

BOS BETTER ONLINE SOLUTIONS LTD  
Form 20-F  
April 29, 2015

**As filed with the Securities and Exchange Commission on April 29, 2015**

**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, 2014**

**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, 75100, Israel**

(Address of principal executive offices)

**Eyal Cohen, 972-3-9542070, eyalc@boscom.com, 20 Freiman Street, Rishon LeZion, 75100, Israel**

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of each class	Name of each exchange on which registered
<b>Ordinary Shares, nominal value NIS 80.00 per share</b>	<b>NASDAQ Capital Market</b>

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:

1,802,692 Ordinary Shares, nominal value NIS 80.00 per share, as of December 31, 2014  
and 1,835,687 Ordinary Shares, nominal value NIS 80.00 per share, as of March 31, 2015.

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, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer   Accelerated filer   Non-accelerated filer

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, to the extent not superseded by documents or reports subsequently filed or furnished.

***Forward Looking Statements***

This Annual Report on Form 20-F contains forward-looking statements that are intended to be, and are hereby identified as, forward looking statements for the purposes of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These statements address, among other things: our strategy; the anticipated development of our products; the results of 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; and our technological advancement. 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” and similar expressions are intended to identify forward-looking statements. These statements reflect our current views with respect to future events. These statements are based on assumptions and are subject to risks and uncertainties. These risk factors and uncertainties include, amongst others, the dependency of sales being generated from one or few major customers, the uncertainty of BOS being able to maintain current gross profit margins, inability to keep up or ahead of technology and to succeed in a highly competitive industry, inability to maintain marketing and distribution arrangements and to expand our overseas markets, uncertainty with respect to the prospects of legal claims against BOS, the effect of exchange rate fluctuations, general worldwide economic conditions and continued availability of financing for working capital purposes and to refinance outstanding indebtedness; and additional risks and uncertainties set forth in this Annual Report, including under the heading “Risk Factors.” Except as required by applicable law, including the federal securities laws of the United States, we do not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

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PART I

Item 1: Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2: Offer Statistics and Expected Timetable

Not applicable.

Item 3: Key Information Regarding BOS

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

3A. Selected Consolidated Financial Data

The selected consolidated statement of operations data for B.O.S. Better Online Solutions Ltd. set forth below with respect to the years ended December 31, 2014, 2013 and 2012, and the selected consolidated balance sheet data as of December 31, 2014 and 2013, have been derived from our audited Consolidated Financial Statements listed in Item 18, which have been prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”). The selected consolidated statement of operations data set forth below with respect to the years ended December 31, 2011 and 2010, and the consolidated balance sheet data as of December 31, 2012 and 2011 and 2010, are derived from other consolidated financial statements not included herein and have been prepared in accordance with U.S. GAAP. The financial statements were audited by Kost Forer Gabbay & Kasierer, an independent registered public accounting firm and a member of Ernst & Young Global. The selected consolidated financial data presented below should be read in conjunction with and is qualified entirely by reference to Item 5: “Operating and Financial Review and Prospects” and the Notes to the Financial Statements included in this Annual Report on Form 20-F.

The Company has accounted for discontinued operations, in accordance with ASC 205-20, *Discontinued operations* of the Financial Accounting Standards Board. As such, the results of discontinued operations, including revenues, cost of revenues, operating expenses, and other income and expenses, in connection with discontinued operation in previous periods, have been reclassified in the accompanying statements of operations.

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

	2010	2011	2012	2013	2014
Revenues	30,187	33,434	24,503	25,903	27,601
Cost of revenues	22,668	26,481	19,050	20,751	22,152
Inventory write offs	36	443	385	121	404
Gross profit	7,483	6,510	5,068	5,031	5,045
Operating expenses:					
Research and development, net	372	403	125	-	-
Sales and marketing	4,068	4,273	3,058	2,924	3,043
General and administrative	1,786	2,252	1,693	1,523	1,882
Impairment of goodwill and other intangible assets	-	555	-	-	-
Total operating expenses	6,226	7,483	4,876	4,447	4,925
Operating Profit (loss)	1,257	(973 )	192	584	120
Financial expense, net	(961 )	(2,241 )	(781 )	(549 )	(444 )
Other expenses, net	(120 )	(172 )	(147 )	(22 )	(1 )
Income (loss) before tax on income	176	(3,386 )	(736 )	13	(325 )
Tax benefit (taxes on income)	(5 )	172	187	(13 )	(108 )
Income (loss) from continuing operations	171	(3,214 )	(549 )	-	(433 )
Net income (loss) from discontinued operations	(806 )	-	-	-	-
Net loss	(635 )	(3,214 )	(549 )	-	(433 )
Basic and diluted net income (loss) per share from continuing operations	\$0.28	\$(4.56 )	\$(0.49 )	\$-	\$(0.30 )
Basic and diluted net income (loss) per share from discontinued operations	\$(1.24 )	\$-	\$-	\$-	\$-
Basic and diluted net loss per share	\$(0.96 )	\$(4.56 )	\$(0.49 )	\$-	\$(0.30 )
Weighted average number of shares used in computing basic net earnings (loss) per share	656	705	1,118	1,172	1,449
Weighted average number of shares used in computing diluted net earnings (loss) per share	656	705	1,118	1,172	1,449

<b>Consolidated Balance Sheet Data:</b>	2010	2011	2012	2013	2014
Cash and Cash Equivalents	703	411	354	1,005	1,522
Working Capital (*)	386	(349 )	(739 )	(500 )	634
Total Assets	22,130	20,069	18,049	19,187	16,261
Short-term banks loan and current maturities of long-term bank loans	7,778	7,496	6,383	5,924	4,867
Long-term liabilities	4,073	2,440	2,017	1,305	383
Share Capital	13,959	23,065	23,374	26,178	38,138
Additional paid in Capital	56,805	51,093	50,891	48,634	38,701
Shareholders' equity	3,713	3,598	3,156	3,703	5,297
(*)Working capital comprises of:					
Current assets	14,730	13,682	12,137	13,679	11,215
Less: current liabilities	14,344	14,031	12,876	14,179	10,581
	386	(349 )	(739 )	(500 )	634

3B. Capitalization and Indebtedness

Not applicable.

3C. Reasons for the Offer and Use of proceeds

Not applicable.

**3D. Risk Factors**

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

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

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

As of December 31, 2014, we had \$760,000 in long-term debt (including current maturities of \$570,000) and \$4.3 million of short term bank loans drawn under a revolving credit facility.

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

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

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

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

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

As of December 31, 2014, we had an accumulated deficit of \$71 million. We ended year 2014 with a loss of \$433,000, and year 2013 at breakeven. We had net losses in each of the fiscal years 2009-2012. Our ability to maintain and improve future levels of sales and achieve profitability depends on many factors, which include:

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

There can be no assurance that we will be able to meet our challenges and to achieve profitability in the future or that the level of historic sales will continue in the future or that our net losses will not increase in the future.

***We may be unable to maintain our gross profit margins.***

Our sales and profitability may vary in any given year, and from quarter to quarter. In order to increase sales or to enter into new markets with new products or due to competition we may find it necessary to decrease prices in order to be competitive. Additionally, our gross profit margin tends to fluctuate mainly due to variety and mix of products and changing suppliers prices. We may not be able to maintain current gross profit margins in the future, which would have a material adverse effect on our business.

***We depend on one bank which provides us most of our credit.***

We rely on Bank Leumi le-Israel Ltd. ("Bank Leumi") to provide most of the credit facilities to our subsidiaries. As of December 31, 2014, we had \$4.2 million drawn under a Bank Leumi short term revolving credit facility.



***Our assets are subject to a security interest in favor of Bank Leumi. 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 Leumi is secured by a first priority floating charge on all of our Company's assets, present and future as they may be changing from time to time, and by a first priority fixed charge on all of the Company's goodwill and its shares of our Israeli subsidiaries, BOS - Dimex Ltd. ("Dimex") and BOS - Odem Ltd. ("Odem"). In addition, the Company and its Israeli subsidiaries entered into a series of intercompany guarantees in favor of Bank Leumi.

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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 failure to comply with the restrictions contained in our loan agreements could lead to a default under the terms of these agreements (See “Item 5B. Liquidity and Capital Resources”).

**Risks related to our business:**

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

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

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

retain the executive officers and key technical personnel who have been involved in the development of our two operating divisions;

attract and retain additional qualified personnel to provide technological depth; 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.

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***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:

- managing geographically dispersed operations;
- 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; and
- introducing joint products and service offerings.

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

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

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

In the past, the Company has made several acquisitions, such as the acquisition of Dimex Systems' business in March 2008, and the acquisition of BOS Supply Chain Solutions (Summit) Inc. ("Summit"), a New Jersey based company, in October 2007 (Summit filed for Chapter 7 bankruptcy relief on November 23, 2010). We may expand our services through additional acquisitions. The negotiation of acquisitions, investments or joint ventures, as well as the integration of acquired or jointly developed businesses or technologies, could divert our management's time and resources. There can be no assurance that we will be able to successfully integrate and manage future acquisitions, if they occur.

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

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***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, the Far East and Europe. We do not generally require collateral; however most of our debt of customers outside of Israel is insured against customer nonpayment through the Israeli Credit Insurance Company Ltd.

The balance of allowance for bad debt as of December 31, 2014 amounted to \$191,000, which was determined by our management to be sufficient. In face 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, they 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 face of an increased number of refurbished or non-original components offered in the marketplace, certain customers have begun to insist on purchasing components only 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 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. 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 some jurisdictions, and we could fail to realize revenues and suffer damage to our reputation as a result of, or in defense of, a substantial claim.

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

Third parties may assert claims that we have violated a patent, trademark, copyright or other proprietary intellectual property right belonging to them. As is characteristic of our industry, there can be no assurance that our products do not or will not infringe 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 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 such intellectual property of a third party. 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 violation of the FCPA or other anti-corruption laws by our employees or third-parties acting on our behalf. A violation of anti-corruption laws by our employees or third-parties during the performance of their obligations for us may have a material adverse effect on our reputation operating results and financial condition.

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

Most of our sales rely on products of certain key suppliers, which we represent on a non-exclusive basis. 33% of our Supply Chain Solutions division purchases in the year 2014 were sourced from five key suppliers and 48% of our RFID and Mobile Solutions division purchases in the year 2014 were sourced from six other key suppliers (including a software supplier). In the year 2013, 34% of our Supply Chain Solutions division purchases were sourced from five key suppliers and 58% of our RFID and Mobile Solutions purchases were sourced from five other key suppliers.

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



business until an alternative source of supply can be obtained.

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***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.

***If revenue levels for any quarter fall 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 below our expectations will adversely affect our results of operations.

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

A substantial amount of our revenues is denominated in U.S. dollars ("U.S. dollars" or "dollars") or is U.S. dollar-linked, but 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 that 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 cost of our operations in Israel will increase and our dollar-measured results of operations will be adversely affected. In 2014, the NIS depreciated by approximately 12%, against the U.S. dollar, and in 2013 and 2012, the NIS appreciated by approximately 7.0% and 2.3% respectively, against the U.S. dollar. In 2012 and 2013, the annual inflation rate in Israel was approximately 1.63% and 1.82%, respectively. In year 2014, the annual deflation was 0.2%. Therefore, the U.S. dollar cost of our Israeli operations decreased in 2014 and increased in 2013 and 2012. We cannot predict whether in the future the NIS will appreciate against the U.S. dollar or vice versa. Any increase in the rate of inflation in Israel, unless the increase is offset on a timely basis by a devaluation of the NIS in relation to the U.S. dollar, will increase our labor and other costs, which will increase the U.S. dollar cost of our operations in Israel and harm our results of operations (see "Item 5A. Results of Operation - Impact of Inflation and Currency Fluctuations" below)



*If we are unsuccessful in introducing new products, we may be unable to expand our business.*

The market for some of the products we market 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.

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

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

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

If we should encounter such difficulties in conducting our international operations, it may adversely affect our business condition and results of operations.

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

A financial and economic downturn in Israel and in one or more of our overseas markets may cause revenues of our customers to decrease. This may result in reductions in sales of products and services in some markets, longer sales

cycles, slower adoption of new technologies and increased price competition. In addition, weakness in the end-user market could negatively affect the cash flow of our customers who could, in turn, delay paying their obligations to us. This could increase our credit risk exposure and cause delays in our recognition of revenues on future sales to these customers.

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***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 of directors and senior officers for: (a) monetary liability imposed upon them in favor of a third party by a judgment, including a settlement or an arbitral award confirmed by the court, as a result of an act or omission of such person in its capacity as a director or officer of the Company, (b) reasonable litigation expenses, including attorney's fees, incurred by them pursuant to an investigation or a proceeding commenced against them by a competent authority if it was terminated without an indictment and without having a monetary charge imposed on them in exchange for a criminal procedure (as such terms are defined in the Israeli Companies Law 1999 – 5759 (the "Israeli Companies Law")), or that was terminated without an indictment but with a monetary charge imposed on them in exchange for a criminal procedure in a crime that does not require proof of criminal intent, 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 such a director or officer or imposed on him by a court, in a proceeding brought against him by or on behalf of the Company or by a third party, or in a criminal action in which he was acquitted, or in a criminal action which does not require criminal intent in which he was convicted, in each case relating to acts or omissions of such person in 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 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. Payment pursuant to such indemnification may materially adversely affect our financial condition.

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

Based upon our current and projected income, assets and activities, we do not believe that at this time BOS is a passive foreign investment company for U.S. federal income tax purposes, but there can be no assurance that we will not be classified as such in the future. Such classification may have grave tax consequences for 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 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 U.S. shareholders if we are subsequently determined to be a PFIC. You are advised to consult with your own tax advisor regarding the particular tax consequences related to the ownership and disposition of our Ordinary Shares under your own particular factual circumstances.

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

Our balance sheet contains a significant amount of goodwill and other amortizable intangible assets in long-term assets, totaling about \$4.2 million at December 31, 2014. We review goodwill annually for impairment, or more frequently when indications for potential impairment exist. We review other amortizable intangible assets for impairment when indicators for impairment exist. The volatility of our share price can cause significant changes to our market capitalization.

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

***There are substantial risks associated with the Standby Equity Distribution Agreements, which could contribute to the decline of our share price and have a dilutive impact on our existing shareholders.***

The sale of our Ordinary Shares to YA Global Master SPV Ltd., or YA Global, pursuant to the Standby Equity Distribution Agreements, or the SEDAs, (see “Item 5B – Liquidity and Capital Resources”) will have a dilutive impact on our shareholders. The closing market price of our Ordinary Shares as of March 31, 2015 was \$2.07. Assuming this is the price per share used as a basis for the calculations for all draw downs under the SEDAs, we would be able to sell 675,290 Ordinary Shares to YA Global, and receive net proceeds of approximately \$ 1,300,000. Such amount of shares would comprise 32% of our issued and outstanding share capital (pre sale), which would dilute our current shareholders.

***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, and 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.

**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, 2014 through March 31, 2015, the daily closing price of our Ordinary Shares in NASDAQ has ranged from \$2.07 to \$7.88 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 these companies. These broad market fluctuations may adversely affect the market price of our Ordinary Shares, regardless of our actual operating performance.

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

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

On January 17, 2012, the Company received a notice from the Listing Qualifications Department of Nasdaq advising us that the Company has failed to comply with Nasdaq's requirement that listed securities maintain a minimum bid price of \$1.00 per share as set forth in Nasdaq Listing Rules.

On July 19, 2012, the Company requested a hearing with the Nasdaq Hearings Panel, and a hearing was held on August 30, 2012. The Panel determined that the continued listing of the Company's securities on Nasdaq was contingent on the Company effecting a reverse stock split in the ratio of 1 for 4 by not later than December 15, 2012, which it did.

On January 2, 2013, the Company received a notice from the NASDAQ Office of General Counsel-Hearings, advising that the Company has regained compliance with the applicable minimum bid price rule and is in compliance with all other applicable requirements for listing 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 the 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.

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Since its establishment in 1948, Israel has been involved in a number of armed conflicts with its Arab neighbors and a state of hostility, varying from time to time in intensity and degree, has continued into 2014. Since early July 2014, there has been a significant increase in hostilities between Hamas, an Islamist organization governing the Gaza Strip, and Israel, including missiles launched by Hamas from the Gaza Strip into Israel and airstrikes and ground operations conducted by Israel in the Gaza Strip. On July 21, 2014, all U.S. airlines and most major airlines of other nationalities suspended their flights to Israel's Ben-Gurion International Airport for several days after a missile landed approximately 1.5 Km away. Also, since 2011, riots and uprisings in several countries in the Middle East and neighboring regions have led to severe political instability in several neighboring states and to a decline in the regional security situation. Such instability may affect the local and global economy, could negatively affect business conditions and, therefore, could adversely affect our operations. Syria, in particular, has been engaged in a fierce civil war and there have been threats from the Syrian government that if the conflict escalates and international forces intervene, Israel may be attacked. In addition, Iran has threatened to attack Israel and is widely believed to be developing nuclear weapons. Iran is also believed to have a strong influence among extremist groups in areas that neighbor Israel, such as Hamas in Gaza and Hezbollah in Lebanon.

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

Furthermore, several countries, principally those in the Middle East, as well as Malaysia and Indonesia, still restrict business with Israel and Israeli companies. Restrictive laws or policies directed towards Israel or Israeli businesses may have an adverse impact on our operations, our financial results or the expansion of our business.

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

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

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

of our shareholders.

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

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***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. Service of process upon them may be difficult to effect within the United States. Furthermore, because the majority of our assets are located in Israel, any judgment obtained in the United States against us or any of our directors and non-U.S. officers may not be collectible within the United States.

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

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

***As a foreign private issuer whose shares are listed on The Nasdaq Capital Market, we have elected to follow certain home country corporate governance practices instead of certain Nasdaq requirements.***

We are a foreign private issuer as such term is defined under U.S. federal securities laws. As a foreign private issuer, we have elected to follow certain home country corporate governance practices instead of certain requirements of the Marketplace Rules of The Nasdaq Capital Market, or the Nasdaq Marketplace Rules. We may in the future elect to follow Israeli corporate governance practices with regard to, among other things, the composition of our board of directors, 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.”

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*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 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, 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**



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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, 75100, Israel.

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.

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Our telephone number is 972-3-954-2000 and our website address is [www.boscom.com](http://www.boscom.com). Our subsidiaries' websites are: Odem - [www.odem.co.il](http://www.odem.co.il); and Dimex – [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.

We operate our business through two divisions:

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

RFID and Mobile Solutions – conducted through our wholly owned subsidiary, Dimex. Our RFID and Mobile Solutions offerings form a comprehensive turn-key solution for Automatic Identification and Data Collection (AIDC), combining mobile infrastructure middleware software and a software application of manufacturers that we represent. In March 2008, Dimex and its subsidiary, Dimex Hagalil Projects (2008) Ltd. (“Dimex Hagalil 2008”), purchased the assets and activities of Dimex Systems, which was an integrator of AIDC solutions based on RFID and barcode technology. The consideration was NIS 44.6 million (approximately \$12.4 million). The consideration was comprised of cash, payable over a 24-month period and of 25,011 BOS shares (equal to approximately 4.4% of the then outstanding shares of BOS).

In the years 2009 through 2012, the Company entered into several amendments to the purchase agreement for the purchase of the assets and activities of Dimex Systems, or the Dimex Systems Asset Purchase Agreement. The amendments revised the payment schedule of the consideration payable to Dimex Systems. The remaining debt, as of December 31, 2014, amounts to \$338,000.

For further details regarding the Dimex Systems Asset Purchase Agreement, see “Item 5B. Liquidity and Capital Resources” and Note 10 to our Consolidated Financial Statements attached to this annual report.

Our Ordinary Shares are currently listed on the NASDAQ Capital Market. Following the Company's request, on May 12, 2009 the Company's Ordinary Shares were delisted from trading on the Tel Aviv Stock Exchange (the “TASE”). The delisting of the Ordinary Shares from the TASE did not affect the continued listing of the Ordinary Shares on the NASDAQ Capital Market under the symbol BOSL. As a result of the delisting of the Company's Ordinary Shares from the TASE, the Company is no longer subject to reporting requirements in Israel, under the Israeli Securities Law.

