |         |
|                             | Total                         | 300,833 |

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

##### 7A. Major Shareholders

We are not directly or indirectly owned or controlled by another corporation or by any foreign government. To the Company's knowledge, on December 31, 2023, Todd M. Felte owned 556,390 Ordinary Shares, representing as of March 20, 2024, 9.68% of the issued and outstanding Ordinary Shares. To the Company's knowledge, as of March 20, 2024, 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,<br>2020 | December 31,<br>2021 | December 31,<br>2022 | December 31,<br>2023 |
|--|----------------------|----------------------|----------------------|----------------------|
| Todd M. Felte <sup>(1)</sup>               | 845,700              | 845,700              | 556,390              | 556,390              |
| Janney Montgomery Scott LLC <sup>(2)</sup> | N/A                  | 524,481              |                      |                      |

(1) According to a 13G/A report dated January 30, 2024, which contained information with respect to Mr. Felte's share ownership as of December 31, 2023.

(2) According to a 13G report dated October 8, 2021, which contained information with respect to share Janney Montgomery Scott's ownership as of October 8, 2021.

As of March 15, 2024, there were 35 record holders of Ordinary Shares, of which 6 were registered with addresses in the United States, representing approximately 98% 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 the years 2022 and 2023 the Company charged its subsidiaries, Odem and Dimex, management fees in the total amounts of \$2,185,000 and \$2,331,000, respectively.

Since January 2020 until March 20, 2024, the Company has raised \$3.1 million, most 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 July 18, 2018, most recently, on October 21, 2021. 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 Company's shareholders approved the Company's Compensation Policy which stipulates that the Company may purchase directors' and officers' liability insurance at a coverage of up to \$2.5 million per event and per period, irrespective of the cost of the annual premium.

Recently, the Nasdaq Stock Market released a rule that implements the Securities and Exchange Commission's clawback rule mandated by Section 954 of the Dodd-Frank Act. Accordingly, the Company must amend its compensation policy to include clawback provisions consistent with the Nasdaq listing rules. On December 14, 2023, the Company's shareholders approved the Company's Compensation Policy which includes a clawback policy that complies with the Nasdaq listing rules.

#### **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:

| <b>Year</b> | <b>Export<br/>revenues</b> | <b>% of all<br/>revenues</b> |
|-------------|----------------------------|------------------------------|
| 2023        | \$ 6,054,000               | 14%                          |
| 2022        | \$ 7,216,000               | 17%                          |
| 2021        | \$ 7,972,000               | 24%                          |

#### **Legal Proceedings**

None.

#### **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 symbols "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 2022, to increase the Company's authorized share capital by three million ordinary shares (from 8 million to 11 million). 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 together with our Memorandum and Articles of Association, incorporated by reference hereto.

**1. Objects of the Company:**

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

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

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

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

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

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

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

**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 Israel 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 33 $\frac{1}{3}$ % 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 judiciary tax or other authorities in question.

EACH INDIVIDUAL OR CORPORATION IS URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE ISRAELI OR OTHER TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND OTHER 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 investment circumstances, or certain types of holders or purchasers of our ordinary shares subject to special tax treatment, such as 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.

**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

## 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%. Under the Tax Ordinance, a company will be considered as an “Israeli resident” if: (a) it was incorporated in Israel; or (b) the control and management of its business are operated from Israel.

### 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 capital assets by non-residents of Israel if those assets (i) are located in Israel, (ii) are shares or a right to shares in an Israeli resident corporation, or (iii) represent, directly or indirectly, rights to asset located in Israel, unless a specific exemption is available or an applicable tax treaty between Israel and the shareholder’s country of residence provides otherwise. The Tax Ordinance 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. 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” at 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%). Notwithstanding the foregoing, dealers in securities in Israel whose gains from selling or otherwise disposing of the shares are deemed to be business income are taxed at regular tax rates applicable to business income (a corporate tax rate for a company and a marginal tax rate of up to 47% for an individual in 2024, excluding Surtax, as discussed below) unless contrary provisions in a relevant tax treaty apply.

#### *Taxation of Non-Israeli Residents Shareholders*

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, a non-Israeli “Body of Persons” (as defined under the Tax Ordinance), which includes corporate entities, partnerships and other entities, will not be entitled to such exemption if Israeli residents (i) have, alone or together with such person’s relatives or another person who, according to an agreement, collaborates with such person on a permanent basis regarding material affairs of the company, or with another Israeli tax resident, a controlling interest of more than 25% in any of the means of control of such non-Israeli Body of Persons, or (ii) are the beneficiaries or are entitled to 25% or more of the revenues or profits of such non-Israeli corporation, in each case, whether directly or indirectly.

Additionally, a sale of securities in an Israeli resident company 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.” and the “U.S.-Israel Tax Treaty”, respectively), the sale, exchange or other 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 other disposition, subject to certain conditions, (ii) the capital gains arising from such sale, exchange or other disposition can be attributed to a permanent establishment in Israel, (iii) the capital gains arising from such sale, exchange or other disposition is attributed to real estate located in Israel; (iv) the capital gains arising from such sale, exchange or other 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 other 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 other disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S.-Israel Tax Treaty does not relate to any specific 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 by providing a valid certificate from the Israel Tax Authority allowing for an exemption from withholding tax at source at the time of sale. Specifically, in transactions involving a sale of all of the shares of an Israeli resident company, in the form of a merger or otherwise, the Israel Tax Authority may require shareholders who are not liable for Israeli tax to sign certain declarations or obtain a specific exemption from the Israel Tax Authority to confirm their status as a non-Israeli resident for tax purposes, and, in the absence of such declarations or exemptions, may require the purchaser of the shares to withhold Israeli taxes at source.

### 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 substantial shareholder). The tax will be withheld at source, unless a reduced 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 U.S.-Israel Tax Treaty (if a certificate for a reduced withholding tax rate would be provided in advance from the Israel Tax Authority and): (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— the withholding tax rate is 15% and (iii) in all other cases, the withholding tax rate is 25%. The aforementioned rates under the U.S.-Israel Tax Treaty would not apply if the dividend income is derived through a permanent establishment that the U.S. Resident has in Israel.

A non-Israeli resident who receives a dividend derived from or accrued in Israel, from which tax was fully withheld at source, is generally exempt from the duty to file tax returns in Israel with respect to such income, provided that : (i) such income was not derived from a business conducted in Israel by the taxpayer; (ii) the taxpayer has no other taxable sources of income in Israel with respect to which a tax return is required to be filed; and (iii) the taxpayer is not obligated to pay Surtax (as further explained below).

### **Israeli Transfer Pricing Regulations**

Section 85A of the Tax Ordinance and the transfer pricing regulations promulgated thereunder 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, income derived from dividends, interest and capital gain) exceeds NIS 698,280 for 2023 and NIS 721,560 for 2024.

### **Estate and Gift Tax**

Israeli law presently does not impose estate or gift taxes.

### **Certain Material 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 (as defined below) that holds our Ordinary Shares as "capital assets" within the meaning of Section 1221 of the U.S. Internal Revenue Code of 1986, as amended (the "Code") (generally property held for investment). 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, including an alien individual who is a lawful permanent resident of the United States or meets the substantial presence residency test under U.S. federal income tax laws;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States or any political subdivision thereof or the District of Columbia;
- an estate, the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust: (i) if a U.S. court is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions; or (ii) that has in effect a valid election under applicable U.S. Treasury Regulations to be treated as a U.S. person.

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

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

The discussion in this summary is based on current provisions of the 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 so as to result in U.S. federal income tax consequences different from those discussed below. 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 is not intended to be, and should not be considered to be, legal or tax advice or relied upon for tax planning purposes. Accordingly, each U.S. holder of our Ordinary Shares is advised to consult with its own 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 and the effect of possible changes in applicable tax laws.**



**Taxation of distributions on Ordinary Shares**

Subject the discussion below under “Tax consequences if we are a passive foreign investment company (a “PFIC”),” 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” and we are not a PFIC in the year in which the dividend is paid (or the prior taxable year). 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 (but not below zero) 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. U.S. holders should consult their own tax advisors regarding the availability of the preferential tax rate for dividends paid with respect to our Ordinary Shares.

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

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

**Taxation of the disposition of Ordinary Shares**

Subject to the discussion below under “Tax consequences if we are a passive foreign investment company,” upon the sale, exchange, redemption 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 (including the amount of any foreign taxes withheld therefrom) 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 limitation 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. U.S. holders are urged to consult their own tax advisors regarding the foreign tax credit rules with respect to any foreign taxes withheld from a taxable disposition of our Ordinary Shares, as well as regarding any foreign currency gain or loss in connection with such disposition.

**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, the excess of gains over losses from the disposition of certain assets which produce passive income and gains from commodities and securities transactions. 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, 2023. 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, 2024, 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 in income by the U.S. holder under the election for prior taxable years. 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 with respect to the Ordinary Shares in order 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 (currently 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 and a duly executed IRS Form W-9 or 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, "Statement of Specified Foreign Financial Assets," with their U.S. Federal income tax returns, if the aggregate value of all of these assets exceeds certain threshold amounts. 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. holder is urged to consult with its own tax advisors regarding its obligation to file an IRS Form 8938 in light of its own particular circumstances.

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

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

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

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

#### **10F. Dividends and Paying Agents**

Not applicable.

#### **10G. Statement by Experts**

Not applicable.

#### **10H. Documents on Display**

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

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

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

#### **10I. Subsidiary Information**

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

#### **10J. Annual Report to Securityholders**

Not Applicable

#### **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:

Recognize all 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) as a component of OCI, net of tax; such amounts are 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, 2022 and 2023, and during the periods then ended, the impact on the Company's financial statements of these forward contracts amounted to an income of (\$57,000) and (\$25,000), 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 the year 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.

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, 2023, and December 31, 2022:

|                   | <u>2023</u>       | <u>2022</u>          |
|-------------------|-------------------|----------------------|
| Israel and others | 11,567,000        | \$ 9,993,000         |
| India             | 355,000           | 435,000              |
| Americas          | 263,000           | 401,000              |
| Far East          | 49,000            | 5,000                |
| Europe            | 190,000           | -                    |
|                   | <u>12,424,000</u> | <u>\$ 10,834,000</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 2024.

#### Bank Risk

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

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

Not applicable.

## PART II

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

Not applicable.

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

Not applicable.

#### **Item 15: Controls and Procedures**

- (a) Disclosure controls and procedures.

The Company's Chief Executive Officer and its Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 1a-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, 2023. 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, 2023, 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, 2023, 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 2022 and 2023.

The table below summarizes the audit and other fees paid and accrued by the Company and its consolidated subsidiaries to Grant Thornton during 2022 and 2023. All of such fees were pre-approved by our audit committee.

|  | Year Ended<br>December 31, 2023 |             | Year Ended<br>December 31, 2022 |             |
|--|---------------------------------|-------------|---------------------------------|-------------|
|  | Amount                          | Percentage  | Amount                          | Percentage  |
| Audit Fees – Grant Thornton <sup>(1)</sup>     | \$ 81,000                       | 100%        | \$ 95,000                       | 100%        |
| All Other Fees – Grant Thornton <sup>(2)</sup> | \$ -                            | -%          | \$ -                            | -%          |
| <b>Total</b>                                   | <b>\$ 81,000</b>                | <b>100%</b> | <b>\$ 95,000</b>                | <b>100%</b> |

(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 2023.

**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.

**Item 16I: Disclosure Regarding Foreign Jurisdictions that Prevent Inspections**

Not applicable.

**Item 16J: Insider Trading Plans (10b5-1)**

Not applicable.

**Item 16K: Cybersecurity**

The Company has established and maintains a cybersecurity risk management program, comprising policies, procedures, compliance measures, and awareness programs aimed at mitigating risks. This program is integrated into the Company's overall risk management system and processes, and is managed internally. Management is tasked with identifying risks that could impede the achievement of stated control activities in the service organization's systems. It has implemented a process to identify relevant risks that could affect the organization's ability to deliver secure and reliable services to its customers, which include a review of the cybersecurity safeguards utilized by their critical third party service providers. Risk assessments are conducted periodically or adjusted based on evolving business needs, covering risks that could hinder the Company's objectives and those specifically related to data security compromises.

Each identified risk is evaluated based on its impact and likelihood of occurrence, with high-scoring risks receiving prompt attention. Risks are analyzed to determine whether they meet the Company's risk acceptance criteria for toleration or require a mitigation plan.

Cybersecurity threat oversight is led by the Chief Technology Officer, supported by the CFO, who has extensive experience in implementing operational procedures.

The audit committee is responsible for overseeing cybersecurity and monitoring risks. Management regularly updates the audit committee on these risks during committee meetings.

As of the reporting date, there are no significant cybersecurity threats known to materially affect or are reasonably likely to materially affect the Company, including its business strategy, financial condition, or operational results.

**PART III**

**Item 17: Financial Statements**

Not applicable.

**Item 18: Financial Statements**

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

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| <a href="#">Consolidated Statements of Operations</a>                                   | F-6         |
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| <a href="#">Consolidated Statements of Cash Flows</a>                                   | F-8 - F-9   |
| <a href="#">Notes to Consolidated Financial Statements</a>                              | F-10 - F-44 |

**Item 19: Exhibits**

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

|      |   |
|------|---|
| 1.1  | <a href="#">Memorandum of Association, as amended (incorporated by reference to the Company's Annual Report on Form 20-F filed on March 30, 2023).</a>  |
| 1.2  | <a href="#">Articles of Association, as amended (incorporated by reference to the Company's Annual Report on Form 20-F filed on March 30, 2023).</a>  |
| 2.1  | <a href="#">Description of Securities (incorporated by reference to the Company's Annual Report on Form 20-F filed on March 30, 2021).</a>  |
| 4.1  | <a href="#">Form of Indemnification Agreement between the Company and its officers and directors, as amended (incorporated by reference to Exhibit A of the Company's Proxy Statement on Form 6-K, filed on September 3, 2021).</a>   |
| 4.2* | <a href="#">The Company's Israeli 2003 Share Option Plan, as amended.</a>   |
| 4.3  | <a href="#">Summary of Economic Terms: Request by BOS-Odem Ltd. for NIS Loan from the First International Bank of Israel, Overdraft Terms on the Current Account at the First International Bank of Israel, Request by BOS-Dimex Ltd. for NIS Loan from the First International Bank of Israel; Letter of Undertaking to First International Bank of Israel (translated from Hebrew) (incorporated by reference to the Company Annual Report on Form 20-F filed on March 29, 2018).</a> |
| 4.4  | <a href="#">Compensation Policy for Directors and Officers, including Clawback Policy (incorporated by reference to the Company's Proxy Statement on Form 6-K filed on December 14, 2023).</a>  |
| 4.6  | <a href="#">Securities Purchase Agreement dated May 16, 2019, by and among B.O.S Better Online Solutions Ltd. and the Investors listed therein, and Form of Warrant issued by the Company to the Investors (incorporated by reference to the Company's Registration Statement on Form F-3 filed on August 8, 2019).</a>   |
| 4.7  | <a href="#">Form of First Amendment to Ordinary Share Purchase Warrant issued in May 16, 2019, dated October 23, 2022 (incorporated by reference to Exhibit 99.1 to the Company's Report on Form 6-K filed on November 21, 2022).</a>   |

|         |  |
|---------|--|
| 4.8     | <a href="#">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).</a> |
| 4.9     | <a href="#">Summary of Key Terms of Asset Purchase Agreement between BOS-Dimex Ltd. and Dagesh Inventory Counting and Maintenance Ltd., dated March 10, 2022 (incorporated by reference to the Company Annual Report on Form 20-F filed on March 31, 2022).</a>      |
| 4.10    | <a href="#">Form of Securities Purchase Agreement (incorporated by reference to Exhibit 10.1 to the Company's Report on Form 6-K filed on May 2, 2022)</a>   |
| 4.11    | <a href="#">Form of Ordinary Share Purchase Warrant (incorporated by reference to Exhibit 10.2 to the Company's Report on Form 6-K filed on May 2, 2022)</a>   |
| 8.1     | <a href="#">List of subsidiaries (incorporated by reference to the Company Annual Report on Form 20-F filed on March 29, 2018).</a>  |
| 11      | <a href="#">Code of Ethics (incorporated by reference to the Company's Annual Report on Form 20-F filed on April 14, 2014).</a>  |
| 12.1*   | <a href="#">Certification by Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.</a>  |
| 12.2*   | <a href="#">Certification by Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.</a>  |
| 13.1*   | <a href="#">Certification by Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934.</a>  |
| 23.1*   | <a href="#">Consent of Fahn Kanne &amp; Co. Grant Thornton Israel.</a>   |
| 97.1*   | <a href="#">Clawback Policy</a>  |
| 101.INS | Inline XBRL Instance Document  |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document.  |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document.  |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document.   |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document.  |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document.   |
| 104     | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).  |

\* 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: April 1, 2024

**B.O.S. BETTER ONLINE SOLUTIONS LTD.  
AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2023  
IN U.S. DOLLARS  
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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the 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. (an Israeli corporation) and subsidiaries (the "Company") as of December 31, 2023 and 2022, the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2023, 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, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

### Basis for opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence 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 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, 2023, the Company performed goodwill impairment analysis with respect to goodwill balance with a total carrying amount of US \$4.9 million that was allocated to certain reporting unit. 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 the reporting unit 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, projected 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 estimates. 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 included the following, among others:

- 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 unit, (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 31, 2024



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

**CONSOLIDATED BALANCE SHEETS**

U.S. dollars in thousands

|  | December 31,     |                  |
|--|------------------|------------------|
|  | 2023             | 2022             |
| ASSETS   |                  |                  |
| CURRENT ASSETS:  |                  |                  |
| Cash and cash equivalents  | \$ 2,344         | \$ 1,763         |
| Restricted cash deposits   | 217              | 130              |
| Trade receivables (net of allowance for doubtful accounts of \$287 and \$82 at December 31, 2023 and 2022, respectively) | 12,424           | 10,834           |
| Other accounts receivable and prepaid expenses   | 963              | 1,414            |
| Inventories  | 6,070            | 6,433            |
| <b>Total current assets</b>  | <b>22,018</b>    | <b>20,574</b>    |
| LONG-TERM ASSETS   | 196              | 260              |
| PROPERTY AND EQUIPMENT, NET  | 3,268            | 3,270            |
| OPERATING LEASE RIGHT-OF-USE ASSETS, NET   | 1,026            | 1,110            |
| OTHER INTANGIBLE ASSETS, NET   | 1,078            | 486              |
| GOODWILL   | 4,895            | 4,895            |
| <b>Total assets</b>  | <b>\$ 32,481</b> | <b>\$ 30,595</b> |

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

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

**CONSOLIDATED BALANCE SHEETS**

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

|   | December 31,  |               |
|---|---------------|---------------|
|   | 2023          | 2022          |
| LIABILITIES AND SHAREHOLDERS' EQUITY  |               |               |
| CURRENT LIABILITIES:  |               |               |
| Current maturities of long-term loans   | \$ 170        | \$ 586        |
| Operating lease liabilities, current  | 235           | 301           |
| Trade payables  | 7,710         | 7,984         |
| Employees and payroll accruals  | 980           | 1,016         |
| Deferred revenues   | 600           | 542           |
| Advances net of inventory in progress   | 137           | 47            |
| Accrued expenses and other liabilities  | 1,072         | 719           |
| <b>Total current liabilities</b>  | <b>10,904</b> | <b>11,195</b> |
| LONG-TERM LIABILITIES:  |               |               |
| Long-term loans, net of current maturities  | 1,150         | 1,294         |
| Operating lease liabilities, non-current  | 759           | 827           |
| Long-term deferred revenues   | 339           | 241           |
| Accrued severance pay   | 490           | 404           |
| <b>Total long-term liabilities</b>  | <b>2,738</b>  | <b>2,766</b>  |
| COMMITMENTS AND CONTINGENT LIABILITIES (Note 12)  |               |               |
| SHAREHOLDERS' EQUITY:   |               |               |
| Share capital:  |               |               |
| Ordinary Shares: Authorized; 11,000,000 shares at December 31, 2023 and 2022, respectively; Issued and outstanding: 5,748,018 and : 5,701,518 shares at December 31, 2023 and 2022, respectively and additional paid-in capital | 86,209        | 86,009        |
| Accumulated other comprehensive loss  | (243)         | (243)         |
| Accumulated deficit   | (67,127)      | (69,132)      |
| <b>Total shareholders' equity</b>   | <b>18,839</b> | <b>16,634</b> |

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

March 31, 2024

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, |        |           |
|--|-------------------------|--------|-----------|
|  | 2023                    | 2022   | 2021      |
| Revenues   | \$ 44,179               | 41,511 | \$ 33,634 |
| Cost of revenues   | 34,970                  | 32,451 | 27,048    |
| Gross profit   | 9,209                   | 9,060  | 6,586     |
| Operating costs and expenses:                                    |                         |        |           |
| Research and development   | 158                     | 166    | 208       |
| Sales and marketing  | 4,891                   | 4,924  | 3,955     |
| General and administrative                                       | 1,762                   | 2,122  | 1,906     |
| Other income   | (52)                    | (81)   | -         |
| Total operating costs and expenses                               | 6,759                   | 7,131  | 6,069     |
| Operating income   | 2,450                   | 1,929  | 517       |
| Financial expenses, net  | (441)                   | (647)  | (105)     |
| Income before taxes on income                                    | 2,009                   | 1,282  | 412       |
| Taxes on income (tax benefit)                                    | 4                       | 6      | (39)      |
| Net income   | \$ 2,005                | 1,276  | \$ 451    |
| Basic net income per share                                       | \$ 0.35                 | 0.23   | \$ 0.09   |
| Diluted net income per share                                     | \$ 0.34                 | 0.23   | \$ 0.08   |
| Shares (in thousands) used in calculation of earnings per share: |                         |        |           |
| Basic  | 5,727                   | 5,550  | 5,212     |
| Diluted  | 5,905                   | 5,589  | 5,424     |

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<br>Shares | Share<br>capital and<br>additional<br>paid-in<br>capital | Accumulated<br>other<br>comprehensive<br>income (loss) | Accumulated<br>deficit | Total<br>shareholders'<br>equity |
|---|--------------------|--|--|------------------------|----------------------------------|
| Balance at December 31, 2020  | 4,391,163          | \$ 82,827  | \$ (243)   | \$ (70,715)            | \$ 11,869                        |
| Share based compensation expense (see Note 13.c)  | 7,188              | 94   | -  | -                      | 94                               |
| Exercise of options   | 52,167             | 119  | -  | -                      | 119                              |
| Issuance of Ordinary Shares in connection with Prospectus<br>Supplement (see Note 13.a.3) | 800,000            | 1,814  | -  | -                      | 1,814                            |
| Net income  | -                  | -  | -  | 451                    | 451                              |
| Balance at December 31, 2021  | 5,250,518          | 84,854   | (243)  | (70,264)               | 14,347                           |
| Share based compensation expense (see Note 13.c)  |                    | 241  | -  | (144)                  | 97                               |
| Exercise of options   | 1,000              | 2  | -  | -                      | 2                                |
| Issuance of Ordinary Shares in connection with Prospectus<br>Supplement (see Note 13.a.6) | 450,000            | 912  | -  | -                      | 912                              |
| Net income  | -                  | -  | -  | 1,276                  | 1,276                            |

|  |           |        |       |          |        |
|--|-----------|--------|-------|----------|--------|
| Balance at December 31, 2022   | 5,701,518 | 86,009 | (243) | (69,132) | 16,634 |
| Share based compensation expense (see Note 13.c)                                       |           | 97     | -     | -        | 97     |
| Exercise of options  | 46,500    | 103    | -     | -        | 103    |
| Issuance of Ordinary Shares in connection with Prospectus Supplement (see Note 13.a.6) | -         | -      | -     | -        | -      |
| Net income   | -         | -      | -     | 2,005    | 2,005  |
| Balance at December 31, 2023   | 5,748,018 | 86,209 | (243) | (67,127) | 18,839 |

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, |          |          |
|---|-------------------------|----------|----------|
|   | 2023                    | 2022     | 2021     |
| <b>Cash flows from operating activities:</b>  |                         |          |          |
| Net income  | \$ 2,005                | \$ 1,276 | \$ 451   |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities:                               |                         |          |          |
| Depreciation and amortization   | 510                     | 361      | 258      |
| Interest and currency fluctuation of loans  | (69)                    | (211)    | 39       |
| Severance pay, net  | 86                      | 124      | (84)     |
| Share-based compensation expense  | 98                      | 97       | 67       |
| Decrease (Increase) in trade receivables, net   | (1,590)                 | (1,625)  | (37)     |
| Decrease (Increase) in other accounts receivable and other long- term assets  | 515                     | (547)    | 243      |
| Decrease (Increase) in inventories  | 453                     | (1,068)  | (515)    |
| Decrease (Increase) in operating lease right-of-use assets, net   | 304                     | 582      | 491      |
| Decrease (Increase) in operating lease liabilities  | (354)                   | (723)    | (491)    |
| Increase (decrease) in trade payables   | (274)                   | 2,785    | (292)    |
| Increase (decrease) in employees and payroll accruals, advances deferred revenues, accrued expenses and other liabilities | 145                     | 232      | (121)    |
| Net cash provided by operating activities   | 1,829                   | 1,283    | 9        |
| <b>Cash flows from investing activities:</b>  |                         |          |          |
| Purchase of property and equipment  | (341)                   | (2,427)  | (379)    |
| Acquisition of Dagesh's assets (Appendix B)   | -                       | (664)    | -        |
| Acquisition of Proteus and Microwave's assets (Appendix B)  | (431)                   | -        | -        |
| Net cash (used in) investing activities   | (772)                   | (3,091)  | (379)    |
| <b>Cash flows from financing activities:</b>  |                         |          |          |
| Proceeds from issuance of shares, net   | -                       | 912      | 1,841    |
| Proceeds from exercise of options   | 102                     | 2        | 119      |
| Proceeds from short and long-term loans   | 93                      | 1,356    | 173      |
| Repayment of short and long-term loans  | (584)                   | (686)    | (822)    |
| Net cash provided by (used in) financing activities   | (389)                   | 1,584    | 1,311    |
| Increase (decrease) in cash, cash equivalents and restricted cash   | 668                     | (224)    | 941      |
| Cash, cash equivalents and restricted cash at the beginning of the year   | 1,893                   | 2,117    | 1,176    |
| Cash, cash equivalents and restricted cash at the end of the year   | \$ 2,561                | \$ 1,893 | \$ 2,117 |

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

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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, |       |       |
|---|-------------------------|-------|-------|
|   | 2023                    | 2022  | 2021  |
| <b>Supplemental disclosure of cash flow activities:</b> |                         |       |       |
| (a) Net cash paid during the year for:                  |                         |       |       |
| Interest  | \$ 118                  | \$ 58 | \$ 59 |

|   |          |          |       |
|---|----------|----------|-------|
| (b) Non-cash activities:  |          |          |       |
| Operating lease right-of-use assets                               | 220      | 748      | 669   |
| Operating lease liabilities                                       | \$ 220   | \$ 748   | 669   |
| (c) Reconciliation of cash, cash equivalents and restricted cash: |          |          |       |
| Cash and cash equivalents   | 2,344    | 1,763    | 1,875 |
| Restricted cash   | 217      | 130      | 242   |
| Total cash, cash equivalents and restricted cash                  | \$ 2,561 | \$ 1,893 | 2,117 |

**Appendix B:** Net cash used to pay for the acquisition of Proteus and Microwave’s assets (see Note 3):

|  |  |                 |
|--|--|-----------------|
|  |  | <b>April 1,</b> |
|  |  | <b>2023</b>     |
| Intangible assets, Net                   |  | \$ 760          |
| Accrued expenses                         |  | 329             |
| Net cash used to pay for the Acquisition |  | \$ 431          |

Net cash used to pay for the acquisition of Dagesh’s assets (see Note 3):

|  |  |                 |
|--|--|-----------------|
|  |  | <b>March 9,</b> |
|  |  | <b>2022</b>     |
| Intangible assets, Net                   |  | \$ 445          |
| Goodwill                                 |  | \$ 219          |
| Net cash used to pay for the Acquisition |  | \$ 664          |

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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 16).

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”), is 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. Iron Swords War

In October 2023, the Israeli government declared a state of war in response to an attack on civilians at its southern border. Subsequently, additional attacks were launched towards northern Israel. The new security situation has led to several challenges, including some disruptions in supply chains, a shortage of personnel due to mobilization for reserve duty, and fluctuations in foreign currency exchange rates relative to the Israeli shekel.

Regional tensions involving Houthis attacks on commercial ships have recently intensified, affecting shipping operation at the Red Sea. This could lead to delays in shipments as well as increased shipping costs.

The Company has taken measures to ensure the safety of its employees and business partners, as well as the communities in which it operates, in order to minimize any potential impact on its business, including avoidance of disruption to operation in its facilities in Israel.