On November 23, 2010, the Company's two U.S. subsidiaries that are part of its Supply Chain Solutions division, Lynk and its subsidiary Summit, filed with the US Bankruptcy Court a Chapter 7 petition. In March 2011, the Lynk case was closed. The proceedings in respect of Summit are continuing but they have no impact on the financial statements of the Company. The results of operations, including revenues, cost of revenues, operating expenses, and other income and expenses related to the prior periods of the discontinued operations, have been reclassified in the accompanying statements of operations as discontinued operations.

#### **4B. Business Overview**

BOS's vision is to be a provider of turnkey AIDC mobility solutions and a leading distributor of electronic components for the civil aircraft industry, defense industry and high technology equipment manufacturers.

The Company's RFID and mobile products and services assist customers in improving the efficiency of their enterprise logistics, enhancing and automating their data collection processes, improving asset tracking, and managing real-time business data.

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

The Company's customers represent a cross-section of industry leaders, from the avionics, defense, retail, government, utilities, and livestock markets. Our Supply Chain Solutions customers include, among others, Bombardier, Elbit Systems, Refael and Israeli Aircraft Industry and it has begun expansion to international markets (e.g., India, and China). Our RFID and Mobile Solutions customers include, among others, IKEA, Blue Square, Shufersal and Teva.

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

#### **BOS Product Offerings**

##### *RFID and Mobile Solutions*

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

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

Our RFID and Mobile Solutions division represents global manufacturers of AIDC equipment based on RFID and barcode technology. Among the manufacturers we represent are Motorola Inc., Intermec Technologies and Corporation, Zebra Technologies Corp., Alien Technology, M3, DLog GmbH, Microscan Systems Inc., Seagull Scientific Inc., Feig and HID Global.

Specifically, our RFID and Mobile Solutions division offers the following products and services:

**Hardware, including:**

- Thermal and barcode printers
- RFID and barcode scanners and readers
- Wireless, mobile and forklift terminals
- Wireless infrastructure
- Active and passive RFID tags (HF & UHF)
- Consumables (ribbons, labels, tags)

**Applications:**

BOS has integrated a set of software solutions for vertical segments:

**BOS LIVESTOCK** is a software application that enables livestock operations to manage, track, support and plan all day-to- day tasks.

**BOS CarID** is a turnkey solution to identify and track vehicles for a variety of transportation-related settings, such as auto vehicle testing centers, public and company parking lots, industrial factories, and automobile dealers, importers, or distributors. By using RFID tags on the vehicles, BOS CarID enables companies, government transportation agencies, and law enforcement officials in the transportation field to effectively manage, track, support and plan all day-to- day vehicle-related activities.

**BOS STOCK** is an optimized data collection solution for logistics management in stores and warehouses. The solution may be based on RFID tags or bar codes, and is intended to provide customers with greater visibility into a retailer's stock management and warehouse/logistics operations. BOS Stock enables storeroom managers to receive advanced delivery notifications and system alerts for delivery discrepancies, and gives them the ability to locate inventory in the stockroom. BOS Stock provides inventory managers with a direct communication link to the sales

floor, and assists in minimizing inventory loss or theft. BOS Stock 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.

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**BOS Mfgr** is a production line tracking solution whereby manufacturing companies can track the progress and status of items on a production line. The solution may be 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 BOS Mfgr., items entering the manufacturing plant are labeled with RFID tags or bar codes, and fixed readers that are located along the production line, 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.

BOS' RFID and Mobile Solutions division provides also complementary services such as:

**Integration Services**, that include site surveys, business requirements analyses, system design and configuration, and implementation, testing and deployment.

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

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

In 2014, 41% of our revenues were attributed to sales generated from our RFID and Mobile Solutions division.

### *Supply Chain Solutions*

Our Supply Chain Solutions division provides electronic components, telecommunications equipment, and components consolidation services to the aerospace, defense, medical and telecommunications industries and enterprise customers worldwide.

These services include:

Representation of global manufacturers and distribution of their electronics components and communications products (see below);

For aerospace customers - Kitting (electronics components consolidation) services, inventory and quality control management of components entering production lines;

Warehouse management for ongoing projects, including all warehouse functions such as storage, operations and inventory management.

Our Supply Chain Solutions division represents on a non-exclusive basis, among others, International Rectifier Inc., Sensata Technologies Inc., Integrated Power Designs, Inc., Positronic Global Connector Solutions, Bluegiga, Switchcraft Inc., First Sensor A.G., Microelectronics Inc., Fema Electronics Corporation, SGC Technologies Inc., and Civue Optotech Inc.

In 2014, 59% of our revenues were attributed to sales of the Supply Chain Solutions division.

## **Marketing, Distribution and Sales**

### *RFID and Mobile Solutions*

We market our RFID and Mobile Solutions primarily to medium and large sized corporations through a combination of direct sales, sales agents and integrators.

### *Supply Chain Solutions*

We market our Supply Chain Solutions directly to customers or through distributors. Our sales force is comprised of direct sales teams and sales agents.

## **Seasonality**

Our sales fluctuate seasonally, with the third quarter sales typically reduced by summer vacations in Europe and new years' holidays in Israel, and the December and January sales typically reduced by the Christmas season.

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

Sales by major geographic areas:



	2014	%	2013	%	2012	%
America	\$515	2	\$529	2	\$493	2
Far East	\$3,296	12	\$3,130	12	\$1,985	8
Europe	\$1,624	6	\$1,896	7	\$1,178	5
Israel	\$22,141	80	\$20,334	79	\$20,806	85
Others	\$25	-	\$14	-	\$41	-
Total Revenues	\$27,601	100	\$25,903	100	\$24,503	100

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Sales by divisions:

RFID and Mobile Solutions	\$11,328	41	\$10,451	40	\$8,894	36	\$13,128	39
Supply Chain Solutions	\$16,317	59	\$15,496	60	\$15,915	65	\$21,332	64
Intercompany	\$(44 )	-	\$(44 )	-	\$(306 )	(1 )	\$(1,026 )	(3 )
Total Revenues	\$27,601	100	\$25,903	100	\$24,503	100	\$33,434	100

**Competition**

*RFID and Mobile Solutions*

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

In Israel, our main competitors in the RFID and Mobile Solutions market are Soft Solutions Ltd., eWave Ltd., Dangot Computers Ltd., Dannet Advanced Technologies Ltd., LogiTag Systems Ltd., Globe Tag Ltd. and Galbital RFID Solutions Ltd.

*Supply Chain Solutions*

We hold several representation agreements with major suppliers and manufacturers. Most of our representation agreements are not on an exclusive basis.

Our Israeli competitors in distribution to the electronic industry include the publicly traded Telsys Ltd., Nisco Projects Ltd. and STG International Electronics (1981) Ltd., as well as Eastronics Ltd. and C.M.S. Compucenter Ltd.

In the international market, our competitors are mainly Arrow Electronics International Inc., Avnet Electronics Marketing, TTI Inc., PEI-Genesis Inc., Marine Air Supply Co. Inc., Airtechnics Inc., Flame Enterprise Inc., Norstan Electronics Inc., Peerless Electronics Inc., Hansair Logistic Inc., Aviall, API Delevan, Cooper and Avio Innovative Propulsion.

## **Strategy**

The Company's vision is to become a leading provider in the field of RFID and Mobile Solutions and Supply Chain Solutions for enterprise logistics and organizational processes.

The key elements of our strategy are as follows:

Expand our RFID and Mobile product offerings, possibly also through acquisitions. This will include the sale and integration of new complementary hardware and software to our existing customer base and sales to new customers; Expand the Supply Chain Solutions division product offerings to our existing customer base and to new customers in and outside of Israel. In the recent years our Supply Chain Division expanded its product offerings to include telecommunication equipment for mobile operations and displays for the high tech industry.

## **Exchange Controls**

See "Item 10D. Exchange Controls".

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

## **4C. Organizational Structure**

The Company's wholly owned subsidiaries include:

In Israel:

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

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

In the United States:

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

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

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

Our offices are located in the following facility in Israel:

Location	Size (square meters)	End of lease period
Rishon Lezion	1,978	January 2016 through – August, 2018

In March 2015, we moved our operations in the north of Israel to our main premises in Rishon Lezion, which now serves as our only facility.

Our average monthly rental fee for the year 2014 and for the year 2013 amounted to \$11,943 and \$12,785, 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", "estimate", "expect", "plan" and similar expressions. Such statements reflect our current views with respect to future events and are subject to certain risks and uncertainties. While we believe such forward-looking statements are based on reasonable assumptions, should one or more of the underlying assumptions prove incorrect, or these risks or uncertainties materialize, our actual results may differ materially from those described herein.

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## Overview

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

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

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

## *Revenues*

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

Revenues from product sales, related to both the Supply Chain Solutions and RFID and Mobile Solutions segments, are recognized in accordance with SAB 104, *Revenue Recognition* ("ASC 605") when delivery has occurred, persuasive evidence of an arrangement exists, the vendor's fee is fixed or determinable, no further obligation exists, and collectability is reasonably assured.

Revenues from maintenance and support services related to license are recognized ratably over the period of the support contract.

For revenues from software customized solutions, since the Company is unable to obtain reasonable dependable estimates of the total effort required for completion, the Company follows the guidance in ASC 605-35, ("ASC 605-35"), whereby the Company applies the completed contract method. Under the completed contract method, all revenue and related costs of revenue are deferred and recognized upon completion. Provisions for estimated losses on contracts in process are recognized in the period such losses are determined.

*Costs and Operating Expenses*

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

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

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

Our general and administrative expenses consist primarily of salaries and related costs earned by management and financial department, allocated overhead costs, office supplies and administrative costs, fees and expenses of our directors, information technology, depreciation, and professional service fees, including legal, insurance and audit fees.

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

### **Critical accounting policies**

Our discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our financial statements in conformity with generally accepted accounting principles in the United States requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at 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 and results of operations and for fully understanding and evaluating our reported results:

inventories  
impairment of long-lived assets and goodwill  
revenue recognition

a. Inventories:

Inventories are valued at the lower of cost or market value. Cost is determined using the moving average cost method.

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 Goodwill

*Impairment of long-lived assets:*

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. The fair value of the brand name and customer list related intangibles was determined by the income approach method. Assumptions in the fair value assessment included: the impact of changes in economic conditions, revenue and cash flow forecasts for the remaining lives of the intangibles and the Company's weighted average cost of capital ("WACC").

During 2014, 2013 and 2012, no impairment losses have been identified.

*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.

Goodwill as of December 31, 2014 and December 31, 2013 amounted to \$4,122,000.

*Testing Methodology:*

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

The reporting unit of the Company for purposes of the impairment test is the Company's RFID and Mobile Solutions division. Discrete financial information is available for this component of the business. Management regularly reviews the operating results of this component.

The Company determined the fair value of the reporting unit using the Income Approach, which utilizes a discounted cash flow model, as it believes that this approach best approximates the reporting unit's fair value at this time. Judgments and assumptions related to revenue, operating income, future short-term and long-term growth rates, weighted average cost of capital, interest, capital expenditures, cash flows, and market conditions are inherent in developing the discounted cash flow model. The material assumptions used for the Income Approach for 2014 were five years of projected net cash flows, WACC of 15.75% and a long-term growth rate of 2.5%. The Company considered historical rates and current market conditions when determining the discount and growth rates to use in its analyses. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for its goodwill.

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

#### Testing Results:

During 2014, 2013 and 2012 no impairment losses have been identified.

#### c. Revenue recognition:

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

Revenues from product sales, related to both the Supply Chain Solutions and RFID and Mobile Solutions segments, are recognized in accordance with SAB 104, *Revenue Recognition* ("ASC 605") when delivery has occurred, persuasive evidence of an arrangement exists, the vendor's fee is fixed or determinable, no further obligation exists, and collectability is reasonably assured.

Revenues from maintenance and support services related to license are recognized ratably over the period of the support contract.



For revenues from customized software solutions, since the Company is unable to obtain reasonable dependable estimates of the total effort required for completion, the Company follows the guidance in ASC 605-35, ("ASC 605-35"), whereby the Company applies the completed contract method. Under the completed contract method, all revenue and related costs of revenue are deferred and recognized upon completion. Provisions for estimated losses on contracts in process are recognized in the period such losses are determined.

### **Legal Contingencies**

The Company is not a party to any legal proceedings.

### **5A. Operating Results**

All share and per share data in this report is reported after giving effect to the 1 for 4 reverse stock split that was effected on December 14, 2012.

#### **Comparison of 2014 and 2013**

Consolidated revenues grew by 6.5% to \$27.6 million in year 2014 from \$25.9 million in year 2013. The increase was attributed to an increase in demand in the Israeli market for both the Supply Chain division and RFID and Mobile division.

Gross profit for 2014 was \$5.0 million (gross margin of 18.3%), as compared to \$5.0 million (gross margin of 19.4%) for 2013. The decrease in the gross margin is attributed mainly to an inventory write off that amounted to \$404,000 in year 2014 as compared to \$121,000 in year 2013. Inventory write-offs are made to cover risks arising from slow-moving items or technological obsolescence.

Operating expenses increased to \$4.9 million in 2014 from \$4.5 million in 2013. The increase in expenses is attributed mainly to: (a) an increase in allowance for bad debt, which amounted to \$95,000 in 2014 as compared to income from reversal of allowance for bad debt in the amount of \$146,000 in 2013; (b) an increase in technological workforce.

Financial expenses were reduced to \$444,000 in year 2014 from \$549,000 in year 2013. The reduction in financial expenses is attributed to a reduction in loans and currency differences.

Tax on income for year 2014 increased to \$108,000 from \$13,000 as a result of a write off of income tax assets as a result of ongoing loss in BOS Odem.

Net loss for year 2014 was \$433,000 as compared to a break even result in 2013. The basic and diluted net loss per share in 2014 was \$0.3, compared to basic and diluted net profit per share of \$0.0 in 2013.

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## Comparison of 2013 and 2012

Consolidated revenues grew by 5.7% to \$25.9 million in year 2013 from \$24.5 million in year 2012. The increase was attributed to an increase in sales of our RFID and Mobile division, mainly due to demand by existing customers that replaced old mobile equipment.

RFID and Mobile solution revenues grew by 17.5% to \$10.5 million from \$8.9 million in year 2012. The increase in revenues in the RFID and Mobile division is attributed to an increase in sales of mobile equipment due to customers' demands for renovation of equipment and the opening of new logistic centers.

Gross profit for 2013 was \$5.0 million (gross margin of 19.4%), compared to \$5.1 million (gross margin of 20.7%) for 2012.

Operation expenses were reduced to \$4.4 million in year 2013 from \$4.9 million in year 2012. The reduction in expenses is attributed to (a) elimination of research and development expenses in year 2013 as compared to \$125,000 in year 2012, which is the result of an agreement the Company entered into in August 2012 for the maintenance, development and support to its software solutions by an outside (the selling and marketing of the software solutions continues to be performed by our RFID and Mobile Solutions division); (b) reduction in sales and marketing expenses due to a reduction in workforce; and (c) a reduction in general and administrative expenses due to a reversal of liability for royalties in connection with previous years.

As a result of the above, operating profit in 2013 amounted to \$584,000, compared to an operating profit of \$192,000 in 2012.

Financial expenses for 2013 were \$549,000, compared to \$781,000 in 2012. The decrease in financial expenses is attributed to a reduction in currency expenses and in the amount of loans.

Other expenses in 2013 and 2012, which amounted to \$22,000 and \$147,000, respectively, were mainly due to disposal of property, plant and equipment and the decrease in the value of the Company investments in Surf.

Tax expenses in 2013 amounted to \$13,000, compared to tax benefit of \$187,000 in 2012. Tax benefit in 2012 is mainly related to uncertain tax positions accounted for in accordance with ASC 740 (see Notes 21 and 14i to the



Consolidated Financial Statements for the year ended December 31, 2013).

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Net profit for year 2013 was \$0.0 as compared to a net loss of \$549,000 in 2012. The basic and diluted net profit per share in 2013 was \$0.0, compared to basic and diluted net loss per share of \$0.49 in 2012.

### **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, uncertain market acceptance and other factors, we may be required to reduce prices for our products 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
- reduce level of debts to banks and others lenders.

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**

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 cost of our operations in Israel will increase and our dollar-measured results of operations will be adversely affected. In 2014, the NIS depreciated by approximately 12%, against the U.S. dollar, and in 2013 and 2012, the NIS appreciated by approximately 7.0% and 2.3% respectively, against the U.S. dollar. In 2012 and 2013, the annual inflation rate in Israel was approximately 1.63% and 1.82%, respectively. In year 2014, the annual deflation was 0.2%. Therefore, the U.S. dollar cost of our Israeli operations decreased in 2014 and increased in 2013 and 2012. We cannot predict whether in the future the NIS will appreciate against the U.S. dollar or vice versa. Any increase in the rate of inflation in Israel, unless the increase is offset on a timely basis by a devaluation of the NIS in relation to the U.S. dollar, will increase our labor and other costs, which will increase the U.S. dollar cost of our operations in Israel and harm our results of operations.



## **Effective Corporate Tax Rate**

The Israeli corporate tax rate was 24% in 2011 and 25% in 2012 and in 2013. Commencing 2014, the corporate tax rate is 26.5%.

## **Grants and Participation**

Under the Company's research and development agreements with the Office of the Chief Scientist ("OCS") and pursuant to applicable laws, the Company is required to pay royalties at the rate of 3.5% of sales of products developed with funds provided by the OCS, up to an amount equal to 100% of the research and development grants (dollar-linked) received from the OCS. The obligation to pay these royalties is contingent upon actual sales of the products. Royalties payable with respect to grants received under programs approved by the OCS after January 1, 1999, are subject to interest on the U.S. dollar-linked value of the total grants received at the annual rate of LIBOR applicable to U.S. dollar deposits at the time the grants are received. Since 2006, we have not participated in research and development programs supported by the OCS.

As of December 31, 2014, the Company has an outstanding off-balance sheet contingent obligation to pay royalties to the OCS, including interest, in the amount of approximately \$ 3.7 million, with respect to the grants. During 2013 and 2014, the developed software for which the grant was received was no longer being sold. Accordingly, no royalty expenses were recorded during these years.

## **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, 2014 the Company incurred losses of \$433,000, as compared to year 2013, in which the Company incurred no losses, and to year 2012, in which the Company incurred losses of \$549,000. In the years ended December 31, 2014, 2013 and 2012 the Company generated a positive cash flow from operating activities

amounting to \$1.1 million in 2014, \$1.0 million in 2013 and \$1.7 million in 2012. The Company's cash and cash equivalents increased from \$1 million as of December 31, 2013 to \$1.5 million as of December 31, 2014. The Company had a positive working capital of \$634,000 and a negative working capital of \$409,000 and \$739,000 as of December 31, 2014, December 31, 2013 and December 31, 2012.

As of December 31, 2014, we had \$190,000 in long-term debt (net of current maturities of \$570,000) and \$4.3 million of short term bank loans drawn under a revolving credit facility.

In April 2013, the Company agreed with shareholders who hold 140,887 warrants to defer registration of the shares underlying the warrants issued to them. In connection with such deferral, the warrants' exercise period was extended by an additional one year. The shareholders have agreed to this arrangement, and it was approved by the Company's Audit Committee and Board of Directors. The extension of warrants held by Telegraph Hill Capital, an affiliate of a member of the Company's Board of Directors, was approved also by the Company's shareholders meeting.

On January 30, 2014, the Company requested shareholders who hold 161,000 warrants to defer the registration of the shares underlying the warrants issued to them. In connection with such deferral, the warrants' exercise period was extended by an additional two years to July 22, 2017 and the exercise price of the warrants was adjusted to \$7.43 (which was the weighted average closing price of the Company's shares in the 20 days ending January 30, 2014). The extension of warrants held by Telegraph Hill Capital was approved by the Company's shareholders meeting..

The Company's loans from Bank Leumi are secured by:

first ranking fixed charges on the goodwill of the Company and our Israeli subsidiaries, on our shareholdings in the Israeli subsidiaries and on certain Bank Leumi accounts; 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 Leumi and each of its Israeli subsidiaries guarantees the Company's liabilities to Bank Leumi.