The security situation in recent months had a non-material impact on the Company’s business results. As of today, the majority of the Company’s employees in Israel who had been called up for reserve duty have now returned to full-time work.

However, since the developments related to the war situation, as well as its duration, are unpredictable, the Company has no ability to estimate the extent of the war’s potential impact on its future business and results. The Company continuously monitors the developments and will take all necessary actions to minimize any negative consequences to its operations and assets.

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

**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, were eliminated upon consolidation.

## d. Cash equivalents:

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

## e. Restricted bank deposits:

Restricted bank deposits are deposits related to guaranties to customers and customs. Restricted deposits are presented at their cost. All restricted bank deposits are short term in nature.

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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.)**

## f. Inventory:

The inventory is valued at the lower of cost or net realizable value. Cost is determined using the moving average cost method. In 2023 and 2022, inventory write- down amounted to \$446 and \$0, 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<br>lease or the life of the assets |             |
| Motor vehicles                 | 15   |             |
| Buildings                      | 4  |             |

## 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.

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.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

- 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.

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, 2023, the remaining intangible assets were comprised mainly of customer relationships, non-competition and distribution rights.

For year ended on December 31, 2023, no impairment losses were identified.

Depreciation is calculated by using the straight-line method over the estimated useful lives of the assets, at the following annual rates:

|                       | <u>Periods</u> |
|-----------------------|----------------|
| Customer relationship | 8.8            |
| Non-competition       | 4              |
| Distribution rights   | 8.8            |

- 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.

Commencing upon the adoption of ASU 2017-04 (which eliminated Step 2 from the goodwill impairment), for goodwill impairment tests performed in fiscal years beginning after December 15, 2019 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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. As of December 31, 2023 there is a balance of goodwill related only to the RFID Division.

Under the RFID Division segment there is one reporting unit with an allocated goodwill amount of approximately \$ 4.9 million. The Company performed an impairment analysis as of December 31, 2023 and 2022, 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 2023 impairment test were four years of projected net cash flows, estimated weighted average cost of capital and a long-term growth rate.

- 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 fully paid.

Severance expenses for years 2023, 2022 and 2021 amounted to \$267, \$417, and \$379, respectively.

I. Revenue recognition:

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.

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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.)**

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

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

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

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.

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 services to the customer is separately identifiable from other promises in the contract.

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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.)**

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.

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 electromechanical 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, upon transfer to the customer's carrier or upon delivery 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. Revenues from a robotics and automation projects are recognized at a point in time when a project is finally completed and the installation has been successfully carried out, as the control of such project is not eligible to be considered as transferred over time.
4. Deferred revenues include unearned amounts received from customers but not yet recognized as revenues.

For the years ended December 31, 2023 and 2022 the Company recognized revenue of approximately US\$1,770 and US\$917, respectively, that was included in the deferred revenue balance at the beginning of each reporting period. An amount of approximately US\$ 1,475 is expected to be recognized in the following year.

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

- 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, and other accounts receivable.

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 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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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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 receivables are written off against the allowance for uncollectible accounts when the Company determines that these amounts are to be considered as no longer collectible.

The expenses (income) related to the allowance for doubtful accounts for the years ended December 31, 2023, 2022 and 2021 was \$205, \$46 and \$21, 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:



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

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.

During the reporting periods the Company's activity with derivative instruments was insignificant.

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 462,500, 1,203,000 and 40,000 for the years ended December 31, 2023, 2022, and December 31, 2021, 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.

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**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 2023, 2022 and 2021 was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

|                      | Year ended December 31, |           |           |
|----------------------|-------------------------|-----------|-----------|
|                      | 2023                    | 2022      | 2021      |
| Risk-free interest   | 3.925%                  | 4.105%    | 0.84%     |
| Dividend yields      | 0                       | 0         | 0         |
| Volatility           | 42%                     | 43%       | 48%       |
| Expected option term | 3.5 years               | 3.5 years | 3.5 years |

s. Fair value of measurements:

The Company measures fair value and discloses fair value measurements for 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, 2023 the Company measured the fair value of one reporting unit with allocated goodwill in an amount of US\$ 4.9 million that was allocated to a certain

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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

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

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

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 the financial instruments included in the working capital of the Company (cash and cash equivalents, restricted cash, restricted bank deposits, trade receivables, other accounts receivable, trade payables, and other accounts payable) approximate their fair values due to the short-term maturities of such instruments.

The carrying value of long term loans is considered approximate to its fair value as their terms (mainly the interest rate) is considered close to current market terms.

**t. Cost of sales**

Cost of sales consist primarily of salaries, salary related expenses and costs of contractors and materials.

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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

**u. Research and development costs**

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

**v. Reclassification**

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

**w. 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.

In accordance with ASC 842, the Company determines if an arrangement is a lease at inception. Under the ASC 842, 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 if any, are recorded when incurred.

The Company 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 finance leases throughout the reporting periods.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

**x. Recently adopted accounting pronouncements**

In October 2021, the FASB issued ASU 2021-08 "Business Combinations (Topic 805), Accounting for Contract Assets and Contract Liabilities from Contracts with Customers," which requires contract assets and contract liabilities acquired in a business combination to be recognized and measured by the acquirer on the acquisition date in accordance with ASC 606, Revenue from Contracts with Customers. The guidance will result in the acquirer recognizing contract assets and contract liabilities at the same amounts recorded by the acquiree. The guidance should be applied prospectively to acquisitions occurring on or after the effective date. The guidance is effective for the fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted, including in interim periods, for any financial statements that have not yet been issued. Adopting the new guidance in an interim period other than the first fiscal quarter requires an entity to apply the new guidance to all prior business combinations that have occurred since the beginning of the annual period in which the new guidance was adopted. The Company applied the provisions of ASU 2021-08 prospectively commencing January 1, 2023. However, the adoption did not have notable effect on the consolidated financial statements.

**z. Recently issued accounting pronouncements, not yet adopted**

**ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosure"**

On November 27, 2023, the FASB issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosure" ("ASU 2023-07").

ASU 2023-07 is aimed to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. In accordance with ASU 2023-07, public entities are required to disclose significant segment expenses by reportable segment if they are regularly provided to the CODM and included in each reported measure of segment profit or loss. Such disclosures are required on both an annual and an interim basis. In addition, the amendments in ASU 2023-07 enhance interim disclosure by requiring that all existing annual disclosures about segment profit or loss must be provided on an interim basis in addition to disclosure of significant segment expenses and other segment items. ASU 2023-07 also clarifies circumstances in which an entity can disclose multiple segment measures of profit or loss.

ASU 2023-07 provides new segment disclosure requirements for entities with a single reportable segment and contain other disclosure requirements such as the CODM's title and position is required on an annual basis, as well as an explanation of how the CODM uses the reported measure(s) and other disclosures.

ASU 2023-07 applies to all public entities that are required to report segment information in accordance with ASC 280.

ASU 2023-07 is effective in a retrospective manner, for fiscal years beginning after Dec. 15, 2023, and interim periods within fiscal years beginning after Dec. 15, 2024. Early adoption is permitted.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**z. Recently issued accounting pronouncements, not yet adopted (cont.)**

**Income Taxes (Topic 740): Improvements to Income Tax Disclosures**

On December 14, the FASB issued ASC 2023-09— Income Taxes (Topic 740): Improvements to Income Tax Disclosures ("ASC 2023-09").

ASU 2023-09 requires disaggregated information about a reporting entity's effective tax rate reconciliation as well as information on income taxes paid. ASU 2023-09, Improvements to Income Tax Disclosures, applies to all entities subject to income taxes.

The amendments in ASU 2023-09 require that public business entities (PBE's) on an annual basis (1) disclose specific categories in the rate reconciliation and (2) provide additional information for reconciling items that meet a quantitative threshold. Specifically, PBE's are required to disclose a tabular reconciliation, using both percentages and reporting currency amounts, according to specific categories. Separate disclosure is required for any reconciling item in which the effect of the item is equal to or greater than 5 percent of the amount computed by multiplying the income (or loss) from continuing operations before income taxes by the applicable statutory income tax rate.

Also, ASC 2023-09 require that all entities disclose on an annual basis, information about income taxes paid, including the amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign taxes and the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions. In addition, ASC 2023-09 require that all entities disclose information about income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign and Income tax expense (or benefit) from continuing operations disaggregated by federal (national), state, and foreign.

The amendments in ASC 2023-09 also eliminate certain current disclosure requirements.

For public business entities (PBEs), the new requirements will be effective for annual periods beginning after December 15, 2024. The guidance will be applied on a prospective basis with the option to apply the standard retrospectively. Early adoption is permitted.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3:- ACQUISITION OF BUSINESS:**

**A. Acquisition of Dagesh**

On March 10, 2022, the Company announced that its RFID division, BOS-Dimex, acquired the assets of Dagesh Inventory Counting and Maintenance Ltd, or Dagesh, which provides inventory-counting services in Israel, mainly for retail stores.

In consideration for the acquisition, the Company paid Dagesh a total amount of NIS 2.7 million (approximately \$828,000) as follows:

- At closing, the Company paid NIS 2.15 million;
- NIS 150,000 was paid in April 2023;
- NIS 306,267 was paid as an earn out payment, in April 2023; and
- NIS 100,000 shall be paid in April 2024.

The consideration included payment of earn-out through February 28, 2023, which eventually was higher by NIS 123,000 (approximately \$35,000) than initially estimated. As a result, the total consideration increased from \$793,000 to \$828,000. This increase was recorded as expenses in year 2022, under general and administrative.

The purchase price allocation of the acquired business (Dagesh Ltd.) was as follows:

|  | <b>March 09,<br/>2022</b> |
|--|---------------------------|
| <b>Total acquisition price</b>                             | <b>\$ 793</b>             |
| <b>Recognized amounts of identifiable assets acquired:</b> |                           |
| Intangible assets, net (1)                                 | 574                       |
| <b>Net assets acquired</b>                                 | <b>574</b>                |
| Goodwill (2)   | <b>219</b>                |

- (1) The fair value estimate of identifiable intangible assets was determined using the "income approach", which is a 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.
- (2) As part of the purchase price allocation for the acquisition, the Company recorded goodwill in an amount of \$219. 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. 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 8C). Due to the characteristics of the acquired business, such amount was allocated to the RFID segment.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

**B. Acquisition of Proteus' share in a joint venture**

On July 7, 2013, the Company entered into a profit-sharing agreement with Proteus Ltd (Proteus), providing for the joint market and sale of certain products.

On April 2, 2023, Proteus sold to the Company its share in the joint activity in consideration of \$723, of which \$138 was paid on signing and the rest is

paid in monthly installments during a two-year period.

Pursuant to the sale agreement, Proteus will gradually phase out its marketing and sale of the products until the end of 2023.

**C. Acquisition of certain distribution rights**

On May 31, 2023, the Company entered into an agreement with Microwave Ltd. for the purchase of its distribution rights for certain products, in consideration of \$38, paid at signing.

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

|                        | December 31,  |                 |
|------------------------|---------------|-----------------|
|                        | 2023          | 2022            |
| Government authorities | \$ 207        | \$ 167          |
| Advances to suppliers  | 324           | 704             |
| Prepaid expenses       | 417           | 442             |
| Other                  | 15            | 101             |
|                        | <u>\$ 963</u> | <u>\$ 1,414</u> |

**NOTE 5:- INVENTORIES:**

|                               | December 31,    |                 |
|-------------------------------|-----------------|-----------------|
|                               | 2023            | 2022            |
| Raw materials                 | \$ 229          | \$ 177          |
| Inventory in progress         | 1,301           | 1,750           |
| Finished goods                | 5,260           | 5,788           |
| Net – advances from customers | (720)           | (1,282)         |
|                               | <u>\$ 6,070</u> | <u>\$ 6,433</u> |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 6:- LONG TERM ASSETS**

|                  | December 31,  |               |
|------------------|---------------|---------------|
|                  | 2023          | 2022          |
| Prepaid expenses | \$ 174        | \$ 201        |
| Other            | 22            | 59            |
|                  | <u>\$ 196</u> | <u>\$ 260</u> |

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

|                                  | December 31,    |                 |
|----------------------------------|-----------------|-----------------|
|                                  | 2023            | 2022            |
| <u>Cost:</u>                     |                 |                 |
| Buildings                        | \$ 2,155        | \$ 2,144        |
| Computers and software           | 1,397           | 1,335           |
| Machines                         | 633             | 593             |
| Office furniture and equipment   | 536             | 521             |
| Leasehold improvements           | 1,299           | 1,266           |
| Motor Vehicles                   | 851             | 671             |
|                                  | <u>\$ 6,871</u> | <u>\$ 6,530</u> |
| <u>Accumulated Depreciation:</u> |                 |                 |
| Buildings                        | \$ 76           | \$ 19           |
| Computers and software           | 1,315           | 1,242           |
| Machines                         | 573             | 558             |
| Office furniture and equipment   | 404             | 391             |
| Leasehold improvements           | 770             | 683             |
| Motor Vehicles                   | 465             | 367             |
|                                  | <u>\$ 3,603</u> | <u>\$ 3,260</u> |
| Property and equipment, net      | <u>\$ 3,268</u> | <u>\$ 3,270</u> |

Depreciation expenses amounted to \$343, \$254 and \$238 for the years ended December 31, 2023, 2022 and 2021, respectively. Additional equipment was purchased in an amount of \$ 341, \$ 2,427 and \$ 379 in the years ended December 31, 2023, 2022 and 2021, respectively.

During August 2022, the Company signed an agreement for the purchase of offices and a warehouse that was previously rented until the end of

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**NOTE 8:- GOODWILL AND OTHER INTANGIBLE ASSETS, NET****A. Other Intangible Assets:**

|                           | <u>December 31,</u><br><u>2023</u> | <u>December 31,</u><br><u>2022</u> |
|---------------------------|------------------------------------|------------------------------------|
| Cost:                     |                                    |                                    |
| Suppliers' relationship * | 760                                | -                                  |
| Customer relationship*    | 1,032                              | 1,032                              |
| Non-competition*          | 270                                | 270                                |
|                           | <u>2,062</u>                       | <u>1,302</u>                       |
| Accumulated amortization: |                                    |                                    |
| Suppliers' relationship * | 64                                 |                                    |
| Customer relationship*    | 793                                | 758                                |
| Non-competition*          | 127                                | 58                                 |
|                           | <u>984</u>                         | <u>816</u>                         |
| Amortized cost            | <u>\$ 1,078</u>                    | <u>\$ 486</u>                      |

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

B. Amortization expenses amounted to \$168, \$107 and \$20 for the years ended December 31, 2023, 2022 and 2021, respectively.

C. The changes in the carrying amount of goodwill for the years ended December 31, 2023, and 2022 are as follows:

|  | <u>Goodwill</u> |
|--|-----------------|
| <b>Balance as of January 1 and December 31, 2021</b> | 4,676           |
| <b>Changes during 2022</b>                           |                 |
| Acquisition during 2022 (*)                          | 219             |
| Impairment of Goodwill (See Note 2j)                 | -               |
| <b>Balance as of January 1 and December 31, 2022</b> | <u>4,895</u>    |
| <b>Changes during 2023</b>                           |                 |
| Acquisition during 2023 (*)                          | -               |
| Impairment of Goodwill (See Note 2j)                 | -               |
| <b>Balance as of December 31, 2023</b>               | <u>\$ 4,895</u> |

(\*) Regarding intangibles acquired as part of business combination transaction during 2023, see Note 3 above.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 9:- ACCRUED EXPENSES AND OTHER LIABILITIES:**

|                       | <u>December 31,</u> |               |
|-----------------------|---------------------|---------------|
|                       | <u>2023</u>         | <u>2022</u>   |
| Professional services | 127                 | 114           |
| Tax accruals          | 307                 | 344           |
| Agent Fees            | 565                 | 12            |
| Other                 | 73                  | 249           |
|                       | <u>\$ 1,072</u>     | <u>\$ 719</u> |

**NOTE 10:- DEFERRED REVENUES:**

a.

|  | <u>December 31,</u> |              |
|--|---------------------|--------------|
|  | <u>2023</u>         | <u>2022</u>  |
| Advanced payments from customers                             | 211                 | 234          |
| Service contracts  | 629                 | 522          |
| Other  | 99                  | 27           |
| Total  | <u>939</u>          | <u>783</u>   |
| Less- long term deferred revenue related to service contract | <u>(339)</u>        | <u>(241)</u> |

b. In the following table, revenue is disaggregated by timing of revenue recognition for the year ended December 31, 2023:

|                       | December 31 |        |
|-----------------------|-------------|--------|
|                       | 2023        | 2022   |
| At a point of time    | 42,493      | 39,673 |
| Over a period of time | 1,686       | 1,838  |
| Total                 | 44,179      | 41,511 |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 11:- 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<br>interest<br>rate as of<br>December 31,<br>2023 | December 31, |          |
|---------------------------|--|--------------|----------|
|                           | %  | 2023         | 2022     |
| NIS                       | 8.27%  | \$ 1,320     | \$ 1,880 |
| Less - current maturities |  | (170)        | (586)    |
|                           |  | \$ 1,150     | \$ 1,294 |

- In October 2017, the Company and its Israeli subsidiaries entered into an agreement with First International Bank of Israel Ltd. (hereinafter – the Bank), for the provision of credit facilities.

The Bank loan agreement includes covenants to maintain certain financial ratios related to shareholders' equity, EBITDA, and operating results. The Bank 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, 2023, the Company met the covenants set forth in the agreement.

- The total amount to be repaid by the Company is as follows:

| Payment schedule | December 31,<br>2023 |
|------------------|----------------------|
| 2024             | 170                  |
| 2025             | 165                  |
| 2026             | 130                  |
| 2027             | 113                  |
| 2028 - 2034 (*)  | 742                  |
| Total            | \$ 1,320             |

(\*) The total amount to be repaid by the Company every year from 2028 until 2034.

(\*\*) As of December 31, 2023, the Company and its subsidiaries had an unutilized short term credit line in the amount of \$1,314, bearing an annual interest of 7.79%.

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**NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES**

- Royalty commitments:

Under the Company's research and development agreements with the Israel Innovation Authority (the IIA) 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 IIA, up to an amount equal to 100% of the research and development grants (dollar-linked) received from the IIA. 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 IIA after January 1, 1999, are subject to interest on the U.S. dollar-linked value of the total grants received at the annual rate applicable to dollar deposits at the time the grants are received. No grants were received since 2007. As of December 31, 2023, the Company has an outstanding contingent obligation to pay royalties to the IIA, including interest, in the amount of approximately \$3,603 thousand, 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. On January 3, 2022, the Company received a demand letter from one of its customers alleging that the Company has materially breached its agreement with the customer by supplying it with a faulty manufacturing machine. The customer requested from the Company reimbursement of a NIS 750,694 payment (approximately \$241,000) it had made to the Company in consideration for the machine and NIS 500,000 (approximately \$160,000) for claimed damages.

In August 2022, the parties signed a settlement agreement, according to which in full satisfaction of the customer's claims the Company paid the customer NIS 700,000 (approximately \$210,000) plus VAT, in 6 monthly installments. In connection with this claim, on September 6, 2022, the Company collected insurance proceeds in the amount of NIS 190,000 (approximately \$54,000). All of the costs associated with this claim were recorded in the years 2022 and 2021.

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

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

**NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)**

- b. On January 16, 2022, the Company received a letter, on behalf of a former independent sales agent, claiming that he was actually an employee of the Company of the Company and demanding a total of NIS 1,232,709 (approximately \$361,000) as employee benefits.

On November 2022, the parties signed a settlement agreement according to which in full satisfaction of his claims, the Company paid the independent sales agent NIS 100,000 (plus VAT). These costs (approximately \$28,000 plus VAT) were recorded in the year 2022, and were paid in 2023.

**NOTE 13:- SHAREHOLDERS' EQUITY**

- a. Ordinary Shares:

1. Issuance of Ordinary Shares in connection with a Securities Purchase Agreement:

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 were exercisable for 3.5 years and were 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 was to 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. On October 23, 2022, the Company extended the contractual term of the warrants by an additional three years. As of December 31, 2023 none of the warrants have been exercised.

2. Issuance of Ordinary Shares in connection with Prospectus Supplement filed on December 30, 2020:

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 \$1,841 net of issuance expenses. The Warrants have an exercise price of \$2.75 per share, are immediately exercisable and have a five-year term. As of December 31, 2023 none of the warrants have been exercised.

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

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

**NOTE 13:- SHAREHOLDERS' EQUITY (Cont.)**

3. Warrants under loan agreement

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 was guaranteed by BOS-Odem and by the company. The loan was paid in 12 monthly installments of principal and interest starting from March 2020 throughout 2021. 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. The Company allocated an amount of \$30 with respect to such warrants under "additional paid in capital" and as a discount on the loan. The discount was reflected as financing expenses over the term of the loan. As of December 31, 2021 the entire balance of the loan was repaid. The warrants were exercisable for a period of two years from issuance and on February 19, 2022, expired without being exercised.

4. 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. At the Annual General Meeting of shareholders held on December 15, 2022, it was approved to increase the Company's authorized share capital by 3,000,000 Ordinary Shares, from 8,000,000 authorized shares to 11,000,000 authorized shares.

5. On May 2, 2022, the Company entered into a definitive agreement with several investors for the sale of 450,000 units, each consisting of one Ordinary Share and one half warrant to purchase an Ordinary Share, at a unit purchase price of \$2.2. The warrants have an exercise price of \$2.2 per



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 13:- SHAREHOLDERS' EQUITY (Cont.)**

b. Warrants to shareholders

The Company's outstanding warrants to shareholders as of December 31, 2023 are as follows:

| Outstanding and<br>exercisable<br>warrants | Weighted average<br>exercise price<br>of outstanding<br>warrants | Weighted<br>average Remaining<br>contractual<br>life (years) |
|--|--|--|
| 1,553,933                                  | 2.80   | 2.35   |

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.

In December 15, 2022, the Company's shareholders approved an increase of the number of ordinary Shares available for issuance under the Plan, by 300,000 to a total of 1,000,000 Ordinary Shares.

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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 13:- SHAREHOLDERS' EQUITY (Cont.)**

In the year 2021, the Company issued to its directors and officers 175,000 options to purchase Ordinary Shares.

In the year 2022, the Company issued to its directors and officers 87,500 options to purchase Ordinary Shares.

In the year 2023, the Company did not issued to its directors and officers any options to purchase Ordinary Shares.

The options' exercise price is determined as the weighted average of the closing prices of the Ordinary 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 for 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 director or officer is still serving on 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 the options, or by any combination of the foregoing.

As of December 31, 2023 there are 285,284 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, 2023, is as follows:

|                                 | 2023              |                                 | 2022              |                                 | 2021              |                                 |
|---------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
|                                 | 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 | 347,333           | \$ 2.79                         | 275,833           | \$ 2.40                         | 170,500           | \$ 2.30                         |
| Changes during the year:        |                   |                                 |                   |                                 |                   |                                 |
| Granted                         | -                 | \$ -                            | 87,500            | \$ 2.25                         | 175,000           | \$ 3.36                         |
| Exercised                       | (46,500)          | \$ 2.16                         | (1,000)           | \$ 2.12                         | (52,167)          | \$ 2.29                         |
| Forfeited                       | -                 | \$ -                            | (15,000)          | \$ 2.80                         | (17,500)          | \$ 2.44                         |
| Outstanding - year end          | 300,833           | \$ 2.89                         | 347,333           | \$ 2.79                         | 275,833           | \$ 2.40                         |
| Vested and expected to vest     | 183,333           | \$ 2.95                         | 164,166           | \$ 2.61                         | 83,334            | \$ 2.22                         |
| Exercisable at year end         | 156,666           | \$ 3.09                         | 136,499           | \$ 2.71                         | 51,667            | \$ 2.26                         |

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

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

### NOTE 13:- SHAREHOLDERS' EQUITY (Cont.)

During the years 2023, 2022, and 2021, stock-based compensation expense related to employees and directors stock options amounted to \$98, \$97, and \$67 respectively, and is included in general and administrative expenses within the statement of operations.

In the year 2022, the Company issued to its directors and officers 87,500 options to purchase Ordinary Shares as follows:

- On December 15, 2022 the Company issued to its CEO, Eyal Cohen 80,000 options
- On December 15, 2022 the Company issued to its director, Ziv Dekel 7,500 options

The weighted-average grant-date fair value of options granted during the years ended December 31, 2023, 2022 and 2021 was \$0, \$0.82 and \$ 1.2, respectively. The weighted-average grant-date fair value of unvested options as of December 31, 2023 was \$0.97. The aggregate intrinsic value of the outstanding options in each of the years ended December 31, 2023, 2022 and 2021 was \$ 0, \$ 0 and \$ 70. 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, 2023, 2022 and 2021, exercised options amounted to a total of 46,500, 1,000 and 52,167, respectively. As of December 31, 2023 and 2022, there were a total of \$93 and \$191 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 until 2025.

Options granted to employees and directors that are outstanding as of December 31, 2023 broken into exercise prices, are as follows:

| Exercise Price | Options outstanding as of December 31, 2023 | Weighted average remaining contractual life (years) | Options exercisable as of December 31, 2023 | Weighted average Remaining Contractual life of options exercisable (years) |
|----------------|---|---|---|--|
| 2.118          | 13,333                                      | 0.83  | 13,333                                      | 0.83   |
| 2.176          | 10,000                                      | 1.08  | 10,000                                      | 1.08   |
| 2.245          | 87,500                                      | 3.96  | -   | 3.96   |
| 2.433          | 7,500                                       | 2.02  | 5,000                                       | 2.02   |
| 2.775          | 20,000                                      | 1.96  | 20,000                                      | 1.96   |
| 3.195          | 20,000                                      | 2.14  | 13,333                                      | 2.14   |
| 3.251          | 7,500                                       | 2.81  | 5,000                                       | 2.81   |
| 3.252          | 100,000                                     | 2.81  | 66,667                                      | 2.81   |
| 3.863          | 30,000                                      | 2.75  | 20,000                                      | 2.75   |
| 4.022          | 5,000                                       | 2.67  | 3,333                                       | 2.67   |
| Grand Total    | 300,833                                     | 2.87  | 156,666                                     | 2.33   |

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 14:- TAXES ON INCOME:**

a. Corporate tax rates in Israel

Taxable income of the Company is subject to a corporate tax rate of 23% in 2021, 2022 and 2023.

b. Loss carry-forward:

The Company and its Israeli subsidiaries have accumulated business losses for Israeli income tax purposes as of December 31, 2023, in the amount of approximately \$ 26,867. In general, these losses may be carried forward and offset against taxable business income and capital gains in the business in the future for an indefinite period. In addition, the Company and its Israeli subsidiaries have accumulated capital losses in the amount of approximately \$29,775. Such capital losses may be carried forward and offset against taxable capital gains in the future for an indefinite period.

c. Deferred income taxes:

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows:

|                                      | December 31,  |               |
|--------------------------------------|---------------|---------------|
|                                      | 2023          | 2022          |
| Net operating loss carry-forward (1) | \$ 6,179      | \$ 6,814      |
| Net capital loss carry-forward (1)   | 6,848         | 6,848         |
| Allowances and provisions            | 240           | 176           |
| Intangible assets, net               | (128)         | (89)          |
|                                      | <u>13,139</u> | <u>13,749</u> |
| Valuation allowance (2)              | \$ (13,139)   | \$ (13,749)   |
| Net deferred tax Liability           | \$ -          | \$ -          |

(1) See Note 14b.

(2) In the years 2023 and 2022, 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 2023 was mainly due to Utilization of net operating loss carry forward in the amount of \$635 for which deferred tax asset was not recognized.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 14:- TAXES ON INCOME (Cont.)**

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

|          | Year ended December 31, |          |                |
|----------|-------------------------|----------|----------------|
|          | 2023                    | 2022     | 2021           |
| Current  | \$ 4                    | 6        | \$ 2           |
| Other    | -                       | -        | (41)           |
|          | <u>4</u>                | <u>6</u> | <u>\$ (39)</u> |
| Domestic | \$ -                    | -        | \$ (41)        |
| Foreign  | 4                       | 6        | 2              |
|          | <u>4</u>                | <u>6</u> | <u>\$ (39)</u> |

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

|          | Year ended December 31, |              |               |
|----------|-------------------------|--------------|---------------|
|          | 2023                    | 2022         | 2021          |
| Domestic | \$ 1,990                | 1,276        | \$ 389        |
| Foreign  | 19                      | 6            | 23            |
|          | <u>2,009</u>            | <u>1,282</u> | <u>\$ 412</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 in 2021 and 2022.

g. Tax assessments:

The Company and all of its' subsidiaries have final tax assessments through 2018.