There were no Bank Leumi covenants applicable for the fiscal years 2012 through 2014.

The Company's loan from Bank HaPoalim is secured by long term bank deposits in the amount of \$259,000. Bank HaPoalim's loan agreements had contained various financial covenants which required that the Company's Israeli subsidiaries maintain certain financial ratios and levels of profitability. These covenants were cancelled on February 2, 2014.

In June 2013, the Company entered into a Standby Equity Distribution Agreement, (the "June 2013 SEDA"), with YA Global. The June 2013 SEDA provides that, upon the terms and subject to the conditions set forth therein, YA Global is committed to purchase up to \$600,000 of the Company's Ordinary Shares over a two-year commitment period. The purchase price of the Ordinary Shares will be at a 5% discount off the lowest daily VWAP (as defined in the agreement) of the Ordinary Shares during the five consecutive trading days following the date of an advance notice from us (provided such VWAP is greater than or equal to 90% of the last closing price of the Ordinary Shares at the time of delivery of the advance notice). From time to time, at the discretion of the Company, subject to complying

with the conditions set forth in the June 2013 SEDA, the Company may present YA Global with advance notices to purchase the Company's shares subject to limitations on price, quantity and trading volume in the Company's stock as more fully described in the June 2013 SEDA. As of March 31, 2015, the Company has drawn \$600,000 on this equity line for which it issued an aggregate of 107,782 Ordinary Shares.

In February 2014, the Company had entered into a second Standby Equity Distribution Agreement, (the “February 2014 SEDA”) with YA Global. The February 2014 SEDA provides that, upon the terms and subject to the conditions set forth therein, YA Global is committed to purchase up to \$2,000,000 of the Company’s Ordinary Shares over a three-year commitment period. The purchase price of the Ordinary Shares will be at a 5% discount off the lowest daily VWAP (as defined in the agreement) of the Ordinary Shares during the five consecutive trading days following the date of an advance notice from us (provided such VWAP is greater than or equal to 90% of the last closing price of the Ordinary Shares at the time of delivery of the advance notice). From time to time, at the Company’s discretion, subject to complying with the conditions set forth in the February 2014 SEDA, the Company may present YA Global with advance notices to purchase up to \$500,000 of the Company’s shares as more fully described in the February 2014 SEDA. As of March 31, 2015, the Company has drawn \$997,000 on this equity line, for which it issued an aggregate of 290,214 Ordinary Shares.

In February 2014, in addition to the February 2014 SEDA, the Company entered into a Note Purchase Agreement with YA Global, under which YA Global provided the Company with a one year bridge loan in the amount of \$500,000. The bridge loan was repayable in nine equal monthly installments commencing three months after the receipt of the loan and was paid in full subsequent to December 31, 2014.

In February 2015 the Company entered into a third Standby Equity Distribution Agreement, (the “February 2015 SEDA”) with YA Global. The February 2015 SEDA provides that, upon the terms and subject to the conditions set forth therein, YA Global is committed to purchase up to \$1,300,000 of the Company’s Ordinary Shares over a 40-month commitment period. The purchase price of the Ordinary Shares will be at a 7% discount off the average share trading price, calculated as described in the SEDA. The Ordinary Shares to be issued to YA Global under the SEDA will be issued pursuant to an exemption from registration under the Securities Act of 1933, as amended. Pursuant to the SEDA, the Company has an obligation to file a registration statement with the U.S. Securities and Exchange Commission covering the resale by YA Global of any shares to be issued to YA Global under the SEDA.

On November 27, 2014, the Company entered into a private placement agreement with Novel Infrastructure Ltd., a company owned by a Hong Kong investor. Under the agreement, the Company issued 128,147 Ordinary Shares (then equal to 7.2% of the outstanding shares of the Company following the investment) at a price per share of \$3.902, or \$ 500,000 in total.



We finance our activities by different means, including short and long-term loans, and income from operating activities.

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.

We have in-balance sheet financial instruments and off-balance sheet contingent commitments. Our in-balance sheet financial instruments consist of our assets and liabilities. Our cash is invested in U.S. dollars and NIS interest bearing deposits with banks. As of December 31, 2014, our trade receivables' and trade payables' aging days were 81 and 72 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 \$634,000 as of December 31, 2014. It is the Company's opinion that current working capital is sufficient for the Company's present requirements.

## **Cash Flows**

Net cash provided by operating activities in 2014 was \$1.1 million as compared to net cash provided by operating activities of \$1.0 million in 2013.

Net cash used in investment activities in year 2014 and 2012 amounted to \$211,000 and \$311,000, respectively which includes repayment of deferred consideration related to the acquisition of Dimex in the amount of \$130,000 and \$255,000, respectively. Net cash provided by investing activities in year 2013 amounted to \$133,000 which includes proceeds from sale and leaseback of real estate owned by the Company in the amount of \$337,000.

Net cash provided by financing activities in 2014, 2013 and 2012 amounted to \$356,000, \$530,000 and \$1.5 million.

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

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

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**5D. Trend Information**

BOS' vision is to become a leading provider in the field of RFID and Mobile solutions for enterprise logistics and organizational processes. Committed to this vision, we plan to expand our suite of solutions and anticipate that the portion of the RFID and Mobile Solutions division revenues will increase gradually going forward.

Growth of the RFID and Mobile Solutions division depends on expanding its product offerings to both new and existing customer base.

Growth of the Supply Chain division depends on expanding its representations of electronic manufacturers and increasing sales to the international markets.

As of December 31, 2014, we had loans of \$5.1 million compared to \$7.5 million as of December 31, 2013. We plan to continue to reduce our loans through cash flow from operating activities and through raising equity.

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

Not applicable.

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

The following table of our material contractual obligations as of December 31, 2014, summarizes the aggregate effect that these obligations are expected to have on our cash flow in the periods indicated (in U.S. thousands of dollars with the exception of per share data):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term loans	\$760	\$570	\$190	-	-
Accrued severance pay <sup>(1)</sup>	\$127	-	-	-	\$127
Operating lease - cars	\$361	\$177	\$184	-	-
Purchase obligation for service and inventory	\$6,133	\$5,969	\$164	-	-

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Facilities lease	\$238	\$134	\$104	-	-
Total	\$7,619	\$6,850	\$642	-	\$127

(1) The time for payment of the severance cannot be predicted.

The above table does not include: contingent obligations to pay royalties to the Office of the Chief Scientist, since the total amount to be paid under the terms of those agreements is a function of future sales.

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

**6A. Directors and Senior Management**

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

Name	Age	Position
Mr. Yosi Lahad	59	Chairman of the Board of Directors
Mr. Yuval Viner	52	Chief Executive Officer
Mr. Avidan Zelicovsky	45	President and Director
Mr. Eyal Cohen	46	Chief Financial Officer
Mr. Luis Gutierrez Roy	44	Director
Ms. Orit Nir Schwartz (*)	43	External Director
Mr. David Golan (*)	74	External Director
Ms. Odelia Levanon (*)	52	Director

(\*) Member of our Audit Committee and Compensation Committee.

**Mr. Yosi Lahad** has joined our Board of Directors on April 13, 2014 and was appointed Chairman of the Board on January 26, 2015. Mr. Lahad has extensive interdisciplinary practical and academic knowledge and vast experience in restructuring processes and strategic alliances. Mr. Lahad has led as CEO or Chairman eight startup companies from early stage to growth and led several M&A events in the United States, Israel and China. Mr. Lahad provides strategic and business development services to global companies in a variety of industries including communications, IT, energy, water, Home Land Security & robotics. Mr. Lahad serves as an active Chairman or Board member of JPI Group China, a leading strategic planning firm for companies entering the Chinese market, UPO, a provider for innovative analytics of information over Internet, and VPlan, a provider of automated self-service over Internet using Natural Language Processing. Mr. Lahad served as CEO in FiberZone, a provider of automated Fiber connectivity from 2009 to 2011. Mr. Lahad was CEO and active chairman of Octalica, a provider of Home Networking, from 2005 to 2007, and CEO of Avantry Networks, delivered wireless networking to global telecom and data providers from 2000 to 2004. Mr. Lahad has been a faculty member/Adjunct Professor lecturing on strategy of emerging companies and innovation at the Hertzliya Interdisciplinary Center and at Tel-Aviv University from 2005. Mr. Lahad holds a BSc. In engineering from the Technion, an MSc. in engineering from University of Texas (UTA) and an MBA from Tel Aviv University.

**Mr. Yuval Viner** was appointed as the Company acting CEO on October 20, 2009 and as CEO on March 17, 2010. From March 2008, following the acquisition of Dimex System's assets, he served as the Head of RFID and Mobile Solutions division. Mr. Viner joined Dimex Systems (1988) Ltd. in 1993 and was appointed as Dimex System's CEO in 2000. Mr. Viner joined the Company as part of the acquisition of Dimex Systems assets. Mr. Viner is a graduate of the Practical Engineering Academy of Tel Aviv.

**Mr. Avidan Zelicovsky** was appointed as the Company acting president in October 20, 2009 and as president on March 17, 2010. From November 2004, following the acquisition of Odem by BOS, Mr. Zelicovsky served as the Head of Supply Chain Solutions division. Mr. Zelicovsky first joined the Company's subsidiary Odem in 1996. Mr. Zelicovsky holds a B.A. in Business Administration from the Tel Aviv College of Management and an LL.M. from the Bar-Ilan University.

**Mr. Eyal Cohen** was appointed as the Company's Chief Financial Officer in January 2007. 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. From 1998 to 2001, Mr. Cohen was the controller of e-SIM Ltd. (NASDAQ:ESIMF) and in the years 1995-1997 held an audit manager position in 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. Luis Gutierrez Roy** has been a director of the Company since October 2010. Mr. Gutierrez Roy co-founded and has been a managing partner at Telegraph Hill Capital Fund I, LLC (THCAP) since 2008. He was a managing director of Corporate Finance and co-head of the Technology, Media and Telecom Group at Ernst & Young (E&Y) in Spain from 2001 to 2008. Prior to E&Y, he led the Corporate Value Consulting practice at PricewaterhouseCoopers (PwC) in its Barcelona office from 1999 to 2001. Prior to joining PwC Spain, he worked for PwC and Houlihan Valuation Advisors in San Francisco from 1996 to 1999, and at the Barcelona Stock Exchange, where he started his professional career as a research and equities analyst in 1992. Mr. Gutierrez Roy is a Board or Advisory Board member of several portfolio companies of THCAP. He has also advised companies in cross-border transactions in Europe, the United States, Asia and Latin America. Mr. Gutierrez Roy holds a B.Sc. in Business Administration from the University of Barcelona, and an MBA from the University of San Francisco.

**Mr. David Golan** has been an External Director of the Company since February 2009. Mr. Golan provides private investment banking, managerial and consulting services. He currently serves as a director in several companies, both public and private. Previously, until 2002, he served as an Executive Director of a group of companies in the Rad-Bynet group. In the years 1998-2000 he served as President of the Zeevi Investments group. Between 1997-1998, Mr. Golan served as President of Clal Trading Ltd. and between 1992-1997 he served as Vice President in Clal Trading Ltd. Between the years 1988-1992 Mr. Golan served as managing director of Gal Industries Ltd. Mr. Golan holds a bachelor's degree in Economics and Statistics from the Hebrew University, an MBA from New York University and took part in a senior management course in IMD Lausanne.

**Ms. Orit Nir Schwartz** has been an External Director of the Company since December 2011. Ms. Schwartz is the current Marketing Manager of the Imaging and Printing Group of Hewlett-Packard (HP) in Israel. Between 2004 and 2011, Ms. Schwartz worked as the Marketing Manager of Miller Jewellers, and previously, as Managing Manager of Siemens Mobile Phones from 2002 to 2003, and as Product Marketing Manager in the Marketing Division of Cellcom from 2000 to 2002. Ms. Schwartz holds a bachelor's degree in Economics and Management from the Technion - Israel Institute of Technology and an MBA from Tel Aviv University with concentrations in Marketing, Technology & Operational Systems Management.

**Ms. Odelia Levanon** has joined our Board of Directors in November 2015. Ms. Levanon serves as the Chief Information Officer of Irani Group, a leading Israeli importer and wholesaler of fashion brands. Ms. Levanon has served as the Chief Executive Officer of a venture capital fund, from 2012 to 2014 and as the Chief Information Officer and head of the technology division of Mega retail from 2000 to 2012. She also serves as a board member of the Old Jaffa Development Company Ltd. and has previously served as a member of the Board of You – loyalty club from 2008 to 2012. Ms. Levanon holds an M.Sc. in Computer Sciences and a B.Sc. in Mathematics and Computer Sciences, both from Tel Aviv University.

## 6B. Compensation

The following table presents the total compensation paid to or accrued on behalf of all of our directors and officers as a group for the year ended December 31, 2014:

	Salaries, Directors' fees, Service fees, Commissions and Bonus <sup>1</sup>	Pension, Retirement and Similar benefits
All directors and officers as a group (then 10 persons)	\$ 822,100	\$ 102,000

<sup>1</sup> Includes consulting and other fees paid to Cukierman & Co., of which Mr. Edouard Cukierman, who was the Company's Chairman during 2014, is (indirectly) a controlling shareholder. Also includes consulting and other fees paid to Telegraph Hill Capital Fund I, LLC, of which Mr. Gutierrez Roy, a Company's director, may be deemed to have shared voting and dispositive power. Such remuneration includes stock and options based compensation in the amount of \$282,000. Such remuneration does not include amounts expended by the Company for expenses, including business association dues and expenses reimbursed to said officers, and other fringe benefits commonly reimbursed or paid by companies in the location in which the particular executive officer of the Company is located, as the case may be.



### *Compensation Requirements Under Israeli Law*

#### *Compensation Policy*

In December 2012, an amendment to the Israeli Companies Law, or Amendment 20, became effective, requiring 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, exemption from liability, insurance and indemnification. The Compensation Policy must be based on those considerations, must include those provisions and needs to reference those matters as 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 the 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 November 7, 2013.

The Compensation Policy must be approved by the board of directors and the shareholders every three years. In the event that the compensation policy is not approved by the shareholders, the compensation committee and the board of directors may still approve the policy, if the compensation committee and the board of directors determined, 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), requires the approval of the Compensation Committee only, if the 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 Compensation Policy and requires the approval of the Compensation Committee and the 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 Compensation Policy, provided that such arrangement is approved by the company's shareholders by the Compensation Majority. The Board of Directors and the Compensation Committee 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, the shareholders' objection was 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 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 January 2015, directors who are not employees (excluding the Company's current Chairman of the Board and excluding External Directors) are entitled to receive annual compensation of NIS 26,140, and an additional NIS 1,353 for each board meeting attended. The above amounts are subject to adjustment for changes in the Israeli consumer price index after October 2011. In December 2012, the Company's shareholders approved a change in the form of compensation for directors, such that compensation shall be paid in Ordinary Shares instead of in cash.

The compensation of the Company's External Directors is regulated by the Israeli Companies Regulations (Rules Regarding Compensation and Expenses to External Directors) - 2000, as amended, or the Regulations, and the Companies Regulations (Alleviation for Public Companies whose Shares are Traded on a Stock Exchange Outside of Israel) - 2000, as amended.



Under the Israeli Companies Law and pursuant to the Regulations, a company is generally required to pay its External Directors a minimum cash compensation in the form of an annual fee and a per meeting attendance fee (including for attendance at board of directors committee meetings). A nominee for External Director must be informed of the compensation to be paid by a company prior to the nominee's consent to serve in such capacity, and such compensation generally may not be modified during the three-year term of service. Also, the compensation paid to each of the company's External Directors must be the same (except that "expert external directors" may receive higher compensation than non-experts).

The compensation consists of an annual fee and a per meeting attendance fee equal to the "fixed" statutory amount applicable to companies of the Company's size, as set forth from time to time, in the applicable Regulations, subject to increase in accordance with the Israeli consumer price index of December 2007. Currently, in accordance with the approval of our shareholders in January 2015, the annual fee amounts to NIS 25,000 and the meeting attendance fee amounts to NIS 1,590. The External Directors shall be entitled to 60% of the attendance fee for a Board meeting held via teleconference and to 50% of such fee for a meeting held without convening (in accordance with section 103 of the Israeli Companies Law).

Each of our current directors (including the External Directors) was also granted options to purchase 375 Ordinary Shares upon commencement of his or her term as director and at an exercise price equal to the average closing prices of the shares on the Nasdaq Capital Market on the 20 trading days preceding the appointment of the director. The Options will vest and become exercisable annually over a period of three years, in three equal parts. The maximum option term is five years from grant.

If applicable, a director shall receive an additional amount of 375 options to purchase the Company's Ordinary Shares upon reelection for a fourth consecutive term as a director of his or her service as a director of the Company (or, for External Directors, upon reelection for a second 3-year term). The regulations limit the amount of options that may be granted to External Directors to be proportional to the amount of options granted to other directors in the Company (excluding directors who are employed by the Company or provide it with services on a regular basis).

The Compensation of the directors is in compliance with the Company's Compensation policy approved by the shareholders on November 7, 2013.

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

*Chairman of the Board*

For a discussion regarding payments made to the Chairman of the Board, see Item 7B: Related Party Transactions.

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*Chief Executive Officer*

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

Under certain circumstances and conditions, the compensation committee and the board of directors may approve an arrangement that deviates from the Compensation Policy provided it is approved by the shareholders by the Compensation Majority. In addition, under certain circumstances, a company may be exempt from receiving the shareholders' approval with respect to the terms of office and employment of a candidate for chief executive officer if such candidate meets certain independence criteria and the compensation committee has determined for specified reasons that shareholder approval would prevent the engagement, provided that the terms are in-line with the Compensation Policy. On July 18, 2014, the Company's shareholders approved the grant to the CEO of options to purchase 5,000 of the Company's Ordinary Shares as well as the CEO's bonus plan for that year.

**6C. Board Practices**

*Directors:*

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

NASDAQ Marketplace Rules require that the board of directors of a NASDAQ-listed company have a majority of independent directors, within the meaning of NASDAQ rules. Our board of directors has determined that Messrs. Lahad and Golan, and Ms. Levanon, who constitute a majority of the Board of Directors, are independent directors under the applicable Nasdaq Stock Market requirements.

Our Articles of Association provide that a director may appoint, by written notice to us, any individual to serve as an alternate director, up to a maximum period of one month, if the alternate is not then a member of the Board. Any alternate director shall have all of the rights and obligations of the director appointing 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 at an annual general meeting, the bankruptcy of the alternate, the conviction of the alternate for an offense in accordance with the Israeli Companies Law, the legal incapacitation of the alternate, the removal of the alternate by court order or the resignation of the alternate. Currently, no alternate directors have been appointed. A director may appoint an alternate to serve in his place as a member of a committee of the Board of Directors, even if the alternate 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. In practice, 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, 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 selection 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.

The term "affiliation" includes an employment relationship, a business or professional relationship maintained on a regular basis, control and services as an office holder. The term "controlling shareholder" is defined as a shareholder who has the ability to direct the activities of a company, other than if this power derives solely from the shareholder's

position on the board of directors or any other position with the company. The definition also includes shareholders that hold 25% or more of the voting rights if no other shareholder holds more than 50% of the voting rights in the company.

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In addition, an individual may not be appointed as an External Director in a company that does not have a controlling shareholder, in the event that he has affiliation, at the time of his appointment, to the chairman, chief executive officer, a 5% shareholder or the chief financial officer. An individual may not be appointed as an External Director if his relative, partner, employer, supervisor, or an entity he controls, has other than negligible business or professional relations with any of the persons with which the External Director himself may not be affiliated.

No person can serve as an External Director if the person's other positions or business creates or may create conflicts of interest with the person's responsibilities as an External Director. Until the lapse of two years from termination of office, a company may not engage an External Director as an employee or otherwise. If, at the time an External Director is to be appointed, all current members of the board of directors are of the same gender, then at least one External Director must be of the other gender.

A person is qualified to serve as an External Director only if he or she has "accounting and financial expertise" or "professional qualifications," as such terms are defined under regulations promulgated under the Israeli Companies Law. At least one External Director must have "accounting and financial expertise." David Golan, a member of our Audit Committee, is an External Director who has accounting and financial expertise.

External directors serve for an initial three-year term. The initial three-year term of service can be extended, at the election of a company subject to certain conditions, by two additional three-year terms, (as described below this limitation does not apply to the Company while it is listed on the Nasdaq markets). External Directors will be elected by a majority vote at a shareholders' meeting, provided that either the majority of shares voted at the meeting, including at least one-half of the shares held by non-controlling shareholders voted at the meeting, vote in favor; or the total number of shares held by non-controlling shareholders voted against does not exceed two percent of the aggregate voting rights in the company.

External Directors may be re-elected for additional terms by means of one of the following mechanisms: (i) the board of directors proposed the nominee and his appointment was approved by the shareholders in the manner required to appoint External Directors for their initial term, (ii) a shareholder holding 1% or more of the voting rights proposed the nominee, and the nominee is approved by a majority of the votes cast by the shareholders of the company, excluding the votes of controlling shareholders and those who have a personal interest in the matter as a result of their relations with the controlling shareholders, provided that, the aggregate votes cast by shareholders who are not controlling shareholders and do not have a personal interest in the matter as a result of their relations with the controlling shareholders in favor of the nominee constitute more than 2% of the voting rights in the company, or (iii) such External Director nominates himself or herself for each such additional term and his or her election is approved at a shareholders meeting by the same disinterested majority as required for the election of an External Director nominated by a 1% or more shareholder (as described above).

The External Director who has been nominated by a shareholder must not be a linked or competing shareholder, and not have or not had, on or within the two years preceding the date of such person's appointment to serve another term as External Director, any affiliation with a linked or competing shareholder. The term "linked or competing shareholder" means the shareholder(s) who nominated the External Director for reappointment or a shareholder of the company holding more than 5% of the company's issued share capital or its voting rights, provided that at the time of the reappointment, such shareholder(s) of the company, the controlling shareholder of such shareholder(s) of the company, or a company under such shareholder(s) of the company's control, has a business relationship with the company or is a competitor of the company.

The term of office of External Directors of Israeli companies traded on certain foreign stock exchanges, including the NASDAQ Capital Market, may be further extended, indefinitely, in increments of additional three-year terms, in each case provided that, in addition to reelection in such manner described above, (i) the audit committee and subsequently the board of directors of the Company confirm that, in light of the External Director's expertise and special contribution to the work of the board of directors and its committees, the reelection for such additional period is beneficial to the Company, and (ii) prior to the approval of the reelection of the External Director, the Company's shareholders have been informed of the term previously served by such nominee and of the reasons why the board of directors and audit committee recommended the extension of such nominee's term.

External directors can be removed from office only by the court or by the same special percentage of shareholders that can elect them, and then only if the External Directors cease to meet the statutory qualifications with respect to their appointment or if they violate their fiduciary duty to the company. The court may additionally remove External Directors from office if they were convicted of certain offenses by a non-Israeli court or are permanently unable to fulfill their position.

If delegated any authority of the board of directors, any committee of the board of directors must include at least one External Director. An External Director is entitled to compensation as provided in regulations promulgated under the Israeli Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with such service.

The Israeli Companies Law requires External Directors to submit to the company, prior to the date of the notice of the general meeting convened to elect the External Directors, a declaration stating their compliance with the requirements imposed by Israeli Companies Law for the office of External Director.

Our board of directors currently has two External Directors under Israeli law: (i) Mr. David Golan, who has served as an External Director in the Company since February 2009, and was reelected for a third three-year period at our annual general meeting of shareholders held on January 8, 2015; and (ii) Ms. Orit Nir Schwartz who was elected to serve for a second three year term as an External Director at our annual general meeting of shareholders held on January 8, 2015.

***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 approval or performed by him by virtue of his 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 holds or his personal affairs, (ii) avoiding any competition with the company’s business, (iii) avoiding 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 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 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 their possession, in connection with any existing or proposed transaction relating to our company. In addition, if the transaction is an extraordinary transaction, that is, a transaction other than in the ordinary course of business, other than on market terms, or 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 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.

#### Committees

Each committee of a company's board of directors that has the authority to exercise powers of the board of directors is required to include at least one External Director and its audit committee and compensation committee must include all External Directors.

#### Audit Committee:

Our Audit Committee currently consists of David Golan Orit Nir Schwartz and Odelia Levanon. Under the Israeli Companies Law, public companies must establish an audit committee. The audit committee must consist of at least three members, and must include all of the company's External Directors. A majority of an audit committee must be comprised of "independent directors" (as such term is defined in the Companies Law). The chairman of the board of directors, any director employed by the company or providing services to the company on a regular basis, any controlling shareholder and any relative of a controlling shareholder may not be a member of the audit committee. An audit committee may not approve an action or a transaction with an officer or director, a transaction in which an officer or director has a personal interest, a transaction with a controlling shareholder and certain other transactions specified in the Companies Law, unless at the time of approval two External Directors are serving as members of the audit committee and at least one of the External Directors was present at the meeting in which such approval was granted.



Our Audit Committee oversees (in addition to the Board) the accounting and financial reporting processes of our 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 find deficiencies in the business management of our company and propose to our Board of Directors ways to correct such deficiencies, determine whether certain related party actions and transactions are "material" or "extraordinary" in connection with their approval procedures, approve related-party transactions as required by Israeli law, establish whistle blower procedures (including in respect of the protections afforded to whistle blowers). Additional duties of our Audit Committee are 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, 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 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.

The Company has determined that all the members of its Audit Committee meet the applicable Nasdaq Stock Market and SEC independence standards.

***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 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, the 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.

Our Compensation Committee consists of Mr. Golan, Ms. Nir Schwartz, and Ms. Levanon. All of the members of our Compensation Committee are independent directors, within the meaning of NASDAQ rules and the Israeli Companies Law.

#### **Israeli Securities Authority Administrative Enforcement:**

Under the Israeli Securities Law- 1968, the Israeli Securities Authority, or 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 Companies Law.

#### **6D. Employees**

As of March 31, 2015, we had 62 employees, all of whom are located in Israel. Of these 62 employees: 10 employees are in general and administrative positions, 14 employees are in marketing and sales, 16 employees are employed as technicians and 22 employees are in operating activities. 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.

Recent rulings by Israel's National Labor Court and changes to Israel's largest labor union's bylaws substantially facilitate the organization of a labor union in companies 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 a pension fund, insurance for work-related accidents, procedures for dismissing employees, determination of severance pay and other conditions of employment. These provisions are modified from time to time.

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A new Israeli labor law, passed in 2012, subjects 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.

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

## 6E. Share Ownership

As of March 31, 2015, shares, options and warrants held by our officers and directors, then consisting of 8 persons, are as follows:

Name	Position	Shares	Options and Warrants
Mr. Yosi Lahad	Chairman of the Board of Directors	2,259	375
Ms. Odelia Levanon	Director	349	375
Mr. Avidan Zelicovsky	President and Director	4,339	49,770
Mr. Yuval Viner	Chief Executive Officer	2,839	47,470
Mr. Eyal Cohen	Chief Financial Officer	186	29,726
Mr. Luis Gutierrez Roy <sup>(1)</sup>	Director	70,935	15,385
Other directors <sup>(2)</sup>			750

<sup>(1)</sup> Securities are held by Telegraph Hill Capital Fund I, LLC. Mr. Gutierrez Roy may be deemed to have shared voting and dispositive power with respect to the holdings by Telegraph Hill Capital Fund I, LLC.

<sup>(2)</sup> Represents less than 1% of our outstanding ordinary shares for each of such Directors and altogether

## Share Option Plans

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

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

## Ordinary Shares

### *2003 Plan*

In May 2003 the Company's shareholders approved the adoption of the 2003 Israeli Stock Option Plan or the Plan, initially 31,250 Ordinary Shares were reserved for purchase by the employees, directors, consultants and service providers of the Company and its subsidiaries under the plan. Subsequently, the shareholders approved increases of the shares reserved for issuance under the Plan to 275,000 Ordinary Shares. In December 2012, the Company's shareholders approved a 10 year extension to the Plan, according to which the board of directors may grant options under the Plan through May 31, 2023.

Under the Share Option Plan, the terms and conditions under which options are granted and the number of shares subject thereto shall be determined by the Board of Directors. The Board of Directors also has discretion to determine the nature of the consideration to be paid upon the exercise of an option under the Share Option Plans. 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 as a section 102 plan in the "capital gains" track, designed to afford qualified optionees certain tax benefits under the Israel Income Tax Ordinance. Pursuant to the election made by the Company, capital gains derived by optionees arising from the sale of shares derived from 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 as an expense for tax purposes the amounts credited to such employees as a benefit when the related capital gains tax is payable by them. 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 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 31, 2015, we had 136,256 options outstanding under the Plan (of which 60,504 are exercisable) with the following exercise prices:

Exercise Price Per Share \$	Number of Options Outstanding
\$ 3.23	375
\$ 3.40	375
\$ 3.80	6,987
\$ 3.88	90,375
\$ 4.02	5,000
\$ 6.67	10,375
\$ 8.00	5,749
\$ 33.60	3,750
\$ 50.40	13,170
\$ 60.00	100
Total	136,256

Item 7: Major Shareholders and Related Party Transactions

**7A. Major Shareholders**

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

The following table sets forth, as of March 31, 2015, to the best of the Company's knowledge, information as to each person known to the Company to be the beneficial owner of more than five percent (5%) of the Company's outstanding Ordinary Shares. Except where indicated, to the best of the Company's knowledge based on information provided by the owners, the beneficial owners of the Ordinary Shares listed below have sole investment and voting power with respect to those shares. Applicable percentage ownership in the following table is based on 1,835,687 shares outstanding as of March 31, 2015.

The shareholders' holdings reflect their voting rights. The Company's major shareholders do not have different voting rights than other shareholders, with respect to their shares.

Name and Address	Shares Beneficially Owned			
	Outstanding Shares	Warrant Shares (1)	Total Shares	Percent
Bellite Pty Limited. (2)	116,286	28,847	145,133	7.91 %
7 Beresford Road, Rose Bay 2029, NSW, Australia				
Novel Infrastructures Ltd. c/o Odra (Mauritius) Limited, level 2 Maxcity Building , Remy Ollier street Port Louis, Mauritius (3)	128,147	-	128,147	6.98 %
D.D. Goldstein Properties and Investments Ltd. 4 Hashalom Road, Tel Aviv, Israel (4)	127,200	-	127,200	6.93 %
Dimex Systems (1988) Ltd. (5)	77,137	32,165	109,302	5.95 %
3 Tvuot Ha'aretz Street, Tel Aviv 69546, Israel				

(1) Represents shares issuable upon exercise of warrants that may be exercised within 60 days following the date of this report.

(2) Mr. Les Szekely may be deemed to have sole voting and dispositive power with respect to the shares held by Bellite Pty Limited.

(3) Mr. Pa Ning Wong and Ms. Rachel Troublaiewitch are the shareholders of Novel Infrastructures Ltd. and have shared voting and dispositive power with respect to the shares held by Novel Infrastructures Ltd.

(4) To the Company's knowledge, Mr. Dov Goldstein is the beneficial owner of the shares held by D.D.Goldstein Properties and Investments Ltd.

(5) Ms. Gabriela Jacobs may be deemed to have sole voting and dispositive power with respect to the shares held by Dimex Systems.

The changes in holdings (excluding warrants) of the major shareholders over the last three years are detailed, to the best of our knowledge, in the table below:

Holdings as of:	December 31, 2012	December 31, 2013	December 31, 2014	March 31, 2015
Catalyst Funds <sup>(1)</sup>	192,107	38,092	36,196	-
Novel Infrastructures Ltd.	-	-	128,147	128,147
D. D. Goldstein Properties and Investments Ltd.	-	-	127,200	127,200
Dimex Systems (1988) Ltd.	106,346	77,137	77,137	77,137
SITA	113,063	-	-	-
Bellite Pty Limited	116,286	116,286	116,286	116,286
Telegraph Hill Capital Fund I, LLC	65,780	62,526	70,935	70,935

As of March 31, 2015, there were 64 record holders of Ordinary Shares, of which 6 were registered with addresses in the United States, representing approximately 73% 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**

### Grant of Shares and Options to Mr. Cukierman

#### *Active Chairman Agreement*

In December 2011, the Company's shareholders approved an Active Chairman Agreement with Mr. Cukierman. Pursuant to this agreement, in consideration for Mr. Cukierman's services as the Company's Active Chairman in the years 2011-2014, he was granted options to purchase 22,360 Ordinary Shares, and was paid a monthly cash payment of \$5,000, plus VAT at the prevailing rate. Payment of the cash fee was made each month in respect of the previous month of service. Following approval by the shareholders in December, 2011, the cash fees for 2011 were paid retroactively for the entire year. The exercise price of the options is \$3.80 and they vest and become exercisable in 16 equal quarterly installments, subject to Mr. Cukierman's ongoing service as Chairman of the Board. As of December 31, 2014, all of the 22,360 Options were fully vested and exercisable for five years from their grant date.

The options and the cash fee were in lieu of any compensation, fees or options otherwise payable by the Company to Mr. Cukierman as a director.

Ordinary Shares In December 2012, the shareholders approved an amendment to the Active Chairman Agreement to make the monthly payment of \$5,000 in Ordinary Shares instead of in cash, as follows:

Payment will be made once a year, at the end of each calendar year.

The price per share used for the share consideration calculation will be equal to the weighted average closing price of the Ordinary Shares on the applicable stock market on the 20 trading days ending on December 31st of the applicable year.

Payment in Ordinary Shares applies for compensation due commencing July 1, 2012 onwards.

On December 31, 2014, and December 31, 2013, the Company issued to Edouard Cukierman 17,079 and 7,787 Ordinary Shares pursuant to the revised Active Chairman Agreement, respectively.

On January 4, the Company's shareholders resolved to terminate Mr. Cukierman services as a member of the Company's Board, therefore the Active Chairman Agreement which expired on December 31, 2014, was not extended.



*Services Agreement with Cukierman & Co. Investment House.*

In 2003, the Company's Audit Committee and Board approved the engagement of Cukierman & Co. Investment House Ltd. ("Cukierman & Co."), to provide non-exclusive investment-banking services and business development services to the Company, effective April 15, 2003 (the "Services Agreement"). Cukierman & Co. is a company indirectly controlled by Mr. Edouard Cukierman. Since June 26, 2003 and until January 2015, Mr. Cukierman served as Chairman of the Company's Board, and he may also be deemed to have sole voting and dispositive power with respect to shares held by Catalyst Investments and by Catalyst Private Equity Partners (Israel) II L.P.

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For its services until June 2012, Cukierman & Co. was paid a monthly sum of \$10,000 plus VAT (except from February 9, 2009 until December 31, 2010, during which period Cukierman & Co. agreed to temporarily reduce such fee to \$8,500), in addition to a success fee of 4%-6% for a consummated private placements. The Services Agreement, as supplemented, provides for success fees in connection with securing M&A transactions of 3.5% of the proceeds exchanged in such a transaction and also for a success fee of 6% of the revenues actually received by the Company in respect of a sale of the Company's products to a new customer which was introduced by Cukierman & Co.

Following the approvals by the Board of Directors and Audit Committee, the Company entered into an amendment to the Services Agreement, dated January 13, 2013, pursuant to which the private placement portion of Cukierman & Co's services was discontinued, commencing July 1, 2012. As a result, the retainer payment in respect of July 2012 onwards was reduced to \$6,350, reflecting payment for the business development and mergers acquisitions only. In addition, the Company has requested and Cukierman & Co. has agreed, that payment of the retainer shall be made by way of equity (i.e., issuance to Cukierman & Co. of BOS' Ordinary Shares) instead of in cash.

On July 15, 2013 an additional amendment to the Services Agreement was entered into, pursuant to which:

Payment is made once a quarter, at the end of each calendar quarter (instead of once a year).

The price per Company Ordinary Share used for the calculation is equal to the weighted average closing price of the Ordinary Shares on the applicable stock market on the 20 trading days ending on the last day of the applicable quarter.

On December 31, 2014, and December 31, 2013, the Company issued to Cukierman & Co. 17,747 and 20,932 Ordinary Shares, respectively, in accordance with the revised Services Agreement.

In February 2015, the Company terminated the Services Agreement.

For payments the Company paid and accrued pursuant to the Services Agreement in 2014, see Note 17 to the Consolidated Financial Statements for the year ended December 31, 2014.

**Agreements with Telegraph Hill Capital Fund I, LLC (“Telegraph Hill Capital”)**

Mr. Luis Gutierrez Roy, a director of the Company since October 2010, is the managing partner of Telegraph Hill Capital and may be deemed to have shared voting and dispositive power with respect to company shares held by Telegraph Hill Capital.

In September 2009, the Company entered into an advisory agreement with Telegraph Hill Group LLC (the management company of Telegraph Hill Capital), pursuant to which Telegraph Hill Group was to provide the Company with non-exclusive private financing and business consulting services (the “Advisory Agreement”). In consideration, the Company issued to Telegraph Hill Capital warrants to purchase 3,600 Ordinary Shares at an exercise price of \$11 per share. The warrants were exercisable as of February 28, 2011, and could be exercised until August 31, 2012.

In November 2009, the Company entered into an amendment to the Advisory Agreement, pursuant to which THGroup LLC shall be paid a success fee of 5% of the revenues generated to the Company from the sale of the Company products to business partners introduced by THGroup LLC. For payments the Company paid and accrued pursuant to the Advisory Agreement in 2013, see Note 17c to the Consolidated Financial Statements for the year ended December 31, 2014.

On October 5, 2010, the Company entered into a share purchase agreement with Telegraph Hill Capital for the issuance of an aggregate of 24,091 Ordinary Shares at a price per share of \$12.44, or approximately \$300,000 in total. Pursuant to this agreement, Mr. Luis Gutierrez Roy was appointed to the Board of Directors.

In December 13, 2012, the Company’s shareholders approved an additional grant to Telegraph Hill Capital of warrants to purchase 3,600 Ordinary Shares at an exercise price of \$2.39 per Ordinary Share. The warrants' exercise price is equal to the weighted average of the closing prices of the Company’s Ordinary Shares on the Nasdaq Capital Market, during the twenty-day period preceding the date of the shareholders' meeting in December. The warrants are exercisable for 3 years from their issuance date of December 13, 2012.

On December 13, 2012, the Company's shareholders approved an additional amendment to the agreement with THCAP. Pursuant to this amendment, THCAP will be paid a monthly retainer for business development services in

the amount of \$3,650 per month, payable in the Company's Ordinary Shares once a year.

In addition, the Company's shareholders approved the payment of the fees to its directors (excluding External Directors) in the Company's Ordinary Shares. At his request, payments of the director fees of Mr. Luis Gutierrez Roy were made to THCAP.

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On November 7, 2013 the Company's shareholders approved an additional amendment to the agreement with THCAP as follows:

Payment is made once a quarter, at the end of each calendar quarter (instead of once a year).

The price per share used for the share consideration calculation is equal to the weighted average closing price of the Ordinary Shares on the applicable stock market on the 20 trading days ending on the last day of the applicable quarter.

On December 31, 2014, December 31, 2013 and December 31, 2012, the Company issued to THCAP 6,004, 9,868 and 362 Ordinary Shares, respectively as retainer payment for business development services.

On December 31, 2014, December 31, 2013 and December 31, 2012, the Company issued to THCAP 2,405, 1,219 and 1,077 Ordinary Shares, respectively as director fees.

On August 21, 2014 the Company's Board of Directors resolved to suspend the services of THCAP until decided otherwise by the Board of Directors. Currently no retainer is paid to THCAP.

#### 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 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 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. In addition, under the new indemnification agreements, the Company exempts and releases each director from any and all liability to the Company related to any breach by each director of his duty of care to the Company, to the maximum extent permitted by law.

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

Not applicable.



**Item 8: Financial Information**

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

Consolidated Financial Statements

See “Item 18. Financial Statements”.

Sales Outside of Israel

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

Year	Export revenues	% of all revenues
2014	\$5,461,000	20%
2013	\$5,555,000	21%
2012	\$3,656,000	15%

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 symbol "BOSC" and "BOSCW," respectively. In September 2000, our Ordinary Shares started to be traded on what is now called the NASDAQ Global Market. In January 2002, our shares began trading also 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".