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

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

**NOTE 14:- TAXES ON INCOME (Cont.)**

- h. The Company and its subsidiaries file income tax returns in Israel and in the United States. The Company and its subsidiaries may be subject to auditing by the Israel tax authorities and the U.S. Internal Revenue Service for fiscal years 2019 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, 2023 and 2022, there is no balance of uncertain tax positions.

In accordance with the Company's accounting policy, tax expense line of the Company's Consolidated Statements of Operations includes interest expense and potential penalties related to income taxes.

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

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

**NOTE 15:- SUPPLEMENTAL INFORMATION TO STATEMENTS OF OPERATIONS**

- a. Financial expenses:

|   | Year ended December 31, |              |                 |
|---|-------------------------|--------------|-----------------|
|   | 2023                    | 2022         | 2021            |
| Financial expenses:   |                         |              |                 |
| In respect of interest loans and bank fees  | (402)                   | (306)        | (202)           |
| Expenses regarding warrants granted underlying loan agreement with YA (see Note 13) | -                       | -            | -               |
| Other (mainly foreign currency differences)   | (39)                    | (341)        | 97              |
|   | <u>(441)</u>            | <u>(647)</u> | <u>(105)</u>    |
|   | <u>\$ (441)</u>         | <u>(647)</u> | <u>\$ (105)</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, |              |                |
|---|-------------------------|--------------|----------------|
|   | 2023                    | 2022         | 2021           |
| 1. Numerator:   |                         |              |                |
| Income (loss)   | <u>\$ 2,005</u>         | <u>1,276</u> | <u>\$ 451</u>  |
| Net income (loss) available to Ordinary shareholders                | <u>\$ 2,005</u>         | <u>1,276</u> | <u>\$ 451</u>  |
| 2. Denominator (in thousands):                                      |                         |              |                |
| Basic weighted average Ordinary shares outstanding (in thousands)   | <u>5,727</u>            | <u>5,550</u> | <u>5,212</u>   |
| Diluted weighted average Ordinary shares outstanding (in thousands) | <u>5,905</u>            | <u>5,589</u> | <u>5,424</u>   |
| Basic income (loss) per share                                       | <u>\$ 0.35</u>          | <u>0.23</u>  | <u>\$ 0.09</u> |
| Diluted income (loss) per share                                     | <u>\$ 0.34</u>          | <u>0.23</u>  | <u>\$ 0.08</u> |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 16:- 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 2023, 2022 and 2021 were as follows:

|                                  | <b>RFID<br/>Division</b> | <b>Intelligent<br/>Robotics</b> | <b>Supply<br/>Chain<br/>Solutions</b> | <b>Intercompany</b> | <b>Consolidated</b> |
|----------------------------------|--------------------------|---------------------------------|---------------------------------------|---------------------|---------------------|
| <b>2023</b>                      |                          |                                 |                                       |                     |                     |
| Revenues from external customers | \$ 13,713                | \$ 1,742                        | \$ 28,845                             | \$ (121)            | \$ 44,179           |
| Gross profit                     | \$ 3,179                 | \$ 185                          | \$ 5,845                              | \$ -                | \$ 9,209            |
| Allocated operating expenses     | \$ 2,150                 | \$ 258                          | \$ 3,675                              | \$ -                | \$ 6,083            |
| Unallocated operating expenses   |                          |                                 |                                       |                     | \$ 676              |
| Operating Income (loss)          | \$ 1,029                 | \$ (73)                         | \$ 2,170                              | \$ -                | \$ 2,450            |
| Financial expenses               |                          |                                 |                                       |                     | \$ 441              |
| Income before taxes on income    |                          |                                 |                                       |                     | \$ 2,009            |
| Tax on income                    |                          |                                 |                                       |                     | \$ 4                |
| Net Income                       |                          |                                 |                                       |                     | \$ 2,005            |
| <b>2022</b>                      |                          |                                 |                                       |                     |                     |
| Revenues from external customers | \$ 15,318                | \$ 961                          | \$ 25,232                             | \$ -                | \$ 41,511           |
| Gross profit                     | \$ 3,778                 | \$ (159)                        | \$ 5,441                              | \$ -                | \$ 9,060            |
| Allocated operating expenses     | \$ 2,535                 | \$ 425                          | \$ 3,450                              | \$ -                | \$ 6,410            |
| Unallocated operating expenses   |                          |                                 |                                       |                     | \$ 721              |
| Operating Income (loss)          | \$ 1,243                 | \$ (584)                        | \$ 1,991                              | \$ -                | \$ 1,929            |
| Financial expenses               |                          |                                 |                                       |                     | \$ 647              |
| Income before taxes on income    |                          |                                 |                                       |                     | \$ 1,282            |
| Tax on income                    |                          |                                 |                                       |                     | \$ 6                |
| Net Income                       |                          |                                 |                                       |                     | \$ 1,276            |
| <b>2021</b>                      |                          |                                 |                                       |                     |                     |
| Revenues from external customers | \$ 13,192                | \$ 1,576                        | \$ 19,008                             | \$ (142)            | \$ 33,634           |
| Gross profit                     | \$ 3,338                 | \$ (460)                        | \$ 3,708                              | \$ -                | \$ 6,586            |
| Allocated operating expenses     | \$ 2,300                 | \$ 573                          | \$ 2,497                              | \$ -                | \$ 5,370            |
| Unallocated operating expenses   |                          |                                 |                                       |                     | \$ 699              |
| Operating Income (loss)          | \$ 1,038                 | \$ (1,033)                      | \$ 1,211                              | \$ -                | \$ 517              |
| Financial expenses               |                          |                                 |                                       |                     | \$ 105              |
| Income before taxes on income    |                          |                                 |                                       |                     | \$ 412              |
| Tax on income                    |                          |                                 |                                       |                     | \$ (39)             |
| Net Income                       |                          |                                 |                                       |                     | \$ 451              |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 16:- SEGMENTS AND GEOGRAPHICAL INFORMATION (Cont.)**

b. The following presents total revenues for the years 2023, 2022 and 2021 based on the location of customers, and long-lived assets based on major geographic areas in which the Company operates:

|                   | <b>Year ended December 31,</b> |                                |                           |                                |                           |                                |
|-------------------|--------------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------|--------------------------------|
|                   | <b>2023</b>                    |                                | <b>2022</b>               |                                | <b>2021</b>               |                                |
|                   | <b>Total<br/>revenues</b>      | <b>Long-lived<br/>assets *</b> | <b>Total<br/>revenues</b> | <b>Long-lived<br/>assets *</b> | <b>Total<br/>revenues</b> | <b>Long-lived<br/>assets *</b> |
| Israel            | \$ 38,125                      | 3,268                          | 34,295                    | 3,270                          | \$ 25,662                 | \$ 1,097                       |
| East Asia         | 1,331                          | -                              | 2,239                     | -                              | 3,494                     | -                              |
| India             | 1,726                          | -                              | 1,225                     | -                              | 1,701                     | -                              |
| America           | 1,433                          | -                              | 2,825                     | -                              | 2,032                     | -                              |
| Europe            | 1,513                          | -                              | 622                       | -                              | 555                       | -                              |
| Rest of the world | 51                             | -                              | 305                       | -                              | 190                       | -                              |
|                   | <b>\$ 44,179</b>               | <b>3,268</b>                   | <b>41,511</b>             | <b>3,270</b>                   | <b>\$ 33,634</b>          | <b>\$ 1,097</b>                |

(\*) Long-lived assets balance comprised of property and equipment (it does not include intangible assets and goodwill).

c. There were no major customers during the reported periods.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 17:- LEASES:**

The company has operating leases for office space, warehouses, and car leases. The Company determines if a contract contains a lease at inception or modification of a contract. The leases generally do not provide an implicit interest rate, and therefore the Company's incremental borrowing rate as the discount rate is used when measuring operating lease liabilities. The incremental borrowing rate represents an estimate of the interest rate the Company 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. Most of the leases contain rental escalation, renewal options and/ or termination options that are factored into the 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, 2023:

|                                       | <b>Classification on the Balance Sheet</b> | <b>Year ended<br/>December 31,<br/>2023</b> |
|---------------------------------------|--|---|
| <b>Assets:</b>                        |  |   |
| Operating lease assets                | Operating lease right of use assets, net   | 1,026                                       |
| <b>Liabilities:</b>                   |  |   |
| current                               |  |   |
| Operating lease liabilities           | Operating lease liabilities, current       | 235   |
| Long term                             |  |   |
| Operating lease liabilities           | Operating lease liabilities, non-current   | 759   |
| <b>Remaining Lease Term</b>           |  |   |
| Vehicles                              |  | 0.07 - 2.75 years                           |
| Facilities rent                       |  | 1.76 - 10.59 years                          |
| <b>Weighted Average Discount Rate</b> |  |   |
| Vehicles                              |  | 4.42%                                       |
| Facilities rent                       |  | 5.10%                                       |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 17:- LEASES (Cont.)**

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, 2023:

|             |              |
|-------------|--------------|
| 2024        | 276          |
| 2025        | 209          |
| 2026        | 152          |
| 2027        | 92           |
| 2028        | 79           |
| 2029 - 2034 | 412          |
|             | <u>1,220</u> |

Expense under operating leases was \$355 for the year ended December 31, 2023. Operating income in the Consolidated Statement of Operations includes operating lease costs. Short-term lease costs were not material.

**NOTE 19:- SUBSEQUENT EVENTS:**

After the balance sheet date, the company submitted to the Israeli Ministry of Finance a request for compensation for a decrease in sales in the fourth quarter due to the Iron Swords War. The Company received an advance payment of approximately NIS 500,000 (approx. USD 138,000) on account of such compensation. The Company did not recognize the advance payment since official confirmation regarding the Company's entitlement to compensation has not been received yet.

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(\*In compliance with Amendment No. 132 of the Israeli Tax Ordinance, 2002)

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This plan, as amended from time to time, shall be known as B.O.S. Better On-Line Solution Ltd 2003 Israeli Share Option Plan (the “**ISOP**”).

1. **PURPOSE OF THE ISOP**

The ISOP is intended to provide an incentive to retain, in the employ of the Company and its Affiliates (as defined below), persons of training, experience, and ability, to attract new employees, directors, consultants, service providers and any other entity which the Board shall decide their services are considered valuable to the Company, to encourage the sense of proprietorship of such persons, and to stimulate the active interest of such persons in the development and financial success of the Company by providing them with opportunities to purchase shares in the Company, pursuant to the ISOP.

2. **DEFINITIONS**

For purposes of the ISOP and related documents, including the Grant Agreement, the following definitions shall apply:

- 2.1 “**Affiliate**” means any “employing company” within the meaning of Section 102(a) of the Ordinance.
- 2.2 (a) “**Approved 102 Option**” means an Option granted pursuant to Section 102(b) of the Ordinance and held in trust by a Trustee for the benefit of the Grantee;
- (b) “**Approved 102 Share**” means a Share which is issued pursuant to Section 102(b) of the Ordinance and held in trust by the Trustee for the benefit of the Grantee;

- (c) “**Approved 102 Award**” means any of “Approved 102 Option” or “Approved 102 Share”, as applicable.
- 2.3 “**Board**” means the Board of Directors of the Company.
- 2.4 “**Capital Gain Option (CGO)**” as defined in Section 5.4 below.
- 2.5 “**Cause**” means, (i) conviction of any felony involving moral turpitude or affecting the Company; (ii) any refusal to carry out a reasonable directive of the chief executive officer, the Board or the Grantee’s direct supervisor, which involves the business of the Company or its Affiliates and was capable of being lawfully performed; (iii) embezzlement of funds of the Company or its Affiliates; (iv) any breach of the Grantee’s fiduciary duties or duties of care of the Company; including without limitation disclosure of confidential information of the Company; and (v) any conduct (other than conduct in good faith) reasonably determined by the Board to be materially detrimental to the Company.
- 2.6 “**Chairman**” means the chairman of the Committee.
- 2.7 “**Code**” means the United States Internal Revenue Code of 1986, as now in effect or as hereafter amended.

- 2.8 “**Committee**” means a share option compensation committee of the Board, designated from time to time by the resolution of the Board, which shall consist of no fewer than two members of the Board. The Committee shall consist of directors who are “outside directors” as defined in Section 162(m) of the Code and “Non-Employee Directors” as defined in Rule 16b-3 promulgated by the Securities and Exchange Commission under the United States Securities Exchange Act of 1934. The Board will be able to delegate its authorities to the Committee subject to any applicable law.
- 2.9 “**Company**” means B.O.S Better On-line Solution Ltd., an Israeli company.
- 2.10 “**Companies Law**” means the Israeli Companies Law, 5759-1999.
- 2.11 “**Controlling Shareholder**” shall have the meaning ascribed to it in Section 32(9) of the Ordinance.
- 2.12 “**Date of Grant**” means, the date of grant of an Option, as determined by the Board and set forth in the Grantee’s Grant Agreement.
- 2.13 “**Employee**” means a person who is employed by the Company or its Affiliates, including an individual who is serving as a director or an office holder, but excluding Controlling Shareholder.
- 2.14 “**Expiration Date**” means the date upon which an Option shall expire, as set forth in Section 10.2 of the ISOP.
- 2.15 “**Fair Market Value**” means as of any date, the value of a Share determined as follows:
- (i) If the Shares are listed on any established stock exchange or a national market system, including without limitation the NASDAQ National Market system, or the NASDAQ SmallCap Market of the NASDAQ Stock Market, the Fair Market Value shall be the closing sales price for such Shares (or the closing bid, if no sales were reported), as quoted on such exchange or system for the last market trading day prior to time of determination, as reported in the Wall Street Journal, or such other source as the Board deems reliable.
- Without derogating from the above, solely for the purpose of determining the tax liability pursuant to Section 102(b)(3) of the Ordinance, if at the Date of Grant the Company’s shares are listed on any established stock exchange or a national market system or if the Company’s shares will be registered for trading within ninety (90) days following the Date of Grant, the Fair Market Value of a Share at the Date of Grant shall be determined in accordance with the average value of the Company’s shares on the thirty (30) trading days preceding the Date of Grant or on the thirty (30) trading days following the date of registration for trading, as the case may be;
- (ii) If the Shares are regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value shall be the mean between the high bid and low asked prices for the Shares on the last market trading day prior to the day of determination, or;
- (iii) In the absence of an established market for the Shares, the Fair Market Value thereof shall be determined in good faith by the Board.
- 2.16 “**ISOP**” means this 2003 Israeli Share Option Plan, as amended.

- 2.17 “**TIA**” means the Israeli Tax Authorities.
- 2.18 “**Non-Employee**” means a consultant, adviser, service provider, Controlling Shareholder or any other person who is not an Employee.
- 2.19 “**Ordinary Income Option (OIO)**” as defined in Section 5.5 below.
- 2.20 “**Option**” means an option to purchase one or more Shares of the Company pursuant to the ISOP.
- 2.21 (a) “**102 Option**” means any Option granted to Employees pursuant to Section 102 of the Ordinance.
- (b) “**102 Share**” means any Share granted to Employee pursuant to Section 102 of the Ordinance. 102 Options and 102 Shares are available for grant and issuance to Employees selected by the Board.
- (c) “**102 Award**” means any of “102 Option” or “102 Share”, as applicable.
- 2.22 “**3(i) Option**” means an Option granted pursuant to Section 3(i) of the Ordinance to any person who is Non- Employee.
- 2.23 “**Grantee**” means a person who receives or holds an Option or Share under the ISOP.
- 2.24 “**Grant Agreement**” means an agreement between the Company and a Grantee that sets out the terms and conditions of a grant of an Option or an issuance of Shares.



- 2.25 “**Ordinance**” means the Israeli Income Tax Ordinance [New Version]-1961 as now in effect or as hereafter amended.
- 2.26 “**Purchase Price**” means the price for each Share subject to an Option.
- 2.27 “**Retirement**” shall mean Grantee’s retirement pursuant to applicable law or in accordance with the terms of any tax-qualified retirement plan maintained by the Company or any of its Affiliates in which the Grantee participates.
- 2.28 “**Section 102**” means Section 102 of the Ordinance as now in effect or as hereafter amended.
- 2.29 “**Share**” means the Ordinary Share, of no par value each, of the Company.
- 2.30 “**Successor Company**” means any entity the Company is merged to or is acquired by, in which the Company is not the surviving entity.
- 2.31 “**Transaction**” means (i) merger, acquisition or reorganization of the Company with one or more other entities in which the Company is not the surviving entity or becomes wholly owned by an acquirer (e.g. reverse triangular merger), (ii) a sale of all or substantially all of the assets of the Company, (iii) a sale of shares of the Company following which it is no longer a public company; (iv) such other transaction with a similar effect, as shall be determined by the Board in each case, other than a transaction or series of related transaction for the sole purpose of effecting a change in domicile of the Company.

- 2.31 “**Trustee**” means any individual appointed by the Company to serve as a trustee and approved by the ITA, all in accordance with the provisions of Section 102(a) of the Ordinance.
- 2.32 (a) “**Unapproved 102 Option**” means an Option granted pursuant to Section 102(c) of the Ordinance and not held in trust by a Trustee.
- (b) “**Unapproved 102 Share**” means a Share issued pursuant to Section 102(c) of the Ordinance and not held in trust by a Trustee.
- (c) “**Unapproved 102 Award**” means any of “Unapproved 102 Option” or “Unapproved 102 Share”, as applicable.
- 2.33 “**Vested Option**” means any Option, which has already been vested according to the Vesting Dates.
- 2.34 “**Vesting Dates**” means, as determined by the Board, the date as of which the Grantee shall be entitled to exercise the Options or part of the Options, as set forth in section 11 of the ISOP.

### 3. ADMINISTRATION OF THE ISOP

- 3.1 The Board shall have the power to administer the ISOP, all as provided by applicable law and in the Company’s Articles of Association.
- 3.2 The Committee shall select one of its members as its Chairman and shall hold its meetings at such times and places as the Chairman shall determine. The Committee shall keep records of its meetings and shall make such rules and regulations for the conduct of its business as it shall deem advisable.
- 3.3 The Board shall have the full power and authority to: (i) designate participants; (ii) determine the terms and provisions of the respective Grant Agreements, including, but not limited to, the number of Options or Shares to be granted or issued to each Grantee, the number of Shares to be covered by each Option, provisions concerning the time and the extent to which the Options or Shares may be exercised and the nature and duration of restrictions as to the transferability or restrictions constituting substantial risk of forfeiture and to cancel or suspend awards, as necessary; (iii) determine the Fair Market Value of the Shares or of the Shares covered by each Option; (iv) make an election as to the type of the Approved 102 Award; and (v) designate the type of Options or Shares.

In Addition the Board shall have the full power and authority to (i) alter any restrictions and conditions of any Options, Shares or Shares subject to any Options; (ii) interpret the provisions and supervise the administration of the ISOP; (iii) accelerate the right of an Grantee to exercise in whole or in part, any previously granted Options or Shares; (iv) determine the Purchase Price of the Option; (v) prescribe, amend and rescind rules and regulations relating to the ISOP; and (vi) make all other determinations deemed necessary or advisable for the administration of the ISOP.

- 3.4 The Board shall have the authority to grant, at its discretion, to the holder of an outstanding Option or Shares, in exchange for the surrender and cancellation of such Options or Shares, new Options or Shares having a purchase price equal to, lower than or higher than the Purchase Price of the original Option or Share so surrendered and canceled and containing such other terms and conditions as the Board may prescribe in accordance with the provisions of the ISOP.
- 3.5 Subject to the Company’s Articles of Association, all decisions and selections made by the Board pursuant to the provisions of the ISOP shall be made by a majority of its members except that no member of the Board shall vote on, or be counted for quorum purposes, with respect to any proposed action of the Board relating to any Option or Share to be granted to that member. Any decision reduced to writing shall be executed in accordance with the provisions of the Company’s Articles of Association, as the same may be in effect from time to time.
- 3.6 The interpretation and construction by the Board of any provision of the ISOP or of any Grant Agreement thereunder shall be final and conclusive unless otherwise determined by the Board.
- 3.7 Subject to the Company’s Articles of Association and the Company’s decision, and to all approvals legally required, including, but not limited to the provisions of the Companies Law, each member of the Board or the Committee shall be indemnified and held harmless by the Company against any cost or expense (including counsel fees) reasonably incurred by him, or any liability (including any sum paid in settlement of a claim with the approval of the Company) arising out of any act or omission to act in connection with the ISOP unless arising out of such member’s own fraud or bad faith, to the extent permitted by applicable law. Such indemnification shall be in addition to any rights of indemnification the member may have as a director or otherwise under the Company’s Articles of Association, any agreement, any vote of shareholders or disinterested directors, insurance policy or otherwise.

### 4. DESIGNATION OF PARTICIPANTS

- 4.1 The Board shall have the authority to issue and grant to Grantees under this ISOP: (i) Shares; and (ii) Options.
- 4.2 The persons eligible for participation in the ISOP as Grantees shall include any Employees and/or Non-Employees of the Company or of any Affiliate; provided, however, that (i) Employees may only be granted 102 Awards; (ii) Non-Employees may only be granted 3(i) Options; and (iii) Controlling Shareholders may only be granted 3(i) Options.
- 4.3 The grant of Options or issuance of Shares hereunder shall neither entitle the Grantee to participate nor disqualify the Grantee from participating in, any other grant of Options or issuance of Shares pursuant to the ISOP or any other option or share plan of the Company or any of its Affiliates.
- 4.4 Anything in the ISOP to the contrary notwithstanding, all grants of Options or issuances of Shares to directors and office holders shall be authorized and implemented in accordance with the provisions of the Companies Law or any successor act or regulation, as in effect from time to time.

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## 5. DESIGNATION OF OPTIONS OR SHARES PURSUANT TO SECTION 102

- 5.1 The Company may designate Options or Shares granted or issued to Employees pursuant to Section 102 as Unapproved 102 Awards or Approved 102 Awards.
- 5.2 The grant of Approved 102 Awards shall be made under this ISOP adopted by the Board as described in Section 15 below, and shall be conditioned upon the approval of this ISOP by the ITA as required by Section 102.
- 5.3 Approved 102 Awards may either be classified as Capital Gain Option (“**CGO**”) or Ordinary Income Option (“**OIO**”).
- 5.4 Approved 102 Awards elected and designated by the Company to qualify under the capital gain tax treatment in accordance with the provisions of Section 102(b)(2) shall be referred to herein as **CGO**.
- 5.5 Approved 102 Awards elected and designated by the Company to qualify under the ordinary income tax treatment in accordance with the provisions of Section 102(b)(1) shall be referred to herein as **OIO**.
- 5.6 The Company’s election of the type of Approved 102 Awards as CGO or OIO granted to Employees (the “**Election**”), shall be appropriately filed with the ITA before the Date of Grant of an Approved 102 Award. Such Election shall become effective beginning the first Date of Grant of an Approved 102 Award under this ISOP and shall remain in effect until the end of the year following the year during which the Company first granted Approved 102 Award. The Election shall obligate the Company to grant *only* the type of Approved 102 Award it has elected, and shall apply to all Grantees who were granted Approved 102 Award during the period indicated herein, all in accordance with the provisions of Section 102(g) of the Ordinance. For the avoidance of doubt, such Election shall not prevent the Company from granting Unapproved 102 Awards simultaneously.
- 5.7 All Approved 102 Awards must be held in trust by a Trustee, as described in Section 6 below.
- 5.8 For the avoidance of doubt, the designation of Unapproved 102 Award and Approved 102 Award shall be subject to the terms and conditions set forth in Section 102 of the Ordinance and the regulations promulgated thereunder.
- 5.9 With regards to Approved 102 Awards, the provisions of the ISOP and/or the Grant Agreement shall be subject to the provisions of Section 102 and the Tax Assessing Officer’s permit, and the said provisions and permit shall be deemed an integral part of the ISOP and of the Grant Agreement. Any provision of Section 102 and/or the said permit which is necessary in order to receive and/or to keep any tax benefit pursuant to Section 102, which is not expressly specified in the ISOP or the Grant Agreement, shall be considered binding upon the Company and the Grantees.

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## 6. TRUSTEE

- 6.1 Approved 102 Options which shall be granted under the ISOP and/or any Shares allocated or issued upon exercise of such Approved 102 Awards and/or other shares received subsequently following any realization of rights, including without limitation bonus shares, shall be allocated or issued to the Trustee and held for the benefit of the Grantees for such period of time as required by Section 102 or any regulations, rules or orders or procedures promulgated thereunder (the “**Holding Period**”). In the case the requirements for Approved 102 Awards are not met, then the Approved 102 Awards may be treated as Unapproved 102 Awards, all in accordance with the provisions of Section 102 and regulations promulgated thereunder.
- 6.2 Notwithstanding anything to the contrary, the Trustee shall not release any Shares allocated or issued upon exercise of Approved 102 Awards prior to the full payment of the Grantee’s tax liabilities arising from Approved 102 Awards which were granted or issued to him/her and/or any Shares allocated or issued upon exercise of the Options.
- 6.3 With respect to any Approved 102 Award, subject to the provisions of Section 102 and any rules or regulation or orders or procedures promulgated thereunder, a Grantee shall not sell or release from trust any Share received upon the exercise of an Approved 102 Award and/or any share received subsequently following any realization of rights, including without limitation, bonus shares, until the lapse of the Holding Period required under Section 102 of the Ordinance. Notwithstanding the above, if any such sale or release occurs during the Holding Period, the sanctions under Section 102 of the Ordinance and under any rules or regulation or orders or procedures promulgated thereunder shall apply to and shall be borne by such Grantee.
- 6.4 Upon receipt of Approved 102 Award, the Grantee will sign an undertaking to release the Trustee from any liability in respect of any action or decision duly taken and bona fide executed in relation with the ISOP, or any Approved 102 Award or Share granted or issued to him/her thereunder.

## 7. SHARES RESERVED FOR THE ISOP; RESTRICTION THEREON

- 7.1 The Company has reserved 1,000,000 (one million) authorized but unissued Shares, for the purposes of the ISOP and for the purposes of any

other share option plans which may be adopted by the Company in the future, subject to adjustment as set forth in Section 9 below. Any Shares which remain unissued and which are not subject to the outstanding Options at the termination of the ISOP shall cease to be reserved for the purpose of the ISOP, but until termination of the ISOP the Company shall at all times reserve sufficient number of Shares to meet the requirements of the ISOP. Should any Option for any reason expire or be canceled prior to its exercise or relinquishment in full, the Shares subject to such Option may again be subjected to an Option under the ISOP or under the Company's other share option plans.

- 7.2 Each award granted pursuant to the ISOP, shall be evidenced by a written Grant Agreement between the Company and the Grantee, in such form as the Board shall from time to time approve. Each Grant Agreement shall state, among other matters, the number of Shares or Shares to which the Option relates, the type of the award granted thereunder (whether a CGO, OIO, Unapproved 102 Option or a 3(i) Option), the Vesting Dates, the Purchase Price per share, the Expiration Date and such other terms and conditions as the Board in its discretion may prescribe, provided that they are consistent with this ISOP.
- 7.3 Without derogating from the rights and powers of the Board, each unexercised Option granted pursuant to the ISOP shall expire upon the earlier of: (i) the tenth (10<sup>th</sup>) anniversary of the Date of Grant thereof, (ii) the effective date of the termination of the Grantee's employment or engagement, provided that the Board may establish a shorter or a longer term for an Option, as well as circumstances under which such Option shall be cancelled or expire, all as further set forth in Section 10 below.

## 8. PURCHASE PRICE

- 8.1 The Purchase Price of each Share subject to an Option shall be determined by the Board in its sole and absolute discretion in accordance with applicable law, subject to any guidelines as may be determined by the Board from time to time. Each Grant Agreement will contain the Purchase Price determined for each Grantee.
- 8.2 The Purchase Price shall be payable upon the exercise of the Option in a form satisfactory to the Board, including without limitation, by cash or check. The Board shall have the authority to postpone the date of payment on such terms as it may determine.
- 8.3 The Purchase Price shall be denominated in the currency of the primary economic environment of, either the Company or the Grantee (that is the functional currency of the Company or the currency in which the Grantee is paid) as determined by the Company.
- 8.4 With respect to 102 Shares issued pursuant to this ISOP, the Grantee shall be obligated to pay, in consideration for the issuance of the Shares, the price therefor which was fixed by the Board, if any. The method of, and due date for, payment of the consideration in connection with the issuance of 102 Shares, shall be determined by the Board.

## 9. ADJUSTMENTS

Upon the occurrence of any of the following described events, Grantee's rights to purchase Shares under the ISOP shall be adjusted as hereafter provided:

- 9.1 In the event of Transaction, the unexercised Options then outstanding under the ISOP shall be assumed or substituted for an appropriate number of shares of each class of shares or other securities of the Successor Company (or a parent or subsidiary of the Successor Company) as were distributed to the shareholders of the Company in connection and with respect to the Transaction. In the case of such assumption and/or substitution of Options, appropriate adjustments shall be made to the Purchase Price so as to reflect such action and all other terms and conditions of the Grant Agreements shall remain unchanged, including but not limited to the vesting schedule, all subject to the determination of the Committee or the Board, which determination shall be in their sole discretion and final. The Company shall notify the Grantee of the Transaction in such form and method as it deems applicable at least ten (10) days prior to the effective date of such Transaction.