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Prices set forth below are high and low reported closing prices for our Ordinary Shares as reported by NASDAQ for the periods indicated. All share prices have been retroactively adjusted to reflect the 1:4 reverse stock split effected on December 14, 2012.

<u>Period</u>	High (\$)	Low (\$)
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**Annual Information**

2010 Annual	13.20	3.08
2011 Annual	14.08	2.72
2012 Annual	8.19	1.64
2013 Annual	8.40	2.63
2014 Annual	7.88	3.88

**Quarterly Information (2013)**

First Quarter	6.08	2.66
Second Quarter	4.73	2.63
Third Quarter	4.20	2.77
Fourth Quarter	8.40	3.64

**Quarterly Information (2014)**

First Quarter	7.88	6.27
Second Quarter	6.72	3.72
Third Quarter	4.42	3.23
Fourth Quarter	4.27	3.14
October	3.27	3.14
November	4.20	3.70
December	3.90	3.16

**Monthly Information (2015)**

January	3.47	3.06
February	3.23	2.98
March	3.07	2.07
April (until April 28)	2.38	1.96

**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, in view of the Israeli Companies Law. Since then, certain articles of the Articles of Association have been amended.

Set forth below is a summary of certain provisions of our Memorandum 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 of Association (Article 2(p)) and Articles of Association (Article 2) provide that the Company may engage in any legal business.

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

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

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

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

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

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

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

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

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

The Board of Directors is the organ authorized to decide upon the distribution of dividends and bonus shares (Article 26). The shareholders who are entitled to a dividend are the shareholders on 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 in accordance with the registered address of the shareholder or person entitled thereto, or in the case of registered joint shareholders to the shareholder whose name appears first in the shareholders' register in relation to the joint shareholding. Every such cheque shall be drawn up to the order of the person to whom it is being sent. The receipt of a person who on the date of the dividend's declaration is listed in the shareholders' register as the holder of any share or, in the case of joint shareholders, of one of the joint shareholders shall serve as confirmation of all the payments made in connection with such share. 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.

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(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 prohibited voting through a voting instrument on a certain matter and stated so in the notice of the meeting (Articles 14.1 and 14.6). A resolution at the general meeting shall be passed by an ordinary majority unless another majority is specified in the Israeli Companies Law or the Company's Articles of Association (Article 14.3). For applicable provisions of the Israel Companies Law, see Item 6C: Board Practices.

(c) Election of Directors.

The Company's directors are elected by the shareholders at a shareholders' meeting. The Ordinary Shares do not have cumulative voting rights in the election of directors. The holders of Ordinary Shares, conferring more than 50% of the voting power present by person or by proxy at the shareholders' meeting, have the power to elect the directors. The directors elected shall hold office until the next annual meeting, or sooner if they cease to hold office pursuant to the provisions of the Company's Articles. In addition, the Board of Directors may appoint a director (to fill a vacancy or otherwise) between shareholder meetings, and such appointment shall be valid until the next annual meeting or until such appointee ceases to hold office pursuant to the provisions of the Company's Articles. In compliance with the Israeli Companies Law, the Company has two External Directors. The External Directors are also appointed by the shareholders, subject to special majority requirements. Directors of the Company stand for reelection at every annual meeting (Article 16.2) and not at staggered intervals, with the exception of the External directors who are appointed for a term of 3 years under the Israeli Companies Law.

(d) Redemption

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

(e) Capital Calls by the Company

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

(f) Discrimination

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

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

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

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

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

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

General meetings shall be convened at least once a year at such place and time as determined by the Board of Directors but no later than 15 months from the last general meeting. Such general meetings shall be called "annual meetings". The Company's other meetings shall be called "special meetings" (Article 12.1). The annual meeting's agenda shall include a discussion of the Board of Directors' reports and the financial statements as required at law. The annual

meeting shall appoint an auditor, appoint the directors and discuss all the other matters which must be discussed at the Company's annual general meeting, pursuant to Company's Articles or the Companies Law, as well as any other matter determined by the Board of Directors (Article 12.2).

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

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

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

No discussions may be commenced at the general meeting unless a quorum is present at the time of the discussion's commencement. A quorum is the presence of at least two shareholders holding at least 33 % 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 (hereinafter referred to as the "adjourned meeting") (Article 13.2). The quorum for the commencement of the adjourned meeting shall be any number of participants.

The Articles of Association provide that all shareholder resolutions shall be passed by an ordinary (simple) majority of the votes cast, unless another majority is specified in the Israeli Companies Law or in the Articles (Article 14.3).



***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 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 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 differently, 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 purchaser. Notwithstanding the foregoing, such a tender offer shall be accepted 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 more than 5% of the outstanding shares are not tendered in the tender offer, then the acquirer may not acquire shares in the tender offer that will cause his shareholding to exceed 90% of the outstanding shares.

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

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

#### **10C. Material Contracts**

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

#### **10D. Exchange Controls**

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

#### **10E. Taxation**

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

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

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## **ISRAELI TAX CONSIDERATIONS**

The following is a description of material tax consequences regarding the ownership and disposition of our Ordinary Shares under Israeli tax laws to which our shareholders may be subject. The information below does not apply to specific persons or cover specific situations. Therefore, you are advised to consult your own tax advisor as to particular tax consequences unique to you related to an investment in our Ordinary Shares including the effects of applicable Israeli or foreign or other tax laws and possible changes in the tax laws.

To the extent that the discussion is based on legislation yet to be judicially or administratively interpreted, we cannot assure you that the views we express herein will accord with any such interpretation in the future.

### **Tax Consequences Regarding Disposition of Our Ordinary Shares**

Israeli law generally imposes a capital gains tax on the sale of any capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of assets located in Israel, including shares in Israeli companies, by non-residents of Israel, if those assets are either (i) located in Israel; (ii) are shares or a right to a share in an Israeli resident corporation (iii) represent, directly or indirectly, rights to assets located in Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise.

However, as of January 1, 2003, nonresidents of Israel are exempt from capital gains tax in relation to the sale of our shares for so long as (i) the capital gains are not accrued or derived by the nonresident shareholder's permanent enterprise in Israel (ii) the shares were not acquired from the seller's relative and the provisions of Part Five "B" (Restructuring and Merger) or the provisions of section 70 of the Real Estate Taxation Law did not apply on the shares, (iii) the shares are not tradable in the Israeli stock exchange on the day of the sale.

As of January 1, 2012, the tax rate generally 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 will generally be taxed at a rate of 30%. Additionally, if such shareholder is considered a "Significant Shareholder" at any time during the 12-month period preceding such sale, i.e. such shareholder holds directly or indirectly, including with others, at least 10% of any means of control in the company, the tax rate shall be 30%. However, the foregoing tax rates will not apply to: (i) dealers in securities; and (ii) shareholders who acquired their shares prior to an initial public offering (that may be subject to a different tax arrangement).

As of January 1, 2013, shareholders that are individuals who have taxable income that exceeds NIS 800,000 in a tax year (linked to the CPI each year), will be subject to an additional tax, referred to as High Income Tax, at the rate of 2% on their taxable income for such tax year which is in excess of NIS 800,000. For this purpose taxable income will include taxable capital gains from the sale of our shares and taxable income from dividend distributions.

Israeli Companies are subject to the Corporate Tax rate of 26.5% on capital gains derived from the sale of listed shares.

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### ***U.S.-Israel Tax Treaty***

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

### **Taxes Applicable to Dividends distributed**

Non-residents of Israel are generally subject to Israeli income tax on the receipt of dividends paid on our Ordinary Shares at the rate of 25%, which will be withheld at source, unless a different rate is provided in a treaty between Israel and the shareholder's country of residence. However, if the individual shareholder is a "Controlling Shareholder" such dividend will be taxed at the rate of 30% unless a different rate is provided in a treaty between Israel and the shareholders country of residence.

Under the U.S.-Israel Tax Treaty, the maximum rate of tax withheld in Israel on dividends paid to a holder of our Ordinary Shares who is a U.S. resident (within the meaning of the U.S.-Israel Tax Treaty) is 25%. Furthermore, the maximum rate of withholding tax on dividends, that are paid to a U.S. corporation holding 10% or more of our outstanding voting capital during the part of the tax year that precedes the date of the payment of the dividend and during the whole of its prior tax year, is 12.5%. This reduced rate will not apply if more than 25% of our gross income consists of interest or dividends, other than dividends or interest received from a subsidiary corporation 50% or more of the outstanding shares of the voting shares of which are owned by the company. In order to obtain such a reduced tax rate, it is necessary to submit an application to the tax assessing officer.

Israeli resident individuals are generally subject to Israeli income tax on the receipt of dividends paid on our Ordinary Shares, other than bonus shares (share dividends) or stock dividends, at the rate of 25%. However, if the individual shareholder is a "Controlling Shareholder" such dividend will be taxed at the rate of 30%. Dividends paid on our Ordinary Shares to Israeli companies are exempt from such tax, except for dividends distributed from income derived outside of Israel, the gross amount of which is generally subject to the 25% tax rate.



**General Corporate Tax Structure in Israel**

Israeli companies are generally subject to corporate tax at the rate of 25% for the 2012 and 2013 tax years, and of 26.5% for the 2014 and 2015 tax years.

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### **Special Provisions Relating to Taxation under Inflationary Conditions**

The Income Tax Law (Inflationary Adjustments), 1985, generally referred to as the Inflationary Adjustments Law, represents an attempt to overcome the problems presented to a traditional tax system by an economy undergoing rapid inflation.

According to the Inflationary Adjustments Law, until 2007, the results for tax purposes were adjusted for the changes in the Israeli CPI. In February 2008, the “Knesset,” the Israeli parliament, passed an amendment to the Inflationary Adjustments Law, which limits the scope of the law. Starting 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. The amendment to the Inflationary Adjustments Law includes, inter alia, the elimination of the inflationary additions and deductions and the additional deduction for depreciation starting 2008.

### **Foreign Exchange Regulations**

Under the Foreign Exchange Regulations the Israeli company calculates its tax liability in U.S. Dollars according to certain conditions. The tax liable income, as calculated in U.S. Dollars is translated into NIS according to the exchange rate as of December 31<sup>st</sup> of each year.

### **UNITED STATES FEDERAL INCOME TAX CONSEQUENCES**

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

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

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

(generally for investment).

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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.

This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended (the “Code”), current and proposed Treasury Regulations promulgated under the Code and administrative and judicial interpretations of the Code, all as currently in effect and available on the date hereof and all of which are subject to differing interpretations or to change, possibly with retroactive effect. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to any particular U.S. holder based on the U.S. holder’s particular circumstances. In particular, this discussion does not address the U.S. federal income tax consequences to U.S. holders who are broker-dealers or who own, directly, indirectly or constructively, 10% or more (by voting power) of our company, real estate investment trusts, regulated investment companies, grantor trusts, 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, insurance companies, tax-exempt organizations, including an “individual retirement account” or “Roth IRA” as defined in Section 408 or 408A of the Code, respectively, banks, financial institutions, persons that receive Ordinary Shares as compensation for the performance of services, certain former citizens or 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, gift or alternate minimum tax consequences or any aspect of state, local or non-U.S. tax consequences of the purchase, ownership and disposition of our Ordinary Shares.

**This summary of material United States Federal income tax considerations is for general information only and is not tax advice. There can be no assurances that the U.S. Internal Revenue Service, or IRS, will not take a different position concerning the tax consequences of the purchase, ownership and disposition of our Ordinary Shares or that such a position would not be sustained. U.S. holders should consult their own tax advisors with respect to the specific U.S. federal, state, local and foreign income tax consequences applicable to them relating to their purchase, ownership and disposition of our Ordinary Shares.**

U.S. Holders of Ordinary Shares

### **Taxation of distributions on Ordinary Shares**

Subject to the discussion below under “Passive Foreign Investment Company Consequences,” 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 a favorable tax rate of up to 20%, provided that such dividends meet the requirements of “qualified dividend income.” For this purpose, qualified dividend income generally includes dividends paid by a non-U.S. corporation if certain holding period and other requirements are met and either (a) 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. (such as the NASDAQ Capital Market) or (b) the non-U.S. corporation is eligible for benefits of a comprehensive income tax treaty with the U.S. which includes an information exchange program and is determined to be satisfactory by the U.S. Secretary of the Treasury. The United States Internal Revenue Service (“IRS”) has determined that the U.S.-Israel income tax treaty is satisfactory for this purpose. Dividends that fail to meet such requirements, and dividends received by corporate U.S. holders, are taxed at ordinary income rates. No dividend received by a U.S. holder will be a qualified dividend (1) 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 Code section 246(c), 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 (2) 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 a “passive foreign investment company” (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 under “Passive Foreign Investment Company Consequences.” In addition, a non-corporate U.S. holder will be able to take a qualified dividend into account in determining its deductible investment interest (which is generally limited to its net investment income) only if it elects to do so; in such case, the dividend will be taxed at ordinary income rates.

The amount of any distribution which exceeds the amount treated as a dividend will be treated first as a non-taxable return of capital, reducing the U.S. holder's tax basis in its Ordinary Shares to the extent thereof, and then as capital gain from the deemed disposition of the Ordinary Shares (subject to the PFIC rules discussed below). Corporate holders will not be allowed a deduction for dividends received in respect of the 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 spot rate of exchange in effect on the date the distribution is included in income. 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 will generally be taxable as U.S. source ordinary income or loss.

Subject to the limitations set forth in the Code and the Treasury Regulations thereunder, U.S. holders may elect to claim as a foreign tax credit against their U.S. federal income tax liability the non-U.S. income tax withheld from dividends received in respect of the Ordinary Shares. The limitations on claiming a foreign tax credit include, among others, computation rules under which foreign tax credits allowable with respect to specific classes of income cannot exceed the U.S. federal income taxes otherwise payable with respect to each such class of income. In this regard, dividends paid by us generally will be foreign source "passive income" for U.S. foreign tax credit purposes. U.S. holders that do not elect to claim a foreign tax credit may instead claim a deduction for the non-U.S. income tax withheld if they itemize deductions. The rules relating to foreign tax credits are complex (and may also be impacted by the tax treaty between the United States and Israel), and you should consult your tax advisor to determine whether and to what extent you would be entitled to this credit. A U.S. holder will be denied a foreign tax credit for non-U.S. income taxes withheld from a dividend received on the Ordinary Shares (i) if the U.S. holder has not held the Ordinary Shares for at least 16 days of the 31-day period beginning on the date which is 15 days before the ex-dividend date with respect to such dividend or (ii) to the extent the U.S. holder is under an obligation to make related payments with respect to positions in substantially similar or related property. Any days during which a U.S. holder has substantially diminished its risk of loss on the Ordinary Shares are not counted toward meeting the required 16-day holding period. Distributions of current or accumulated earnings and profits generally will be foreign source passive income for U.S. foreign tax credit purposes.

### **Taxation of the disposition of Ordinary Shares**

Subject to the discussion below under "Passive Foreign Investment Company Consequences", upon the sale, exchange or other disposition of our Ordinary Shares, a U.S. holder will recognize capital gain or loss in an amount equal to the difference between the amount realized on the disposition and the U.S. holder's adjusted tax basis in the Ordinary Shares. The adjusted tax basis in an ordinary share generally will be equal to the cost of such ordinary share. The gain or loss recognized on the disposition of the Ordinary Shares will be long-term capital gain or loss if the U.S. holder held the Ordinary Shares for more than one year at the time of the disposition. Long-term capital gains of certain non-corporate shareholders are currently taxable at a maximum rate of 20%. Gain or loss recognized by a U.S. holder on a sale, exchange or other disposition of Ordinary Shares generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes.

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

### **Additional Net Income Investment Tax**

Certain U.S. holders that are individuals, estates or trusts are subject to an additional 3.8% Net Income Investment Tax 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. Each U.S. holder that is an individual, estate or trust is urged to consult its own tax advisors regarding the applicability of the Net Income Investment Tax to its income and gains in respect of its investment in our Ordinary Shares.

### **Passive Foreign Investment Company Consequences**

If we were to be classified as a passive foreign investment company, or PFIC, in any taxable year, a U.S. holder would be subject to special rules generally intended to reduce or eliminate any deferral of U.S. federal income tax that a U.S. holder could derive from investing in a non-U.S. company that does not distribute all of its earnings on a current basis.

A non-U.S. corporation will be classified as a PFIC for U.S. federal income tax purposes in any taxable year in which, after applying certain look-through rules with respect to the income and assets of subsidiaries, either (i) at least 75% of its gross income is “passive income” or (ii) at least 50% of the average quarterly value of its total gross assets (which would generally be measured by fair market value of the assets, and for which purpose the total value of our assets may be determined in part by the market value of our Ordinary Shares, which is subject to change) is attributable to assets that produce “passive income” or are held for the production of passive income.

Passive income for this purpose generally includes dividends, interest, royalties, rents, gains from commodities and securities transactions, the excess of gains over losses from the disposition of assets which produce passive income, and includes amounts derived by reason of the temporary investment of funds raised in offerings of our Ordinary Shares. If a non-U.S. corporation owns at least 25% by value of the stock of another corporation, the non-U.S. corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation and as receiving directly its proportionate share of the other corporation’s income. If we are classified as a PFIC in any year with respect to which a U.S. holder owns our Ordinary Shares, we will continue to be treated as a PFIC with respect to such U.S. holder in all succeeding years during which the U.S. holder owns our Ordinary Shares, regardless of whether we continue to meet the tests described above.

Based on the composition of our income and the composition and estimated fair market values of our assets, we do not believe that we were a PFIC for the taxable year ended December 31, 2014 and based on our future projections, we do not expect to be a PFIC for the taxable year ending December 31, 2015. There can be no assurance that we will not be considered a PFIC for any taxable year. PFIC status is determined as of the end of the taxable year and depends on a number of factors, including the value of a corporation’s assets and the amount and type of its gross income.



Furthermore, because the value of our gross assets is likely to be determined in large part by reference to our market capitalization, a decline in the value of our Ordinary Shares may result in our becoming a PFIC. Even though we have determined that we were not a PFIC for the year ended December 31, 2014, there can be no assurance that the IRS will agree with our conclusion.

If we were a PFIC, and you are a U.S. holder, then unless you make one of the elections described below, a special tax regime will apply to both (a) any “excess distribution” by us to you (generally, your ratable portion of distributions in any year which are greater than 125% of the average annual distribution received by you in the shorter of the three preceding years or your holding period for our Ordinary Shares) and (b) any gain realized on the sale or other disposition of the Ordinary Shares. Under this regime, any excess distribution and realized gain will be treated as ordinary income and will be subject to tax as if (a) the excess distribution or gain had been realized ratably over your holding period, (b) the amount deemed realized in each year had been subject to tax in each year of that holding period at the highest marginal rate for such year (other than income allocated to the current period or any taxable period before we became a PFIC, which would be subject to tax at the U.S. holder’s regular ordinary income rate for the current year and would not be subject to the interest charge discussed below), and (c) the interest charge generally applicable to underpayments of tax had been imposed on the taxes deemed to have been payable in those years. In addition, dividend distributions made to you will not qualify for the lower rates of taxation applicable to qualified dividends discussed above under “Taxation of distributions on Ordinary Shares.”

Certain elections exist that may alleviate some of the adverse consequences of PFIC status and would result in an alternative treatment (such as mark-to-market treatment) of our Ordinary Shares. If a U.S. holder makes the mark-to-market election, the U.S. holder generally will recognize as ordinary income any excess of the fair market value of the Ordinary Shares at the end of each taxable year over their adjusted tax basis, and will recognize an ordinary loss in respect of any excess of the adjusted tax basis of the Ordinary Shares over their fair market value at the end of the taxable year (but only to the extent of the net amount of income previously included as a result of the mark-to-market election). If a U.S. holder makes the election, the U.S. holder's tax basis in the Ordinary Shares will be adjusted to reflect these income or loss amounts. Any gain recognized on the sale or other disposition of Ordinary Shares in a year when we are a PFIC will be treated as ordinary income and any loss will be treated as an ordinary loss (but only to the extent of the net amount of income previously included as a result of the mark-to-market election). The mark-to-market election is available only if we are a PFIC and our Ordinary Shares are "regularly traded" on a "qualified exchange." Our Ordinary Shares will be treated as "regularly traded" in any calendar year in which more than a de minimis quantity of the Ordinary Shares are traded on a qualified exchange on at least 15 days during each calendar quarter. The NASDAQ Global Select Market is a qualified exchange for this purpose and, consequently, if the Ordinary Shares are regularly traded, the mark-to-market election will be available to a U.S. holder.

We do not intend to provide the information necessary for U.S. holders to make qualified electing fund ("QEF") elections if we are classified as a PFIC. U.S. holders should consult their tax advisors to determine whether any of these elections would be available and if so, what the consequences of the alternative treatments would be in their particular circumstances.

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 recognizes 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. Additionally, recently enacted legislation creates an additional annual filing requirement for U.S. persons who are shareholders of a PFIC. If our company were a PFIC for a given taxable year, then each U.S. holder will generally be required to file an annual report on IRS Form 8621 (whether or not a QEF election or mark-to-market election is or has been made) with such U.S. holder's federal income tax return and provide such other information as may be required by the U.S. Treasury Department if the total value of all PFIC stock directly or indirectly owned exceeds certain thresholds.

**The U.S. federal income tax rules relating to PFICs are complex. U.S. holders are urged to consult their own tax advisors with respect to the purchase, 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 purchase, ownership and disposition of our Ordinary Shares.**

### **Information reporting 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 28%) with respect to dividend payments made with respect to, and proceeds from the disposition of, the Ordinary Shares. Backup withholding will not apply with respect to payments made to exempt recipients, including corporations, or if a U.S. holder provides a correct taxpayer identification number, certifies that such holder is not subject to backup withholding or otherwise establishes an exemption. Backup withholding is not an additional tax. It may be claimed as a credit against the U.S. federal income tax liability of a U.S. holder or the U.S. holder may be eligible for a refund of any excess amounts withheld under the backup withholding rules provided, in either case, that the required information is furnished to the Internal Revenue Service.

### **Certain reporting requirements with respect to payments to foreign corporations**

U.S. holders paying more than U.S. \$100,000 for our Ordinary Shares generally will be required to file IRS Form 926 reporting the payment for our Ordinary Shares to any foreign corporation. Substantial penalties may be imposed upon a U.S. holder that fails to comply. Each U.S. holder should consult its own tax advisor as to the possible obligation to file IRS Form 926.

### **Foreign asset reporting**

Certain U.S. holders who are individuals are required to report information relating to an interest in our Ordinary Shares, subject to certain exceptions (including an exception for shares held in accounts maintained by financial institutions) by filing IRS Form 8938 (Statement of Specified Foreign Financial Assets) with their federal income tax return. U.S. Holders are urged to consult their tax advisors regarding their information reporting obligations, if any, with respect to their purchase, ownership and disposition of our Ordinary Shares.

### **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 in 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.

**10F.Dividends and Paying Agents**

Not applicable.

**10G.Statement by Experts**

Not applicable.

**10H.Documents on Display**

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

**10I.Subsidiary Information**

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

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

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

**Foreign Currency Exchange Rate Risk:**

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

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

The Company entered into forward contracts to hedge against the risk of changes in future cash flow from payments of payroll and related expenses denominated in Israeli Shekels. These contracts are designated as cash flows hedges, as defined by ASC 815, and are considered highly effective as hedges of these expenses. As of December 31, 2014 and 2013, and during the periods then ended, the impact on the Company's financial statements of these forward contracts was insignificant.

In addition, the Company's 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 income (loss) related to these contracts in 2014, 2013 and 2012 was \$75, \$(25) and \$(42), respectively.

Although from time to time we enter into foreign currency contracts to reduce currency transaction risk, these transactions will not eliminate translation risk or all currency risk.

### 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 and in the Far East. The Company generally does not require collateral, however most 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, 2014 and December 31, 2013:

	2014	2013
Americas	\$ 149,000	\$ 138,000
Europe	\$ 215,000	\$ 341,000
Far East	\$ 214,000	\$ 1,242,000
Israel and others	\$ 5,565,000	\$ 6,416,000
	\$ 6,143,000	\$ 8,137,000



### **Interest Rate Risk**

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

A material change in the interest rate payable on our loans may have a material adverse effect on the Company's financial results and cash flow. In the event that interest rates associated with the Company's variable rate borrowings were to increase 100 basis points, the after tax impact on future cash flows would be a decrease of \$50,000.

### **Bank Risk**

The Company manages its loans mainly in Bank Leumi, which provides credit to the Company's Israeli subsidiaries. In case of the termination or expiration of our credit lines, a 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 principal executive officer and its principal financial officer evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report at the reasonable level of assurance (see paragraph (e) below). Based on that evaluation, such principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

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

Our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and Rule 15d-15(f) of the Exchange Act. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of our consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Our Chief Executive Officer and Chief Financial Officer assessed the effectiveness of our internal control over financial reporting as of December 31, 2014. In making this assessment, they used the criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2013 version. Based on this assessment, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2014, our internal control over financial reporting is effective based on those criteria. Notwithstanding the foregoing, 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 and can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

(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, 2014, 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, 2014, that our disclosure controls and procedures were effective in achieving that level of reasonable assurance.

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**Item 16: [Reserved]****Item 16A: Audit Committee Financial Expert**

The Company's Board of Directors has determined that Mr. David Golan, 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.

**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**

The Company's principal accountants for the years 2013 and 2014 were Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global.

The table below summarizes the audit and other fees paid and accrued by the Company and its consolidated subsidiaries to Kost Forer Gabbay & Kasierer during each of 2013 and 2014:

	Year Ended		Year Ended			
	December 31, 2014		December 31, 2013			
	Amount	Percentage	Amount	Percentage		
Audit Fees (1)	\$57,000	93	% \$54,000	78	%	
Tax Fees (2)	\$4,000	7	% \$4,000	6	%	
All other Fees (3)	-	-	\$9,000	18	%	

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Total	\$61,000	100	%	\$69,000	100	%
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Audit fees are fees for audit services for each of the years shown in this table, including fees associated with the (1) annual audit, services provided in connection with audit of our internal control over financial reporting and audit services provided in connection with other statutory or regulatory filings.

(2) Tax fees are fees for professional services rendered by our auditors for tax compliance, tax planning and tax advice on actual or contemplated transactions

(3) Other fees are fees for professional services other than audit or tax related fees.

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**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. Furthermore, the Audit Committee has authorized the Committee Chairman to pre-approve engagements of the Company's auditors so long as the fee for each such engagement does not exceed \$5,000 and so long as the engagement is notified to the Committee at its next subsequent meeting. Any services pre-approved by the Audit Committee (or by the Chairman) 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 2014.

**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 our 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).

We have elected to follow Israeli law and practice instead of the following NASDAQ rules:

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.

The Compensation Committee Requirements included in rule 5605(d). For information concerning our Compensation Committee requirements and practices see Item 6C, under "Compensation Committee".

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**Item 16H: Mine Safety Disclosures**

Not applicable.

**PART III**

**Item 17: Financial Statements**

Not applicable.

**Item 18: Financial Statements**

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

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Reports of Independent Registered Public Accounting Firm	F-2
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**Item 19: Exhibits**

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

1.1\* Memorandum of Association, as amended.

1.2\* Articles of Association, as amended.

Form of Indemnification Agreement between the Company and its officers and directors, as amended

4.1 (incorporated by reference to Annex A of the Company's Proxy Statement on Form 6-K, filed on November 9, 2011).

Services Agreement, dated as of April 15, 2003, between Cukierman & Co. Investment House Ltd., Dimex

4.2 Solutions Ltd. and the Company (incorporated by reference to the Company's Annual Report on Form 20-F filed on June 17, 2004).

M&A Addendum to the Services Agreement, as of August 22, 2004, by and among Cukierman & Co.

4.3 Investment House Ltd., Dimex Solutions Ltd. and the Company (incorporated by reference to the Company's Annual Report on Form 20-F filed on June 27, 2005).

Business Development Addendum to the Services Agreement, as of May 24, 2010, by and among Cukierman &

4.4 Co. Investment House Ltd., BOS-Dimex Ltd., and the Company (incorporated by reference to the Company's Annual Report on Form 20-F filed on June 30, 2010).

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- Amendment to the Services Agreement, dated as of January 13, 2013, by and among Cukierman & Co. Investment House Ltd., and the Company (incorporated by reference to the Company's Annual Report on Form 20-F filed on April 30, 2013).
- 4.5
- Amendment to the Services Agreement, dated as of November 7, 2013, by and among Cukierman & Co. Investment House Ltd., and the Company (incorporated by reference to the Company's Annual Report on Form 20-F filed on April 14, 2014).
- 4.6
- The Company's Israeli 2003 Share Option Plan (incorporated by reference to the Company's Registration Statement on Form S-8 No. 333-11696 filed on November 24, 2003).
- 4.7
- Asset Purchase Agreement as of January 29, 2008 by and between Dimex Systems (1988) Ltd., Dimex Hagalil Ltd., and the Company (incorporated by reference to the Company's Annual Report on Form 20-F filed on June 30, 2008).
- 4.8
- Amendment No. 1 to Asset Purchase Agreement by and among the Company, Dimex Systems (1988) Ltd. and Dimex Hagalil Ltd., dated March 23, 2009 (incorporated by reference to the Company's Amendment No. 2 to Registration Statement on Form F-3 No. 333-152020 filed on April 1, 2009).
- 4.9
- Amendment No. 2 to Asset Purchase Agreement by and among the Company, Dimex Systems (1988) Ltd. and Dimex Hagalil Ltd., dated February 3, 2010 and Warrant dated as of February 3, 2010 issued by the Company to Dimex Systems (1988) Ltd. (incorporated by reference to the Company's Annual Report on Form 20-F filed on June 30, 2010).
- 4.10
- Amendment No. 3 to the Asset Purchase Agreement as of December 31, 2012 by and among the Company, Dimex Systems (1988) Ltd. and Dimex Hagalil Ltd. (incorporated by reference to the Company's Annual Report on Form 20-F filed on April 30, 2013).
- 4.11
- Loan Agreement by and between the Company and Dimex Systems (1988) Ltd., dated February 3, 2010; Registration Rights Agreement dated as of the February 3, 2010 by and between the Company and Dimex Systems (1988) Ltd.; Warrant dated as of February 3, 2010 issued by the Company to Dimex Systems (1988) Ltd. (incorporated by reference to the Company's Annual Report on Form 20-F filed on June 30, 2010).
- 4.12
- Agreement by and between the Company and Dimex Systems dated November 9, 2011; Amendments to Warrants issued by the Company to Dimex Systems (incorporated by reference to the Company's Annual Report on Form 20-F filed on April 30, 2012).
- 4.13
- Form of 2009 Loan Agreement and Registration Rights Agreement by and among certain lenders and the Company. Form of Warrant issued by the Company to certain lenders (incorporated by reference to the Company's Annual Report on Form 20-F filed on June 30, 2010).
- 4.14

- 4.15 Form of Agreement by and among certain lenders and the Company (Conversion Amendments); Form of Amendment to Warrant issued by the Company to certain lenders (incorporated by reference to the Company's Annual Report on Form 20-F filed on April 30, 2012).  
Bank Leumi Le-Israel Ltd. Agreements: Summary of Economic Terms; Form of Request to Allocate a Credit in Israeli Currency (unlinked); Form of Request to Allocate a Credit Framework in Debitory Account (unlinked);
- 4.16 Form of Subordination Letters of BOS-Dimex Ltd. and of BOS-Odem Ltd.; and B.O.S Better Online Solutions Ltd. Subordination Letter (incorporated by reference to the Company's Annual Report on Form 20-F filed on April 30, 2012).  
Bank Hapoalim Ltd. Agreements: Summary of Economic Terms; Irrevocable Undertakings by BOS-Dimex
- 4.17 Ltd., BOS-Odem Ltd. and the Company (incorporated by reference to the Company's Annual Report on Form 20-F filed on April 30, 2012).
- 4.18 Share Purchase Agreement dated as of October 4, 2010 between the Company and Telegraph Hill Capital Fund I, LLC (incorporated by reference to the Company's Annual Report on Form 20-F filed on June 30, 2011).
- 4.19 Advisory Agreement dated September 1, 2009, by and between the Company and Telegraph Hill Group LLC (incorporated by reference to the Company's Annual Report on Form 20-F filed on April 30, 2013).  
Amendment Number 1 to Advisory Agreement dated November 16, 2009, by and between the Company and
- 4.20 Telegraph Hill Group LLC (incorporated by reference to the Company's Annual Report on Form 20-F filed on April 30, 2013).  
Amendment Number 2 to Advisory Agreement dated February 8, 2013, by and between the Company and
- 4.21 Telegraph Hill Group LLC; Warrant issued by the Company to Telegraph Hill Capital Fund I, LLC (incorporated by reference to the Company's Annual Report on Form 20-F filed on April 30, 2013).  
Amendment Number 3 to Advisory Agreement dated November 7, 2013, by and between the Company and
- 4.22 Telegraph Hill Group LLC; Warrant issued by the Company to Telegraph Hill Capital Fund I, LLC (incorporated by reference to the Company's Annual Report on Form 20-F filed on April 14, 2014).
- 4.23 Standby Equity Distribution Agreement with YA Global dated June 18, 2013 (incorporated by reference to the Company's report on Form 6-K, filed on June 19, 2013).  
Standby Equity Distribution Agreement with YA Global, dated February 3, 2014; Note Purchase Agreement
- 4.24 with YA Global, dated February 3, 2014 (incorporated by reference to the Company's report on Form 6-K, filed on February 6, 2014).
- 4.25\* Share Purchase Agreement with Novel Infrastructure Ltd. Dated November 30, 2014.
- 4.26 Standby Equity Distribution Agreement with YA Global, dated February 17, 2015 (incorporated by reference to the Company's report on Form 6-K, filed on February 17, 2015).

- 6\* Statement of Computation of Earnings Per Share.
- 8.1 List of subsidiaries (incorporated by reference to Item 4C of this Annual Report on Form 20-F).
- 11 Code of Ethics (incorporated by reference to the Company's Annual Report on Form 20-F filed on April 14, 2014).
- 12.1\* Certification by Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
- 12.2\* Certification by Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
- 13.1\* Certification by Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934.
- 23.1\* Consent of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global.  
The following financial information from the Company's Annual Report on Form 20-F for the year ended December 31, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Operations for the years ended December 31, 2014, 2013 and 2012; (ii) Consolidated Balance Sheets at December 31, 2014 and 2013; (iii) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2014, 2013 and 2012; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012; and (v) Notes to Consolidated Financial Statements, tagged as blocks of text.
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\*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/ Yuval Viner	/s/ Eyal Cohen
Yuval Viner	Eyal Cohen
Chief Executive Officer	Chief Financial Officer

Date: April 29, 2015

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

**AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2014**

**IN U.S. DOLLARS**

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**Kost Forer Gabbay & Kasierer** Tel: +972-3-6232525

3 Aminadav St. Fax: +972-3-5622555

Tel-Aviv 6706703, Israel ey.com

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Board of Directors and Shareholders of**

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

We have audited the accompanying consolidated balance sheets of B.O.S Better Online Solutions Ltd. ("the Company") and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

Tel-Aviv, Israel KOST FORER GABBAY & KASIERER

April 27, 2015 A Member of Ernst & Young Global

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**B.O.S. BETTER ONLINE SOLUTIONS LTD.****AND ITS SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****U.S. dollars in thousands**

	December 31,	
	2014	2013
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$1,522	\$1,005
Restricted bank deposits	216	-
Trade receivables (net of allowance for doubtful accounts of \$191 and \$148 at December 31, 2014 and 2013, respectively)	6,144	8,137
Other accounts receivable and prepaid expenses	490	819
Inventories	2,843	3,718
<u>Total</u> current assets	11,215	13,679
<b>LONG-TERM ASSETS:</b>		
Restricted bank deposits	263	486
Other assets	35	35
<u>Total</u> long-term assets	298	521
PROPERTY, PLANT AND EQUIPMENT, NET	556	689
OTHER INTANGIBLE ASSETS, NET	70	176
GOODWILL	4,122	4,122
	\$16,261	\$19,187

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,	
	2014	2013
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Short-term loans	\$4,297	\$5,426
Current maturities of long-term loans	570	926
Trade payables	4,468	6,232
Employees and payroll accruals	389	433
Deferred revenues	621	665
Accrued expenses and other liabilities	236	406
<u>Total</u> current liabilities	10,581	14,088
<b>LONG-TERM LIABILITIES:</b>		
Long-term loans, net of current maturities	190	1,146
Accrued severance pay	127	159
Deferred capital gain	66	91
<u>Total</u> long-term liabilities	383	1,396
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Share capital:		
Ordinary shares of NIS 80.00 nominal value: Authorized; 2,500,000 shares at December 31, 2014 and 2013; Issued and outstanding: 1,802,692 and 1,258,245 shares at December 31, 2014 and 2013, respectively	38,138	26,178
Additional paid-in capital	38,701	48,634
Accumulated other comprehensive loss	(243 )	(243 )
Accumulated deficit	(71,299)	(70,866)
<u>Total</u> shareholders' equity	5,297	3,703

<u>Total</u> liabilities and shareholders' equity	\$16,261	\$19,187
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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 OPERATIONS****U.S. dollars in thousands, except per share data**

	Year ended December 31,		
	2014	2013	2012
Revenues	\$27,601	\$25,903	\$24,503
Cost of revenues	22,556	20,872	19,435
Gross profit	5,045	5,031	5,068
Operating costs and expenses:			
Sales and marketing	3,043	2,924	3,058
General and administrative	1,882	1,523	1,818
<u>Total</u> operating costs and expenses	4,925	4,447	4,876
Operating income	120	584	192
Financial expenses, net	(444 )	(549 )	(781 )
Other expenses, net	(1 )	(22 )	(147 )
Income (loss) before taxes on income	(325 )	13	(736 )
Taxes benefit (taxes on income )	(108 )	(13 )	187
Net loss	\$(433 )	\$-	\$(549 )
Basic and diluted net loss per share	\$(0.30 )	\$-	\$(0.49 )

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

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

**AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

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

	Year ended December 31,		
	2014	2013	2012
Net loss	\$(433)	\$ -	\$(549)
Comprehensive profit (loss)	\$(433)	\$ -	\$(549)

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

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**B.O.S. BETTER ONLINE SOLUTIONS LTD.****AND ITS SUBSIDIARIES****STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

U.S. dollars in thousands, except share data

	Ordinary shares	Share capital and additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total shareholders' equity
Balance at January 1, 2012	1,116,981	\$ 74,158	\$ (243 )	\$ (70,317 )	\$ 3,598
Issuance of Ordinary shares for options exercised	1,254	-	-	-	-
Share-based compensation expense	14,450	107	-	-	107
Net loss	-	-	-	(549 )	(549 )
Balance at December 31, 2012	1,132,685	74,265	(243 )	(70,866 )	3,156
Issuance of Ordinary shares for options and warrants exercised	34,504	95	-	-	95
Issuance of Ordinary shares related to SEDA, net of issuance costs (see note 12a2)	51,334	241	-	-	241
Share-based compensation expense	39,722	211	-	-	211
Net loss	-	-	-	-	-
Balance at December 31, 2013	1,258,245	74,812	(243 )	(70,866 )	3,703
Issuance of Ordinary shares related to SEDA, net of issuance costs (see note 12a2)	370,413	1,275	-	-	1,275
Issuance of Ordinary shares	128,147	467	-	-	467
Share-based compensation expense	45,887	285	-	-	285
Net loss	-	-	-	(433 )	(433 )
Balance at December 31, 2014	1,802,692	\$ 76,839	\$ (243 )	\$ (71,299 )	\$ 5,297

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



**B.O.S. BETTER ONLINE SOLUTIONS LTD.****AND ITS SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****U.S. dollars in thousands**

	Year ended December 31,		
	2014	2013	2012
<u>Cash flows from operating activities:</u>			
Net loss	\$(433 )	\$-	\$(549 )
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	269	352	363
Capital loss from sale and disposal of property, plant and equipment	-	11	79
Currency fluctuation of deposits and loans	(171 )	(10 )	21
Impairment of investment in other company	-	-	68
Severance pay, net	(9 )	35	(24 )
Share-based compensation expense	302	211	107
Amortization of discount on convertible note	-	-	22
Decrease (increase) in trade receivables, net	1,993	(130 )	500
Decrease (increase) in other accounts receivable and other assets	305	(201 )	140
Decrease (increase) in inventories	875	(558 )	860
Increase (decrease) in trade payables	(1,764)	1,317	750
Increase (decrease) in employees and payroll accruals, deferred revenues, accrued expenses and other liabilities	(283 )	21	(628 )
Net cash provided by operating activities	1,084	1,048	1,709
Cash flows from investing activities:			
Purchase of property, plant and equipment	(60 )	(113 )	(82 )
Proceeds from sale of property, plant and equipment	28	337	26
Change in long-term bank deposits	(49 )	(14 )	-
Repayment of deferred consideration related to the Dimex acquisition	(130 )	(77 )	(255 )
Net cash provided by (used in) investing activities	(211 )	133	(311 )
Cash flows from financing activities:			
Proceeds from issuance of shares, net	1,725	336	-
Repayment of short and long-term loans	(2,081)	(866 )	(1,455)

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Net cash used in financing activities	(356 )	(530 )	(1,455)
Increase (decrease) in cash and cash equivalents	517	651	(57 )
Cash and cash equivalents at the beginning of the year	1,005	354	411
Cash and cash equivalents at the end of the year	\$1,522	\$1,005	\$354

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,  
2014 2013 2012

Supplemental disclosure of cash flow activities:

(i) Net cash paid during the year for:

Interest	\$351	\$418	\$502
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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**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 1:- GENERAL**

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

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

b. The Company has two operating segments: the RFID and Mobile Solutions segment, and the Supply Chain Solutions segment (see Note 15).