- 9.2 Notwithstanding the above and subject to any applicable law, the Board shall have full power and authority to determine that if in any such Transaction as described in section 9.1 above, the Successor Company (or parent or subsidiary of the Successor Company) does not agree to assume or substitute for the Options, the Vesting Dates shall be accelerated so that any unvested Option or any portion thereof shall be immediately vested as of the date which is ten (10) days prior to the effective date of the Transaction.
- 9.3 For the purposes of section 9.1 above, an Option shall be considered assumed or substituted if, following the Transaction, the Option confers the right to purchase or receive, for each Share underlying an Option immediately prior to the Transaction, the consideration (whether shares, options, cash, or other securities or property) received in the Transaction by holders of shares held on the effective date of the Transaction (and if such holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares); provided, however, that if such consideration received in the Transaction is not solely ordinary shares (or their equivalent) of the Successor Company or its parent or subsidiary, the Board may, with the consent of the Successor Company, provide for the consideration to be received upon the exercise of the Option to be solely ordinary shares (or their equivalent) of the Successor Company or its parent or subsidiary equal in Fair Market Value to the per Share consideration received by holders of a majority of the outstanding shares in the Transaction; and provided further that the Board may determine, in its discretion, that in lieu of such assumption or substitution of Options for options of the Successor Company or its parent or subsidiary, such Options will be substituted for any other type of asset or property including cash which is fair under the circumstances.
- 9.4 If the Company is voluntarily liquidated or dissolved while unexercised Options remain outstanding under the ISOP, the Company shall immediately notify all unexercised Option holders of such liquidation, and the Option holders shall then have ten (10) days to exercise any unexercised Vested Option held by them at that time, in accordance with the exercise procedure set forth herein. Upon the expiration of such ten-days period, all remaining outstanding Options will terminate immediately.
- 9.5 If the outstanding shares of the Company shall at any time be changed or exchanged by declaration of a share dividend (bonus shares), share split, combination or exchange of shares, recapitalization, or any other like event by or of the Company, and as often as the same shall occur, then the number, class and kind of the Shares subject to the ISOP or subject to any Options therefore granted, and the Purchase Prices, shall be appropriately and equitably adjusted so as to maintain the proportionate number of Shares without changing the aggregate Purchase Price, provided, however, that no adjustment shall be made by reason of the distribution of subscription rights (rights offering) on outstanding shares. Upon happening of any of the foregoing, the class and aggregate number of Shares issued or issuable pursuant to the ISOP (as set forth in Section 7 hereof), in respect of which Options have not yet been exercised, shall be appropriately adjusted, all as will be determined by the Board whose determination shall be final.

**10. TERM AND EXERCISE OF OPTIONS**

- 10.1 Options or portion thereof shall be exercised by the Grantee by giving written notice to the Company and/or to any third party designated by the Company (the “**Representative**”), in such form and method as may be determined by the Company and when applicable, by the Trustee in accordance with the requirements of Section 102, which exercise shall be effective upon receipt of such notice by the Company and/or the Representative and the payment of the Purchase Price at the Company’s or the Representative’s principal office. The notice shall specify the number of Shares with respect to which the Option is being exercised.
- 10.2 Options, to the extent not previously exercised, shall terminate forthwith upon the earlier of: (i) the date set forth in the Grant Agreement; and (ii) the expiration of any extended period in any of the events set forth in section 10.5 below.
- 10.3 The Options may be exercised by the Grantee in whole at any time or in part from time to time, to the extent that the Options become vested and exercisable, prior to the Expiration Date, and provided that, subject to the provisions of section 10.5 below, the Grantee is employed by or providing services to the Company or any of its Affiliates, at all times during the period beginning with the granting of the Option and ending upon the date of exercise.
- 10.4 Subject to the provisions of section 10.5 below, in the event of termination of Grantee’s employment or services, with the Company or any of its Affiliates, all Options granted to such Grantee will immediately expire. A notice of termination of employment or service shall be deemed to constitute termination of employment or service. For the avoidance of doubt, in case of such termination of employment or service, the unvested portion of the Grantee’s Option shall not vest and shall not become exercisable.
- 10.5 Notwithstanding anything to the contrary hereinabove and unless otherwise determined in the Grantee’s Grant Agreement, an Option may be exercised after the date of termination of Grantee’s employment or service with the Company or any Affiliates during an additional period of time beyond the date of such termination, but only with respect to the number of Vested Options at the time of such termination according to the Vesting Dates, if:
- (i) termination is without Cause, in which event any Vested Option still in force and unexpired may be exercised within a period of ninety (90) days after the date of such termination; or-
  - (ii) termination is the result of death or disability of the Grantee, in which event any Vested Option still in force and unexpired may be exercised subject to the period determined in section 15.
  - (iii) prior to the date of such termination, the Board shall authorize an extension of the terms of all or part of the Vested Options beyond the date of such termination for a period not to exceed the period during which the Options by their terms would otherwise have been exercisable.
  - (iv) termination is the result of Retirement of the Grantee, in which event any Vested Option still in force and unexpired may be exercised within a period of twelve (12) months after the date of such termination;

For avoidance of any doubt, if termination of employment or service is for Cause, any outstanding unexercised Option (whether vested or non-vested), will immediately expire and terminate, and the Grantee shall not have any right in connection to such outstanding Options.

- 10.6 To avoid doubt, the Grantees shall not have any of the rights or privileges of shareholders of the Company in respect of any Shares purchasable upon the exercise of any Option, nor shall they be deemed to be a class of shareholders or creditors of the Company for purpose of the operation of sections 350 and 351 of the Companies Law or any successor to such section, until registration of the Grantee as holder of such Shares in the Company’s register of shareholders upon exercise of the Option in accordance with the provisions of the ISOP, but in case of Options and Shares held by the Trustee, subject to the provisions of Section 6 of the ISOP.
- 10.7 Any form of Grant Agreement authorized by the ISOP may contain such other provisions as the Board may, from time to time, deem advisable.
- 10.8 With respect to Unapproved 102 Option, if the Grantee ceases to be employed by the Company or any Affiliate, the Grantee shall extend to the Company and/or its Affiliate a security or guarantee for the payment of tax due at the time of sale of Shares, all in accordance with the provisions of Section 102 and the rules, regulation or orders promulgated thereunder.

**11. VESTING OF OPTIONS**

- 11.1 Subject to the provisions of the ISOP, each Option shall vest following the Vesting Dates and for the number of Shares as shall be provided in the Grant Agreement. However, no Option shall be exercisable after the Expiration Date.
- 11.2 An Option may be subject to such other terms and conditions on the time or times when it may be exercised, as the Board may deem appropriate. The vesting provisions of individual Options may vary.

**12. PURCHASE FOR INVESTMENT**

The Company’s obligation to issue or allocate Shares, including upon exercise of an Option granted under the ISOP is expressly conditioned upon: (a) the Company’s completion of any registration or other qualifications of such Shares under all applicable laws, rules and regulations or (b) representations and undertakings by the Grantee (or his legal representative, heir or legatee, in the event of the Grantee’s death) to assure that the sale of the Shares complies with any registration exemption requirements which the Company in its sole discretion shall deem necessary or advisable. Such required representations and undertakings may include representations and agreements that such Grantee (or his legal representative, heir, or legatee): (a) is purchasing such Shares for investment and not with any present intention of selling or otherwise disposing thereof; and (b) agrees to have placed upon the face and reverse of any certificates evidencing such Shares a legend setting forth (i) any representations and undertakings which such Grantee has given to the Company or a reference thereto and (ii) that, prior to effecting any sale or other disposition of any such Shares, the Grantee must furnish to the Company an opinion of counsel, satisfactory to the Company, that such sale or disposition will not violate the applicable laws, rules, and regulations, whether of the State of Israel or of the United States or any other State having jurisdiction over the Company and the Grantee.

**13. DIVIDENDS**

With respect to all Shares (but excluding, for avoidance of any doubt, any unexercised Options) allocated or issued hereunder, including *inter alia* upon the exercise of Options granted hereunder by the Grantee and held by the Grantee or by the Trustee, as the case may be, the Grantee shall be entitled to receive dividends in accordance with the quantity of such Shares, subject to the provisions of the Company's Articles of Association (and all amendments thereto) and subject to any applicable taxation on distribution of dividends, and when applicable subject to the provisions of Section 102 and the rules, regulations or orders promulgated thereunder.

**14. RESTRICTIONS ON ASSIGNABILITY AND SALE OF OPTIONS**

14.1 No Option or any right with respect thereto, purchasable hereunder, whether fully paid or not, shall be assignable, transferable or given as collateral or any right with respect to it given to any third party whatsoever, except as specifically allowed under the ISOP, and during the lifetime of the Grantee each and all of such Grantee's rights to purchase Shares hereunder shall be exercisable only by the Grantee.

Any such action made directly or indirectly, for an immediate validation or for a future one, shall be void.

14.2 As long as Options and/or Shares are held by the Trustee on behalf of the Grantee, all rights of the Grantee over the Shares are personal, cannot be transferred, assigned, pledged or mortgaged, other than by will or pursuant to the laws of descent and distribution.

**15. EFFECTIVE DATE AND DURATION OF THE ISOP**

The ISOP shall be effective as of the day it was adopted by the Board and shall terminate at May 31, 2033.

**16. AMENDMENTS OR TERMINATION**

The Board may at any time, but when applicable, after consultation with the Trustee, amend, alter, suspend or terminate the ISOP. No amendment, alteration, suspension or termination of the ISOP shall impair the rights of any Grantee, unless mutually agreed otherwise between the Grantee and the Company, which agreement must be in writing and signed by the Grantee and the Company. Termination of the ISOP shall not affect the Board's ability to exercise the powers granted to it hereunder with respect to Options or Shares granted under the ISOP prior to the date of such termination, and the ISOP shall continue to apply to those awards granted prior to its termination (including Shares issued after the termination of the ISOP but which were the subject of awards which were granted prior to the expiration of the ISOP).

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**17. GOVERNMENT REGULATIONS**

The ISOP, and the granting and exercise of Options or issuance of Shares hereunder, and the obligation of the Company to sell and deliver Shares under such Options, shall be subject to all applicable laws, rules, and regulations, whether of the State of Israel or of the United States or any other State having jurisdiction over the Company and the Grantee, including the registration of the Shares under the United States Securities Act of 1933, and the Ordinance and to such approvals by any governmental agencies or national securities exchanges as may be required. Nothing herein shall be deemed to require the Company to register the Shares under the securities laws of any jurisdiction.

**18. CONTINUANCE OF EMPLOYMENT OR HIRED SERVICES**

Neither the ISOP nor the Grant Agreement with the Grantee shall impose any obligation on the Company or an Affiliate thereof, to continue any Grantee in its employ or service, and nothing in the ISOP or in any Option granted or Shares issued pursuant thereto shall confer upon any Grantee any right to continue in the employ or service of the Company or an Affiliate thereof or restrict the right of the Company or an Affiliate thereof to terminate such employment or service at any time.

**19. GOVERNING LAW & JURISDICTION**

The ISOP shall be governed by and construed and enforced in accordance with the laws of the State of Israel applicable to contracts made and to be performed therein, without giving effect to the principles of conflict of laws. The competent courts of Tel Aviv, Israel shall have sole jurisdiction in any matters pertaining to the ISOP.

**20. TAX CONSEQUENCES**

20.1 Any tax consequences arising from the grant or exercise of any Option, from the payment for Shares covered thereby or from any other event or act (of the Company and/or its Affiliates, the Trustee or the Grantee), hereunder, shall be borne solely by the Grantee. The Company and/or its Affiliates and/or the Trustee shall withhold taxes according to the requirements under the applicable laws, rules, and regulations, including withholding taxes at source. Furthermore, the Grantee shall agree to indemnify the Company and/or its Affiliates and/or the Trustee and hold them harmless against and from any and all liability for any such tax or interest or penalty thereon, including without limitation, liabilities relating to the necessity to withhold, or to have withheld, any such tax from any payment made to the Grantee.

20.2 The Company and/or, when applicable, the Trustee shall not be required to release any Share certificate to an Grantee until all required payments have been fully made.

**21. NON-EXCLUSIVITY OF THE ISOP**

The adoption of the ISOP by the Board shall not be construed as amending, modifying or rescinding any previously approved incentive arrangements or as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of Options or issuing Shares otherwise than under the ISOP, and such arrangements may be either applicable generally or only in specific cases.

For the avoidance of doubt, prior grant of options to Grantees or issuance of Shares of the Company under their employment agreements, and not in the framework of any previous option plan, shall not be deemed an approved incentive arrangement for the purpose of this Section.

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22. **MULTIPLE AGREEMENTS**

The terms of each award granted hereunder may differ from other awards granted under the ISOP at the same time, or at any other time. The Board may also grant more than one award to a given Grantee during the term of the ISOP, either in addition to, or in substitution for, one or more awards previously granted to that Grantee.

23. **DATA PRIVACY**

Grantee, by signing the Grant Agreement, explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of Grantee's personal data (the "Data") for the purpose of implementing, administering and managing Grantee's participation in this ISOP. Grantee understands that Data may be transferred to any third parties assisting the Company with the implementation, administration and management of this ISOP, as well as to prospective acquirers of the Company or investors therein for due diligence purposes and to brokers, escrow agents, trustees or other third parties with whom the issued Shares may be deposited.

\* \* \*

EX-12.1 3 ea020288101ex12-1\_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: April 1, 2024

/s/ Eyal Cohen

Eyal Cohen

Chief Executive Officer

EX-12.2 4 ea020288101ex12-2\_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: April 1, 2024

/s/ Moshe Zeltzer  
 Moshe Zeltzer  
 Chief Financial Officer

EX-13.1 5 ea020288101ex13-1\_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, 2023 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: April 1, 2024

EX-23.1 6 ea020288101ex23-1\_bosbetter.htm CONSENT OF FAHN KANNE & CO. GRANT THORNTON ISRAEL

**Exhibit 23.1**



**Fahn Kanne & Co.**  
 Head Office  
 32 Hamasger Street  
 Tel-Aviv 6721118, ISRAEL  
 PO Box 36172, 6136101

T +972 3 7106666  
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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We have issued our report dated March 31, 2024, 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, 2023. 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. 333-273540, 333-249597 and 333-233113) and Forms S-8 (File No. 333-271109, 333-228344, 333-179253, 333-160414, 333-148318, 333-136957 and 333-110696).