The Company's wholly-owned subsidiaries include:

(1) BOS-Dimex Ltd. (previously "Dimex Solutions Ltd."; "BOS-Dimex Ltd."), an Israeli company that provides comprehensive turn-key solutions for Automatic Identification and Data Collection. BOS-Dimex comprises the RFID and Mobile Solutions segment.

(2) BOS-Odem Ltd. ("BOS-Odem"), an Israeli company, is a distributor of electronic components and advanced technologies worldwide. BOS-Odem is a part of the Supply Chain Solutions segments; and

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

The Company's operations are partially financed through revolving short-term loans in which maturity is automatically extended on a monthly basis at the bank's discretion. The Company also has adequate alternative financing sources to finance its operations in the foreseeable future, if and when maturity will not be extended.

**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 employed in estimates used in determining values of goodwill and identifiable intangible assets, provision for inventory and stock-based compensation costs. Actual results could differ from those estimates.

b. Financial statements in U.S. dollars:

A substantial portion of the Company's revenues is denominated in U.S. dollars ("dollars"). The Company's management believes that the dollar is the primary currency of the economic environment in which the Company operates. Thus, the functional and reporting currency of the Company is the dollar. Accordingly, monetary accounts maintained in currencies other than the dollar are premeasured into dollars in accordance with 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.

**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.)**

c. Principles of consolidation:

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

d. Cash equivalents:

Cash equivalents are short-term highly liquid investments that are readily convertible to cash purchased with original maturities of less than three months.

e. Restricted bank deposits

Restricted bank deposits are deposits related to bank loans. Restricted deposits are presented at their cost.

f. Inventories:

The majority of inventory is valued at the lower of cost or market value. Cost is determined using the moving average cost method. In 2013 and 2014, inventory write-offs amounted to \$121 and \$404, respectively.

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

g. Property, plant and equipment, net:

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

	%	
Computers and software	20 – 33	(Mainly 33)
Office furniture and equipment	6 - 15	(Mainly 10)
Leasehold improvements	Over the shorter of the period	
	of the lease or the life of the assets	
Motor vehicles	15	

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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.)**

**h. Impairment of long-lived assets:**

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.

The fair value of the brand name and customer list related intangibles was determined by the income approach method. Assumptions in the fair value assessment included: the impact of changes in economic conditions, revenue and cash flow forecasts for the remaining lives of the intangibles and the Company's weighted average cost of capital ("WACC").

For each of the three years ended December 31, 2014, 2013 and 2012, no impairment losses related to intangible assets were identified.

**i. 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. ASC 350 allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. If the qualitative assessment does not result in a more likely than not indication of impairment, no further impairment testing is required. If it does result in a more likely than not indication of impairment, the two-step impairment test is performed. Alternatively, ASC 250 permits an entity to bypass the qualitative assessment for any



reporting unit and proceed directly to performing the first step of the goodwill impairment test.

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

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

**AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

The Company operates in two operating-based segments: RFID and Mobile Solution and Supply Chain Solutions. The Company's goodwill is related to the RFID and Mobile Solutions segment.

The Company determined the fair value of the reporting unit using the Income Approach, which utilizes a discounted cash flow model, as it believes that this approach best approximates the reporting unit's fair value at this time. Judgments and assumptions related to revenue, operating income, future short-term and long-term growth rates, weighted average cost of capital, interest, capital expenditures, cash flows, and market conditions are inherent in developing the discounted cash flow model. The material assumptions used for the Income Approach for 2014 were five years of projected net cash flows, WACC of 15.75% and a long-term growth rate of 2.5%. The Company considered historical rates and current market conditions when determining the discount and growth rates to use in its analyses. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for its goodwill.

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

During 2014, 2013 and 2012 no impairment losses have been identified.

**j. Intangible assets**

Intangible assets are comprised of acquired technology, customer relations and licenses.

Intangible assets that are not considered to have an indefinite useful life are amortized using the straight-line basis over their estimated useful lives, which range from four to seven years. Recoverability of these 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 assets. If the 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.

During the years ended December 31, 2012, 2013 and 2014, no impairment losses were identified.

k. Severance pay:

The Company's liability for severance pay for its Israeli employees is calculated pursuant to 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 are entitled to one month's salary for each year of employment or a portion thereof above one year. The Company's liability for its Israeli employees is mostly covered by insurance policies designed solely for distributing severance pay. The value of these policies is not under the Company's control, thus just the liability net of funds under insurance policy is presented in the balance sheet.

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

**AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

The Company has two general deposit funds for severance. The value of the deposited funds includes profits, and is recorded as an asset in the Company's balance sheet.

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

Severance expenses for 2014, 2013 and 2012 amounted to \$141, \$ 244 and \$ 117, respectively.

**1. Revenue recognition:**

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

Revenues from product sales, related to both the Supply Chain Solutions and RFID and Mobile Solutions segments, are recognized in accordance with ASC 605, *Revenue Recognition* when delivery of the product has occurred, persuasive evidence of an arrangement exists, the fee is fixed or determinable, delivery has occurred, and collectability is probable.

Revenues from maintenance and support services related to license are recognized ratably over the period of the support contract.

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.

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

**AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

The Company 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:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, 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 part of the Company's customers outside of Israel are insured against customer nonpayment, through the Israeli Credit Insurance Company Ltd. In certain circumstances, the Company may require letters of credit, other collateral, additional guarantees or advanced payments. An allowance for doubtful accounts is determined with respect to specific debts that are doubtful of collection.

o. Derivative financial instruments:

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

The Company entered into forward contracts to hedge against the risk of changes in future cash flow from payments of payroll and related expenses denominated in Israeli Shekels. These contracts are designated as cash flows hedges, as defined by ASC 815, and are considered highly effective as hedges of these expenses. As of December 31, 2014 and 2013, and during the periods then ended, the impact on the Company's financial statements of these forward contracts was insignificant.

In addition, the Company's 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 income (loss) related to these contracts in 2014, 2013 and 2012 was \$75, \$(25) and \$(42), respectively.

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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.)**

p. Basic and diluted net loss per share:

Basic net loss per share is calculated based on the weighted average number of Ordinary shares outstanding during each year. Diluted net loss 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 (loss) per share, since they would have an anti-dilutive effect, was 319,530, 331,300 and 255,228 for the years ended December 31, 2014, 2013 and 2012, respectively.

q. 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, non-employees and directors.

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

The Company recognizes compensation expenses for the value of its awards granted based on the straight-line method over the requisite service period of each of the awards, net of estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those



estimates. Estimated forfeitures are based on actual historical pre-vesting forfeitures. The Company considers many factors when estimating forfeitures, including employee class and historical experience.

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 SAB 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.

**B.O.S. BETTER ONLINE SOLUTIONS LTD.****AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The Company adopted SAB 110 effective January 1, 2008 and will continue to apply the simplified method until enough historical experience is available to provide a reasonable estimate of the expected term for stock option grants. 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 2014, 2013 and 2012 was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Year ended December 31,					
	2014		2013		2012	
Risk-free interest	1.26	%	0.93	%	1.34	%
Dividend yields	0	%	0	%	0	%
Volatility	84	%	89	%	83	%
Expected option term	4 years		3.5 years		3 years	
Forfeiture rate	0	%	0	%	0	%

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

r. Fair value of financial instruments:

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 are comprised of foreign currency forward contracts.

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 to sell an asset or paid to transfer 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 reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

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

**AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

The 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 fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The carrying amounts of cash and cash equivalents, restricted cash, restricted bank deposits, other accounts receivable, trade payables, and other accounts payable and accrued expenses approximate their fair values due to the short-term maturities of such instruments.

Certain reclassifications have been made in the consolidated balance sheet for the year ended December 31, 2013 for the sake of consistency with the 2014 presentation. Specifically, certain liabilities were reclassified from long term<sup>s</sup> to short term and certain loans that previously presented separately in the balance sheet were consolidated into one line item.

t. New and recent accounting pronouncements:

In July 2013, the Financial Accounting Standards Board ("FASB") issued a new accounting standard that will require the presentation of certain unrecognized tax benefits as reductions to deferred tax assets rather than as liabilities in the Consolidated Balance Sheets when a net operating loss carry forward, a similar tax loss, or a tax credit carry forward exists. The Company will be required to adopt this new standard on a prospective basis in the first quarter of fiscal 2015; however, early adoption is permitted as is a retrospective application. The new standard has no impact on the Company's Consolidated Financial Statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)", and requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016 (January 1, 2017 for the Company), including interim periods within that reporting period. Early adoption is not permitted. The Company is currently in the process of evaluating the impact of the adoption of ASU 2014-09 on its consolidated financial statements.

**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 3:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES**

	<b>December 31, 2014 2013</b>	
Government authorities	\$1	\$133
Advances to suppliers	153	320
Prepaid expenses	307	276
Other	29	90
	\$490	\$819

**NOTE 4:- FAIR VALUE MEASUREMENTS**

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

The Company's financial liabilities and assets measured at fair value on a recurring basis, consisted of derivatives which were classified within Level 2 and amounted to \$ 0 liability and a \$ 17 liability as of December 31, 2014 and 2013, respectively.

**NOTE 5:- INVENTORIES**

December 31,  
2014 2013

Raw materials	\$ 100	\$ 167
Finished goods	2,743	3,551
	\$2,843	\$3,718

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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 6:- PROPERTY, PLANT AND EQUIPMENT, NET**

	December 31,	
	2014	2013
Cost:		
Computers and software	\$815	\$740
Office furniture and equipment	646	689
Leasehold improvements and real estate (1)	322	297
Motor Vehicles	340	397
	2,123	2,123
Computers and software	753	705
Office furniture and equipment	387	352
Leasehold improvements and real estate (1)	223	187
Motor Vehicles Depreciated cost	204	190
	1,567	1,434
Depreciated cost	\$556	\$689

Depreciation expenses amounted to \$163, \$171 and \$180 for the years ended December 31, 2014, 2013 and 2012, respectively.

On May 6, 2013 the Company sold real estate it owned and leased it back for a five year period and an option to (1) extend the lease period by an additional 5 years. The consideration amounted to \$ 337. The Capital gain generated from the sale in the amount of \$ 143 was capitalized and is recognized for the duration of the lease agreement.

**NOTE 7:- OTHER INTANGIBLE ASSETS, NET**



	December 31, 2014	December 31, 2013	Weighted average amortization period
Cost:			
Brand name	\$ 670	\$ 670	4.1
Customer list	2,450	2,450	2.5
	3,120	3,120	
Accumulated amortization:			
Brand name	600	539	
Customer list	2,450	2,405	
	3,050	2,944	
Amortized cost	\$ 70	\$ 176	

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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 7:- OTHER INTANGIBLE ASSETS, NET (Cont.)**

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

Amortization expenses amounted to \$106, \$181 and \$183 for the years ended December 31, 2014, 2013 and 2012, respectively. The remaining unamortized cost as of December 31, 2014 will be fully amortized in the year ended December 31, 2015.

**NOTE 8:- SHORT-TERM LOANS AND CURRENT MATURITIES**

Short term loans	Loan currency	Weighted interest rate as of December 31, 2014 %	December 31,	
			2014	2013
	NIS	5.18	\$2,096	\$1,226
	USD	5.01	2,201	4,200
			4,297	5,426
Current maturities	NIS	5.1	570	926
			\$4,867	\$6,352

Short term loans extended by Bank Leumi amounted to \$4,185 as of December 31, 2014. The repayment of the Company's bank loans to Bank Leumi is secured by a first priority floating charge on all of the Company's assets, and by a first priority fixed charge on all of the Company's issued and unpaid share capital, its goodwill and its shares of

its Israeli subsidiaries. The loan terms restrict substantial asset sales, cash dividends, and certain inter-company and shareholders payments. In addition, the Company and its Israeli subsidiaries entered into a series of inter-company guarantees in favor of the bank. There were no Bank Leumi covenants related to the short term loans applicable for the fiscal years 2014 and 2013.

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

	December 31, 2014 2013	
Government authorities	\$ 12	\$ 149
Professional services	98	100
Tax accruals	77	77
Other	49	80
	\$ 236	\$ 406

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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 10:- LONG-TERM LOANS, NET OF CURRENT MATURITIES**

a. Classified by linkage terms and interest rates, the total amount of the loans is as follows:

Loan currency	Weighted interest rate as of December 31, 2014 %	December 31,	
		2014	2013
NIS	5.1	\$760	\$2,072
Less - current maturities		570	926
		\$190	\$1,146

Bank HaPoalim loan amounted to \$ 419 and \$ 1,202 as of December 31, 2014 and 2013, respectively.

The repayment of the Company's loan to Bank HaPoalim is not secured, except by long-term bank deposits in the amount of \$ 259. Bank HaPoalim loan does not include any financial covenants provision.

In March 2008, BOS-Dimex purchased the assets and activities of Dimex Systems Ltd. As part of this acquisition, the Company and BOS Dimex owe to Dimex Systems Ltd. an amount of \$338 as of December 31, 2014. The loan carries a nominal interest rate of 4% and with principle and required interest payments to be made through December 2015.

b. The Company loans mature in the following years subsequent to the balance sheet dates:

2015 (Current maturities)	\$570
2016	190
	\$760

**NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES**

a. Commitments:

1. Royalty commitments:

Under the Company's research and development agreements with the Office of the Chief Scientist ("OCS") and pursuant to applicable laws, the Company is required to pay royalties at the rate of 3.5% of sales of products developed with funds provided by the OCS, up to an amount equal to 100% of the research and development grants (dollar-linked) received from the OCS. The obligation to pay these royalties is contingent upon actual sales of the products. Royalties payable with respect to grants received under programs approved by the OCS after January 1, 1999, are subject to interest on the U.S. dollar-linked value of the total grants received at the annual rate of LIBOR applicable to dollar deposits at the time the grants are received. No grants were received during the years 2013 and 2014.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)**

As of December 31, 2014, the Company has an outstanding contingent obligation to pay royalties to the OCS, including interest, in the amount of approximately \$ 3,700, with respect to the grants. During 2013 and 2014, the developed software for which the grant was received is no longer being sold, accordingly no royalty expenses were recorded during the respective years.

<sup>2</sup> The facilities of the Company are rented under operating lease agreements that expire on various dates ending in 2018. Minimum future rental payments are:

2015	134
2016	62
2017	27
2018	15
	238

The Company's motor vehicles are leased under various cancelable operating lease agreements. The lease agreements for the motor vehicles expire on various dates ending in 2016.

Lease expenses for the facilities occupied by the Company and the Company's motor vehicles in 2014, 2013 and 2012 amounted to \$ 354, \$ 405 and \$ 420, respectively.

**3. Litigation:**

The Company is not a party to any legal proceedings.

**NOTE 12:- SHAREHOLDERS' EQUITY**

a. Share issuance:

1. During year ended December 31, 2013 the Company issued:

- i. 20,932 Ordinary shares to Cukierman & Co, in consideration for non-exclusive investment-banking services and business development services to the Company (see note 16a);
- ii. 7,787 Ordinary shares to Edouard Cukierman pursuant to his Active Chairman Agreement (see note 16b); and
- iii. 9,868 Ordinary shares and 1,219 shares to THCAP pursuant to a service agreement (see note 16c) and as a directors fee, respectively.

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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:- SHAREHOLDERS' EQUITY (Cont.)**

During year ended December 31, 2014 the Company issued:

- i. 17,747 Ordinary shares to Cukierman & Co, in consideration for non-exclusive investment-banking services and business development services to the Company (see note 16a);
- ii. 17,079 Ordinary shares to Edouard Cukierman pursuant to his Active Chairman Agreement (see note 16b);
- iii. 6,004 Ordinary shares and 2,405 shares to THCAP pursuant to a service agreement (see note 16c) and as a directors fee, respectively; and
- iv. 2,652 Ordinary shares to other board members as a director's fee.

On June 18, 2013 and February 3, 2014, the Company entered into a Standby Equity Distribution Agreement ("SEDA"), with YA Global Master SPV Ltd. ("YA") for the sale of up to \$600 and \$2,000, respectively, of its Ordinary shares to YA. The Company may effect the sale, at its sole discretion, during a two-year period for the 2013 SEDA and three year period for the 2014 SEDA beginning on the date on which the Securities and Exchange Commission first declares effective a registration statement registering the resale the Company Ordinary shares by YA.

For each Ordinary share purchased under the SEDA, YA will pay 95% of the lowest daily VWAP (as defined below) of the Ordinary shares during the five consecutive trading days following the date of an advance notice from the Company (provided such VWAP is greater than or equal to 90% of the last closing price of the Ordinary shares at the time of delivery of the advance notice). Once presented with an advance notice, YA Global is required to purchase the number of shares specified in the advance notice. Each such notice may be for an amount of Ordinary shares not to exceed the greater of (1) \$25 and (2) the average of the Daily Value Traded for the five trading days prior to the advance notice, where Daily Value Traded is the product obtained by multiplying the daily trading volume for such day by the VWAP for such day. Notwithstanding the forgoing, the notice shall not exceed \$150 for the 2013 SEDA and \$500 for the 2014 SEDA. "VWAP" is defined as of any date, to be such date's daily dollar volume-weighted average price of the ordinary shares as reported by Bloomberg, LP.



In connection with the 2013 SEDA, the Company issued YA a commitment fee 7,500 Ordinary shares. The Company may terminate the SEDA at any time upon prior notice to YA Global, as long as there are no advance notices outstanding and the company has paid to YA all amounts then due.

During years 2014 and 2013, the Company issued to YA 63,948 and 43,834, Ordinary shares, respectively for a total of \$600.

In connection with the 2014 SEDA, the Company issued to YA as a commitment fee 13,711 Ordinary shares. The Company may terminate the SEDA at any time upon prior notice to YA Global, as long as there are no advance notices outstanding and the Company has paid to YA Global all amounts then due.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)**

During year 2014, the Company issued to YA 290,254 Ordinary shares for a total of \$958 net of \$42 issuance expenses.

On February 3, 2014, the Company entered into a Note Purchase Agreement with YA under which YA provided the Company with a one year bridge loan in the amount of \$500. The bridge loan is repayable in nine equal monthly installments commencing three months after the receipt of the loan. The Company paid commitment fee by issuance to YA 2,500 Ordinary shares.

On November 27, 2014, the Company entered into a Share Purchase Agreement, for the sale to Novel Infrastructure, Ltd. ("Novel") of 128,147 shares for \$500. The issuance costs related to this transaction were \$33.