/s/ FAHN KANNE & CO. GRANT THORNTON ISRAEL

Tel Aviv, Israel  
 March 31, 2024

**Certified Public Accountants**

Fahn Kanne & Co. is the Israeli member firm of Grant Thornton International Ltd.

EX-97.1 7 ea020288101ex97-1\_bosbetter.htm CLAWBACK POLICY

**Exhibit 97.1**

1. **Purpose**

This Clawback Policy describes the circumstances under which Covered Persons of **B.O.S. Better Online Solutions Ltd** and any of its direct or indirect subsidiaries (the “**Company**”) will be required to repay or return Erroneously-Awarded Compensation to the Company. This Policy and any terms used in this Policy shall be construed in accordance with the clawback-related listing standards proposed by the Nasdaq Stock Market (the “**Nasdaq Clawback Rules**”), as well as the provisions of the Israeli Companies Law of 1999 (the “**Companies Law**”).

2. **Definitions**

For purposes of this Policy, the following capitalized terms shall have the meaning set forth below:

- 2.1. “**Accounting Restatement**” shall mean an accounting restatement (i) due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial restatements that is material to the previously issued financial statements (a “**Big R**” “**Restatement**”), or (ii) that corrects an error that is not material to previously issued financial statements, but would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (a “**little r**” “**restatement**”).
- 2.2. “**Board**” shall mean the Board of Directors of the Company.
- 2.3. “**Clawback-Eligible Incentive Compensation**” shall mean, in connection with an Accounting Restatement, any Incentive-Based Compensation Received by a Covered Person (regardless of whether such Covered Person was serving at the time that Erroneously-Awarded Compensation is required to be repaid) (i) on or after October 2, 2023, (ii) after beginning service as a Covered Person, (iii) while the Company has a class of securities listed on a national securities exchange or national securities association and (iv) during the Clawback Period.
- 2.4. “**Clawback Period**” shall mean, with respect to any Accounting Restatement, the three completed fiscal years immediately preceding the Restatement Date and any transition period (that results from a change in the Company’s fiscal year) of less than nine months within or immediately following those three completed fiscal years.
- 2.5. “**Committee**” shall mean the Compensation Committee of the Board.
- 2.6. “**Covered Person**” shall mean any person who is, or was at any time, during the Clawback Period, an Executive Officer of the Company. For the avoidance of doubt, Covered Person may include a former Executive Officer that left the Company, retired or transitioned to an employee role (including after serving as an Executive Officer in an interim capacity) during the Clawback Period. In addition, to the extent required under Israeli law, the other directors shall also be deemed to be Covered Persons.
- 2.7. “**Erroneously-Awarded Compensation**” shall mean the amount of Clawback-Eligible Incentive Compensation that exceeds the amount of Incentive-Based Compensation that otherwise would have been Received had it been determined based on the restated amounts. This amount must be computed without regard to any taxes paid.
- 2.8. “**Executive Officer**” shall mean (i) the Company’s president, principal financial officer, principal accounting officer (or if there is no such accounting officer, the controller), any vice-president in charge of a principal business unit, division, or function (such as sales, administration, or finance), any other officer who performs a policy-making function, (ii) or any other person (including an officer of the Company’s parent(s) or subsidiaries) who performs similar policy-making functions for the Company, or (iii) an “**Officer**” within the meaning set forth in the Companies Law. For the sake of clarity, at a minimum, all persons who would be executive officers pursuant to Rule 401(b) under Regulation S-K shall be deemed “**Executive Officers**”.

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- 2.9. “**Financial Reporting Measures**” shall mean measures that are determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements, and all other measures that are derived wholly or in part from such measures. For purposes of this Policy, Financial Reporting Measures shall include stock price and total shareholder return (and any measures that are derived wholly or in part from stock price or total shareholder return).
  - 2.10. “**Incentive-Based Compensation**” shall have the meaning set forth in section 3 below.
  - 2.11. “**Nasdaq**” shall mean The Nasdaq Stock Market.
  - 2.12. “**Policy**” shall mean this Policy, as the same may be amended and/or restated from time to time.
  - 2.13. “**Received**” shall mean Incentive-Based Compensation received, or deemed to be received, in the Company’s fiscal period during which the Financial Reporting Measure specified in the Incentive-Based Compensation is attained, even if the payment or grant occurs after the fiscal period.
  - 2.14. “**Repayment Agreement**” shall have the meaning set forth in section 5 below.
  - 2.15. “**Restatement Date**” shall mean the earlier of (i) the date the Board, a committee of the Board or the officers of the Company authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement, or (ii) the date that a court, regulator or other legally authorized body directs the Company to prepare an Accounting Restatement.
  - 2.16. “**SARs**” shall mean stock appreciation rights.
  - 2.17. “**SEC**” shall mean the U.S. Securities and Exchange Commission.

3. **Incentive-Based Compensation**

“**Incentive-Based Compensation**” shall mean any compensation that is granted, earned or vested wholly or in part upon the attainment of a Financial Reporting Measure.

For purposes of this Policy, specific examples of Incentive-Based Compensation include, but are not limited to:

- Non-equity incentive plan awards that are earned based, wholly or in part, based on satisfaction of a Financial Reporting Measure performance goal;
- Bonuses paid from a “bonus pool,” the size of which is determined, wholly or in part, based on satisfaction of a Financial Reporting Measure performance goal;
- Other cash awards based on satisfaction of a Financial Reporting Measure performance goal;
- Restricted stock, restricted stock units, performance share units, stock options and SARs that are granted or become vested, wholly or in part, on satisfaction of a Financial Reporting Measure performance goal; and



- Proceeds received upon the sale of shares acquired through an incentive plan that were granted or vested based, wholly or in part, on satisfaction of a Financial Reporting Measure performance goal.

For purposes of this Policy, Incentive-Based Compensation excludes:

- Any base salaries (except with respect to any salary increases earned, wholly or in part, based on satisfaction of a Financial Reporting Measure performance goal);
- Bonuses paid solely at the discretion of the Committee or Board that are not paid from a “bonus pool” that is determined by satisfying a Financial Reporting Measure performance goal;

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- Bonuses paid solely upon satisfying one or more subjective standards and/or completion of a specified employment period;
- Non-equity incentive plan awards earned solely upon satisfying one or more strategic measures or operational measures; and
- Equity awards that vest solely based on the passage of time and/or satisfaction of one or more non-Financial Reporting Measures.

#### 4. **Determination and Calculation of Erroneously-Awarded Compensation**

In the event of an Accounting Restatement, the Committee shall promptly determine the amount of any Erroneously-Awarded Compensation for each Executive Officer in connection with such Accounting Restatement and shall promptly thereafter provide each Executive Officer with a written notice containing the amount of Erroneously-Awarded Compensation and a demand for repayment or return, as applicable.

- 4.1. **Cash Awards.** With respect to cash awards, the Erroneously-Awarded Compensation is the difference between the amount of the cash award (whether payable as a lump sum or over time) that was Received and the amount that should have been received applying the restated Financial Reporting Measure.
- 4.2. **Cash Awards Paid From Bonus Pools.** With respect to cash awards paid from bonus pools, the Erroneously-Awarded Compensation is the pro rata portion of any deficiency that results from the aggregate bonus pool that is reduced based on applying the restated Financial Reporting Measure.
- 4.3. **Equity Awards.** With respect to equity awards, if the shares, options or SARs are still held at the time of recovery, the Erroneously-Awarded Compensation is the number of such securities Received in excess of the number that should have been received after applying the restated Financial Reporting Measure (or the value in excess of that number). If the options or SARs have been exercised, but the underlying shares have not been sold, the Erroneously-Awarded Compensation is the number of shares underlying the excess options or SARs (or the value thereof). If the underlying shares have already been sold, then the Committee and Board shall determine the amount which most reasonably estimates the Erroneously-Awarded Compensation.
- 4.4. **Compensation Based on Stock Price or Total Shareholder Return.** For Incentive-Based Compensation based on (or derived from) stock price or total shareholder return, where the amount of Erroneously-Awarded Compensation is not subject to mathematical recalculation directly from the information in the applicable Accounting Restatement, the amount shall be determined by the Committee and Board based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or total shareholder return upon which the Incentive-Based Compensation was Received (in which case, the Committee and Board shall maintain documentation of such determination of that reasonable estimate and provide such documentation to Nasdaq in accordance with applicable listing standards).

#### 5. **Recovery of Erroneously-Awarded Compensation**

Once the Committee and Board have determined the amount of Erroneously-Awarded Compensation recoverable from the applicable Covered Person, the Committee and Board shall take all necessary actions to recover the Erroneously-Awarded Compensation. Unless otherwise determined by the Committee and Board, the Committee and Board shall pursue the recovery of Erroneously-Awarded Compensation in accordance with the below:

- 5.1. **Cash Awards.** With respect to cash awards, the Committee and Board shall either (i) require the Covered Person to repay the Erroneously-Awarded Compensation in a lump sum in cash (or such property as the Committee and Board agrees to accept with a value equal to such Erroneously-Awarded Compensation) reasonably promptly following the Restatement Date or (ii) if approved by the Committee and Board, offer to enter into a Repayment Agreement (as defined below). If the Covered Person accepts such offer and signs the Repayment Agreement within a reasonable time as determined by the Committee, the Company shall countersign such Repayment Agreement.

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- 5.2. **Unvested Equity Awards.** With respect to those equity awards that have not yet vested, the Committee and Board shall take all necessary action to cancel, or otherwise cause to be forfeited, the awards in the amount of the Erroneously-Awarded Compensation.
- 5.3. **Vested Equity Awards.** With respect to those equity awards that have vested and the underlying shares have not been sold, the Committee and Board shall take all necessary action to cause the Covered Person to deliver and surrender the underlying shares in the amount of the Erroneously-Awarded Compensation.

In the event that the Covered Person has sold the underlying shares, the Committee and Board shall either (i) require the Covered Person to repay the Erroneously-Awarded Compensation in a lump sum in cash (or such property as the Committee and Board agree to accept with a value equal to such Erroneously-Awarded Compensation) reasonably promptly following the Restatement Date or (ii) if approved by the Committee and Board, offer to enter into a Repayment Agreement. If the Covered Person accepts such offer and signs the Repayment Agreement within a reasonable time as determined by the Committee, the Company shall countersign such Repayment Agreement.

- 5.4. **Repayment Agreement.** “**Repayment Agreement**” shall mean an agreement (in a form reasonable acceptable to the Committee) with the Covered Person for the repayment of the Erroneously-Awarded Compensation as promptly as possible without unreasonable economic hardship to the Covered Person.
- 5.5. **Effect of Non-Repayment.** To the extent that a Covered Person fails to repay all Erroneously-Awarded Compensation to the Company when due (as determined in accordance with this Policy), the Company shall take all actions reasonable and appropriate to recover such Erroneously-Awarded Compensation from the applicable Covered Person. Such action may include legal actions, offsetting against future compensation, and other remedies as deemed necessary by the Committee and Board.

The Committee and Board shall have broad discretion to determine the appropriate means of recovery of Erroneously-Awarded Compensation based on all applicable facts and circumstances and taking into account the time value of money and the cost to shareholders of delaying recovery. However, in no

event may the Company accept an amount that is less than the amount of Erroneously-Awarded Compensation in satisfaction of a Covered Person's obligations hereunder.

6. **Discretionary Recovery**

Notwithstanding anything herein to the contrary, the Company shall not be required to take action to recover Erroneously-Awarded Compensation if any one of the following conditions are met and the Committee and Board determine that recovery would be impracticable:

- 6.1. The direct expenses paid to a third party to assist in enforcing this Policy against a Covered Person would exceed the amount to be recovered, after the Company has made a reasonable attempt to recover the applicable Erroneously-Awarded Compensation, documented such attempts and provided such documentation to Nasdaq;
- 6.2. Recovery would violate home country law where that law was adopted prior to November 28, 2022, provided that, before determining that it would be impracticable to recover any amount of Erroneously-Awarded Compensation based on violation of home country law, the Company has obtained an opinion of home country counsel, acceptable to Nasdaq, that recovery would result in such a violation and a copy of the opinion is provided to Nasdaq; or
- 6.3. Recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder.

7. **Reporting and Disclosure Requirements**

The Company shall file all disclosures with respect to this Policy in accordance with the requirements of the federal securities laws and the Nasdaq Stock Market.

8. **Effective Date**

This Policy shall apply to any Incentive-Based Compensation Received on or after October 2, 2023.

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9. **No Indemnification**

The Company shall not indemnify any Covered Person against the loss of Erroneously-Awarded Compensation and shall not pay, or reimburse any Covered Persons for premiums, for any insurance policy to fund such Covered Person's potential recovery obligations.

10. **Administration**

The Committee and the Board have the discretion to administer this Policy, subject to applicable law. The Committee and the Board shall, subject to the provisions of this Policy, make such determinations and interpretations and take such actions as deems necessary, appropriate or advisable.

11. **Amendment**

The Committee and thereafter, the Board may amend this Policy from time to time as and when the Committee and the Board determine that it is legally required by the Companies Law, any federal securities laws, SEC rule or the rules of any national securities exchange or national securities association on which the Company's securities are then listed. Notwithstanding anything in this section 11 to the contrary, no amendment or termination of this Policy shall be effective if such amendment or termination would (after taking into account any actions taken by the Company contemporaneously with such amendment or termination) cause the Company to violate the Companies Law, any federal securities laws, SEC rule, or the rules of any national securities exchange or national securities association on which the Company's securities are then listed.

12. **Other Recoupment Rights; No Additional Payments**

This Policy will be applied to the fullest extent of the law. The adoption of this Policy does not derogate from any recoupment rights the Company may have under any employment agreement, equity award agreement or any other agreement entered into on or after October 2, 2023. Any right of recoupment under this Policy is in addition to, and not in lieu of, any other rights under applicable law, regulation or rule or pursuant to any similar policy in any employment agreement, equity plan, equity award agreement or similar arrangement and any other legal remedies available to the Company. However, this Policy shall not provide for recovery of Incentive-Based Compensation that the Company has already recovered pursuant to Section 304 of the Sarbanes-Oxley Act or other recovery obligations.

13. **Successors**

This Policy shall be binding and enforceable against all Covered Persons and their beneficiaries, heirs, executors, administrators or other legal representatives.

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Managing  
Inventory by  
Supply Chain  
Division

Automate  
Inventory by  
Robotic  
Division

Tracking  
Inventory by  
RFID Division