**b. Warrants to shareholders**

The Company's outstanding warrants to shareholders as of December 31, 2014 are as follows:

Outstanding and exercisable warrants	Weighted average exercise price of outstanding warrants	Weighted average Remaining contractual life (years)
161,000	7.43	2.56

In April 2013, the Company requested warrant holders who hold 140,887 warrants to defer registration of the shares underlying the warrants issued to them, in order to enable the Company to register shares in connection with its

Standby Equity Distribution Agreement with YA.

In connection with such deferral, the warrants' exercise period was extended by an additional one year. The warrant holders have agreed to this arrangement, and it was approved by the Company's Audit Committee and Board of Directors. In January 2014, the Company requested warrant holders who hold 161,000 warrants to defer registration of the shares underlying the warrants issued to them in order to enable the Company to register shares in connection with its Standby Equity Distribution Agreement with YA. In connection with such deferral, the warrants' exercise period was extended by an additional two years (to July 2017) and the exercise price shall be reduced from \$11 to \$7.43. The warrant holders have agreed to this arrangement, and it was approved by the Company's Audit Committee and Board of Directors. The extension of warrants held by Telegraph Hill Capital, an affiliate of a member of the Company's Board of Directors, was approved also at the Company's shareholders meeting.

**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 12:- SHAREHOLDERS' EQUITY (Cont.)**

## c. Stock option plans:

In December 2012, the Company's shareholders approved a 10-year extension to the 2003 Israeli Stock Option Plan ("the Plan"), until May 31 2023. Under the Plan, 275,000 Ordinary shares were reserved for purchase by the employees and directors of the Company and its subsidiaries. Any option which is canceled or forfeited before expiration will become available for future grants.

As of December 31, 2014 an aggregate of 80,005 options are available for future grants under the Plan. Each option granted under the Plan expires between 2-10 years from the date of the grant. The options vest gradually over a period of up to four years.

A summary of the Company's employee and director stock option activity and related information for the year ended December 31, 2014, is as follows:

	<b>Number of options</b>	<b>Weighted-average exercise price</b>	<b>Weighted- average remaining contractual term (in years)</b>	<b>Aggregate intrinsic value</b>
Outstanding at January 1, 2014	144,726	\$ 14.80	3.80	\$ 378
Changes during the year:				
Granted	16,125			
Exercised	-			
Cancelled	(24,595 )			
Outstanding at December 31, 2014	136,256	\$ 9.62	3.53	\$ -

Vested and expected to vest	58,982	\$ 16.64	3.01	\$ -
Exercisable at December 31, 2014	136,256	\$ 9.62	3.53	\$ -

During 2014, 2013 and 2012, the Company recognized stock-based compensation expense related to employee and director stock options as follows:

	Year ended December 31,		
	2014	2013	2012
General and administrative	100	23	23
Total stock-based compensation expense	\$100	\$ 23	\$ 23

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**AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)**

The weighted-average grant-date fair value of options granted during the year ended December 31, 2014 and 2013 was \$ 5.32 and \$4.18, respectively. The weighted-average grant-date fair value of unvested options as of December 31, 2014 was \$4.26. The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the fair market value of the Company's Ordinary shares on December 31, 2014 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 December 31, 2014.

Total intrinsic value of options exercised for the years ended December 31, 2013 was \$ 91. No options were exercised during the year ended December 31, 2014. As of December 31, 2014 and 2013, there were a total of \$ 182 and \$231, 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 2017.

During 2013 a sum of \$ 86 was received from the exercise of options. No cash was received from exercise of options in the year ended December 31, 2014.

Options granted to employees and directors that are outstanding as of December 31, 2014 broken into ranges of exercise prices, are as follows:

	Options outstanding as of	Weighted average remaining contractual	Options exercisable as of	December 31,	Weighted average Remaining Contractual life of options exercisable
Exercise	December 31,	contractual	December 31,		

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Price	2014	life (years)	2014	(years)
3.23	375	2.14	250	2.14
3.40	375	1.97	375	1.97
3.80	6,987	1.97	5,590	1.97
3.88	375	4.88	-	-
3.88	90,000	3.85	29,998	3.85
4.02	5,000	4.55	-	-
6.67	10,000	4.28	-	-
6.67	375	4.28	-	-
8.00	5,749	1.25	5,749	1.25
33.60	3,750	3.24	3,750	3.24
50.40	13,170	2.31	13,170	2.31
60.00	100	1.24	100	1.24
Grand Total	136,256	3.53	58,982	3.01

d. Warrants issued to service providers and debt providers:

The Company accounts for warrants issued to service providers and debt providers in accordance with the provisions of ASC 505-50, *"Equity-Based Payments to Non-Employees"*. The fair value for these warrants was estimated at the date of grant using the Black-Scholes option pricing model. All warrants were fully vested as of December 31, 2014. There was no expense related to these warrants in 2014.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)**

In December 2012, the company granted 3,600 warrants to purchase Ordinary shares to THCAP. The warrants exercise price is \$2.39 and will be exercisable for 3 years starting December 13, 2012. No warrants were granted in 2013 and 2014 to service and debt providers.

The Company's outstanding warrants to service and debt holders as of December 31, 2014 are as follows:

Exercise price	Warrants* outstanding	Weighted average remaining Contractual life (years)
\$ 14.65	22,274	0.42

\* All warrants are exercisable as of December 31, 2014

**NOTE 13:- TAXES ON INCOME**

a. Corporate tax rates in Israel:

The Israeli corporate tax rate was 25% in 2012 and 2013. The tax rate for years 2014 and onward will be 26.5%

b. Loss carry forward:



The Company and its Israeli subsidiaries have accumulated losses for Israeli income tax purposes as of December 31, 2014, in the amount of approximately \$ 32,947. These losses may be carried forward and offset against taxable income in the future for an indefinite period. In addition, the Company and its Israeli subsidiaries have accumulated capital losses in the amount of approximately \$23,597.

c. Deferred income taxes:

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

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**B.O.S. BETTER ONLINE SOLUTIONS LTD.****AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data****NOTE 13:- TAXES ON INCOME (Cont.)**

	December 31,	
	2014	2013
Assets in respect of:		
Net operating loss carry forward (1)	\$8,731	\$8,272
Allowances and provisions	115	112
Intangible assets, <b>net</b>	129	227
	8,975	8,611
Valuation allowance (2)	(8,975)	(8,611)
Net deferred tax Liability	\$-	\$-

(1) See Note 13b.

(2) In 2014 and 2013, the Company has provided valuation allowances on deferred tax assets that results from tax loss carry forward and other reserves and allowances due to its history of operating losses and current uncertainty about the ability to realize these deferred tax assets in the future. Net change in valuation allowance during 2014 amounts to an increase of \$364.

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

	Year ended		
	December 31,		
	2014	2013	2012
Current	\$108	\$13	\$(187)
Prior years	-	-	-

	\$108	\$ 13	\$(187)
Domestic	101	7	(195)
Foreign	7	6	8
	\$108	\$ 13	\$(187)

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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:- TAXES ON INCOME (Cont.)**

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

	Year ended December 31,		
	2014	2013	2012
Domestic	\$(405)	\$(41)	\$(766)
Foreign	80	54	30
	\$(325)	\$13	\$(736)

f. Reconciliation of the theoretical tax expense to the actual tax expense:

The main reconciling items between the statutory tax rate of the Company and the effective tax rate are the non-recognition of tax benefits from accumulated net operating losses carry forward among the Company and various subsidiaries due to uncertainty of the realization of such tax benefits.

g. Tax assessments:

BOS Odem and BOS Dimex have final assessments through 2010. BOS has final assessments through 2008.

Tax assessments for Ruby-Tech Inc., a U.S. subsidiary, through 2009 have all been assessed as final.

h.

In accordance with the Company's accounting policy, interest expense and potential penalties related to income taxes are included in the tax expense line of the Company's consolidated statements of operations.

The Company and its subsidiaries file income tax returns in Israel and in the United States. BOS Dimex and BOS Odem may be subject to auditing by the Israel tax authorities for fiscal years 2010 and thereafter. BOS may be subject to auditing by the Israel tax authorities for fiscal years 2008 and thereafter. Ruby-Tech Inc., a U.S. subsidiary, may be subject to auditing by the U.S. Internal Revenue Service for fiscal years 2010 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, 2013 and 2014, the total balance of uncertain tax positions is \$31.

**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 14:- SUPPLEMENTARY INFORMATION TO STATEMENTS OF OPERATIONS**

## a. Financial expenses, net:

	Year ended December 31,		
	2014	2013	2012
Financial income:			
Interest on bank deposits	\$ 1	\$ 2	\$ 5
foreign currency transaction	70	16	-
	71	18	5
Financial expenses:			
In respect of bank loans, bank fees, convertible note and Liability related to Dimex acquisition	(454)	(506)	(651)
Change in fair value of forward contracts	(30 )	(25 )	(34 )
Other (mainly foreign currency transaction losses)	-	-	(71 )
	(515)	(567)	(786)
	\$(444)	\$(549)	\$(781)

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

## b. Net earnings (loss) per share:

	Year ended December 31,		
	2014	2013	2012
1. Numerator:			
Income (loss)	\$(433 )	\$-	\$(549 )

Net loss available to Ordinary shareholders				\$ (433 )	\$-	\$ (549 )
2. Denominator (in thousands):						
Basic and diluted weighted average Ordinary shares outstanding (in thousands)				1,449	1,172	1,118
Basic and diluted loss per share				\$ (0.30 )	\$-	\$ (0.49 )

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**B.O.S. BETTER ONLINE SOLUTIONS LTD.****AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data****NOTE 15:- SEGMENTS AND GEOGRAPHICAL INFORMATION**

The Company manages its business in two reportable segments, consisting of the RFID and Mobile Solutions segment and the Supply Chain Solutions segment.

The Company's management makes financial decisions and allocates resources, based on the information it receives from its internal management system. The Company allocates resources and assesses performance for each operating segment using information about revenues and gross profit. The Company applies ASC 280, *Segment Reporting*.

a. Revenues, gross profit and assets for the operating segments for the years 2014, 2013 and 2012 were as follows:

	RFID and Mobile Solutions	Supply Chain Solutions	Not Allocated/ Intercompany	Consolidated
2014				
Revenues	\$ 11,328	\$ 16,317	\$ (44	) \$ 27,601
Gross profit	\$ 2,868	\$ 2,177	\$ -	\$ 5,045
Assets related to segment	\$ 9,596	\$ 6,665	\$ -	\$ 16,261
2013				
Revenues	\$ 10,451	\$ 15,496	\$ (44	) \$ 25,903
Gross profit	\$ 2,882	\$ 2,149	\$ -	\$ 5,031
Assets related to segment	\$ 10,476	\$ 8,711	\$ -	\$ 19,187
2012				
Revenues	\$ 8,894	\$ 15,915	\$ (306	) \$ 24,503



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Gross profit	\$ 2,345	\$ 2,723	\$ -	\$ 5,068
Assets related to segment	\$ 8,558	\$ 9,491	\$ -	\$ 18,049

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**B.O.S. BETTER ONLINE SOLUTIONS LTD.****AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data****NOTE 15:- SEGMENTS AND GEOGRAPHICAL INFORMATION (Cont.)**

b. The following presents total revenues and long-lived assets for the years 2014, 2013 and 2012 based on the location of customers:

	Year ended December 31, 2014		2013		2012	
	Total revenues	Long-lived assets *)	Total revenues	Long-lived assets *)	Total revenues	Long-lived assets *)
America	\$515	\$ -	\$529	\$ -	\$493	\$ -
Far East	3,296	-	3,130	-	1,985	-
Europe	1,624	-	1,896	-	1,178	-
Israel	22,141	556	20,334	689	20,806	963
Others	25	-	14	-	41	-
	\$27,601	\$ 556	\$25,903	\$ 689	\$24,503	\$ 963

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

c. Major customer data as a percentage of total revenues:

	Year ended December 31,		
	2014	2013	2012
Customer A (Supply Chain Segment)	13%	13%	15%

**NOTE 16:- RELATED PARTIES**

a. Service Agreement with Cukierman & Co.:

The Company's Audit Committee and Board of Directors approved an engagement with Cukierman & Co., to provide non-exclusive investment-banking services and business development services to the Company ("the Service Agreement"), effective April 15, 2003. Cukierman & Co. is a company indirectly controlled by Mr. Edouard Cukierman. From June 26, 2003 until January 8 2015, Mr. Cukierman served as Chairman of the Company's Board. He is also a co-manager of the Catalyst Fund, a shareholder of Company. For its services, Cukierman & Co. was paid a monthly sum of \$ 10 plus VAT, in addition to a success fee of 4%-6% for a consummated private placement. The Service Agreement provides for success fees in connection with securing M&A transactions of 3.5% of the proceeds exchanged in such a transaction and also for a success fee of 6% of the revenues actually received by the Company in respect of a sale of the Company's products to a new customer which was introduced by Cukierman & Co. According to its terms, the Company may terminate the Service Agreement at any time, by giving a one-month prior written notice.

Pursuant to an amendment to the Service Agreement, as of July 1, 2012, the monthly payment was reduced to approximately \$6.4 plus VAT.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 16:- RELATED PARTIES (Cont.)**

In addition, the payment will be made once a year at the end of each calendar year by way of issuance of the Company's Ordinary shares and not in cash, using a price per share as stipulated in the revised Service Agreement.

On July 15, 2013 an additional amendment to the Service Agreement was signed by which all payments to Cukierman & Co. will be made on a quarterly basis.

During the year 2014 the company issued 17,747 Ordinary shares to Cukierman & Co as per the revised Service Agreement.

Expenses the Company recorded according to the Service Agreement with Cukierman & Co. are:

	Year ended December 31, 2014 2013 2012		
Retainer fee	\$ 76	\$ 76	\$ 98
Total	\$ 76	\$ 76	\$ 98

**b. Active Chairman Agreement with Edouard Cukierman:**

In March 2011, the Company's Audit Committee and Board of Directors approved an Active Chairman Agreement with Mr. Cukierman for services during the years 2011 through 2014. The agreement was approved by the Company's shareholders on December 20, 2011. Pursuant to this agreement Mr. Cukierman was to be granted options to purchase

22,360 Ordinary shares, and was to be paid a monthly cash payment of \$ 5 plus VAT at the prevailing rate.

The exercise price of the options is \$ 3.8 and they vest and become exercisable in 16 equal quarterly installments. The first three installments vested immediately following the shareholders' approval, and the fourth installment vested on December 31, 2011. Additional installments vest at the end of each subsequent calendar quarter, provided that Mr. Cukierman maintains his position as Chairman of the Board at the applicable vesting date. Pursuant to the Agreement, if Mr. Cukierman's service to the Company is terminated by the Company, for reasons other than cause, then: (a) any unvested options shall be accelerated so that they become immediately vested in full as of the date of the termination and (b) the accelerated options and any previously vested options shall be exercisable for twenty four months following the termination.

The options and the cash fee are in lieu of any compensation, fees or options otherwise payable by the Company to Mr. Cukierman as a director.

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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 16:- RELATED PARTIES (Cont.)**

On December 13, 2012 an Amendment to the agreement was approved stating that commencing July 1, 2012 the payment for the Chairman services will be paid in Ordinary shares of the Company instead of in cash. Payment shall be made once a year, at the end of each calendar year. The price per share used for the share consideration calculation will be equal to the weighted average closing price of the Ordinary shares on the applicable stock market on the 20 trading days ending on December 31 of the applicable year.

On December 31, 2014 and December 31, 2013 the Company issued to Edouard Cukierman 17,079 and 7,787 Ordinary shares, respectively, pursuant to the revised Agreement.

Expenses incurred in accordance with the Active Chairman Agreement with Edouard Cukierman are as follows:

	Year ended December 31,		
	2014	2013	2012
Chairman fees	\$60	\$ 60	\$ 60
Stock option compensation expenses	10	10	10
Total	\$70	\$ 70	\$ 70

**c. Agreements with THCAP:**

In November 2009, the Company entered into an amendment to the Advisory Agreement with THCAP, pursuant to which THCAP shall be paid a success fee of 5% of the revenues generated to the Company from the sale of the Company products to business partners introduced by THCAP. Mr. Luis Gutierrez Roy, managing partner of THCAP, is a member of the Company's Board of Directors.

On December 13, 2012, the Company's shareholders approved an additional grant of 3,600 warrants to THCAP. The warrants were issued at an exercise price of \$ 2.39, and are exercisable for 3 years from the date of grant.

On December 13, 2012 the Company's shareholders approved an additional amendment to the Advisory Agreement with THCAP, pursuant to which, THCAP will be paid a monthly retainer for business development services in the amount of \$3.7 per month to be paid in the Company's Ordinary shares once a year, using a price per share as stipulated in the revised Agreement. In addition, the Company's shareholders approved that those payments to THCAP on behalf of Mr. Gutierrez Roy's services as a Director be made in the Company's Ordinary shares, on a quarterly basis.

On August 21, 2014 the Company's Board of Directors terminated the Advisory Agreement with THCAP.

On December 31, 2014 and December 31, 2013, the Company issued to THCAP 6,004 and 9,868 Ordinary shares, respectively, for the retainer for business development services. On December 31, 2014 and December 31, 2013, the Company issued to THCAP 2,405 and 1,219 Ordinary shares, respectively, as director fees.

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

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

**NOTE 16:- RELATED PARTIES (Cont.)**

Expenses incurred according to the agreements with THCAP are as follows:

	Year ended December 31,		
	2014	2013	2012
Retainer fees	\$28	\$ 44	\$ 2
Directors fee	8	7	11
Stock warrants compensation expenses	-	-	6
Total	\$36	\$ 51	\$ 19

**NOTE 17:- SUBSEQUENT EVENTS**

a. In the Company's Special General Meeting of shareholders held on January 8, 2015, the following resolutions were adopted:

1. To approve an increase of 1,500,000 Ordinary shares in the Company's authorized share capital and to effect corresponding amendments to the Company's Articles of Association and to the Company's Memorandum of Association, following which the Company's authorized share capital shall be NIS 320,000,000, divided into 4,000,000 Ordinary Shares, nominal value NIS 80.00 per share.
2. To re-elect Mr. Avidan Zelicovsky and Ms. Odelia Levanon to the Company's Board of Directors, until the next annual general meeting of shareholders and until their successors have been duly elected and qualified.
3. To re-elect Mr. David Golan as an External Director, to hold office for three years.
4. To re-elect Ms. Orit Nir Schwartz as an External Director, to hold office for three years.
5. To terminate the office of Mr. Edouard Cukierman as a member of the Company's Board of Directors.
6. To terminate the office of Mr. Ronen Zavlik as a member of the Company's Board of Directors.
7. To ratify and approve compensation to the Company's External Directors.



8. To ratify and approve compensation to the Company's Directors (excluding External Directors).

On February 17, 2015, the Company entered into a Standby Equity Distribution Agreement, or SEDA, with YA for issuance of Ordinary shares in an amount up to \$1,300. The Company may draw on the SEDA at its sole discretion during a period beginning on the date on which the Securities and Exchange Commission first declares effective a registration statement registering the resale the Company ordinary shares by YA, and ending upon the earlier of: (i) the lapse of 40 months from the date of the Agreement and (ii) the date on which the YA purchased shares under the SEDA in the aggregate amount of \$1,300.

For each ordinary share purchased under the SEDA, YA Global will pay 93% of the lowest daily VWAP (as defined below) of the ordinary shares during the five consecutive trading days following the date of an advance notice from the Company (provided such VWAP is greater than or equal to 90% of the last closing price of the ordinary shares at the time of delivery of the advance notice). Once presented with an advance notice, YA is required to purchase the number of shares specified in the advance notice. Each such notice may be for an amount of ordinary shares not to exceed \$500. "VWAP" is defined, as of any date, to be such date's daily dollar volume-weighted average price of the ordinary shares, as reported by Bloomberg, LP.

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

**AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 17:- SUBSEQUENT EVENTS (Cont.)**

The Company paid to YA a commitment fee by issuance to YA 28,930 ordinary shares.

The Company may terminate the SEDA at any time upon prior notice to YA, as long as there are no advance notices outstanding and the Company has paid to YA all amounts then due.

On February 26, 2015 the Company provided Cukierman & Co. with a notice of termination of the Service Agreement.

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