
As filed with the Securities and Exchange Commission on June 30, 2011

**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, 2010

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, 972-3-9541025, 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
Ordinary shares, nominal value NIS 20.00 per share

Name of each exchange on which registered
NASDAQ Capital Market

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

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

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

2,752,517 ordinary shares, nominal value NIS 20.00 per share, as of December 31, 2010 and 2,757,276 ordinary shares, nominal value NIS 20.00 per share, as of May 31, 2011.

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

*The registrant has not yet been phased into the interactive data requirements.

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 Private Securities 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. 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. 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, 2010, 2009 and 2008, and the selected consolidated balance sheet data as of December 31, 2010 and 2009, 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, 2007 and 2006, and the consolidated balance sheet data as of December 31, 2008, 2007 and 2006, are derived from other consolidated financial statements not included herein and have been prepared in accordance with U.S. GAAP. The financial statements for the years ended December 31, 2010, 2009, 2008, 2007 and 2006 were audited by Kost Forer Gabbay & Kasierer, an independent registered public accounting firm and a member of Ernst & Young Global. The financial statements of BOS - Supply Chain Solutions (Lynk) Inc. (formerly, Lynk, USA Inc.) and its subsidiaries for the years ended December 31, 2009, 2008 and 2007 were audited by Arik Eshel, CPA & Assoc., PC an independent registered public accounting firm. 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, related to the prior periods of the discontinued operation have been reclassified in the accompanying statements of operations (see Note 1e to the Consolidated Financial Statements for the year ended December 31, 2010).

On January 12, 2010, the Company effected a reverse share split which was approved in a general shareholders' meeting on December 23, 2009. Pursuant to the reverse split, each 5 ordinary shares, NIS 4.00 nominal value per share, were converted into one ordinary share, NIS 20.00 nominal value per share. No fractional shares were issued as a result of the reverse split. Instead, all fractional shares were rounded up to the nearest whole number of shares. As of January 11, 2010, there were 13,090,346 ordinary shares outstanding and after the reverse split, there were 2,622,533 ordinary shares outstanding. Unless explicitly stated otherwise, all share prices and amounts are adjusted to account for the reverse share split.

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

	Year Ended December 31,				
	2006	2007	2008	2009	2010
Revenues	20,917	22,090	34,066	25,467	30,187
Inventory write off	-	258	339	2,235	36
Cost of revenues	16,200	17,450	26,893	19,741	22,668
Gross profit	4,717	4,382	6,834	3,491	7,483
Operating expenses:					
Research and development, net	486	636	844	360	372
In process Research and development	-	170	-	-	-
Sales and marketing	2,019	3,448	6,408	5,426	4,068
General and administrative	3,268	1,980	2,029	2,004	1,786
Impairment of goodwill	-	-	568	383	-
Total operating expenses	5,773	6,234	9,849	8,173	6,226
Operating income (loss):	(1,056)	(1,852)	(3,015)	(4,682)	1,257
Financial expense, net	(626)	(463)	(431)	(606)	(961)
Other expenses, net	-	(6,233)	(1,448)	(409)	(120)
Income (loss) before tax on income	(1,682)	(8,548)	(4,894)	(5,697)	176
Tax benefit (taxes on income)	89	(38)	241	(329)	(5)
Income (loss) from continuing operations	(1,593)	(8,586)	(4,653)	(6,026)	171
Net income (loss) related to discontinued operations	1,685	190	(1,747)	(3,075)	(806)
Net income (loss)	92	(8,396)	(6,400)	(9,101)	(635)
Basic and diluted net income (loss) per share from continuing operations	\$ (1.20)	\$ (4.96)	\$ (1.94)	\$ (2.32)	0.07
Basic and diluted net income (loss) per share from discontinued operations	\$ 1.25	\$ 0.11	\$ (0.73)	\$ (1.18)	(0.31)
Basic and diluted net income (loss) per share	\$ 0.05	\$ (4.85)	\$ (2.67)	\$ (3.50)	(0.24)
Weighted average number of shares used in computing basic net earning (loss) per share	1,335	1,731	2,396	2,606	2,622
Weighted average number of shares used in computing diluted net earning (loss) per share	1,359	2,357	2,396	2,606	2,757

Consolidated Balance Sheet Data:	As of December 31,				
	2006	2007	2008	2009	2010
Cash and Cash Equivalents	2,033	3,627	1,247	564	703
Working Capital (*)	3,046	6,157	3,491	237	386
Total Assets	24,529	31,132	37,345	27,362	22,130
Short-term banks loan and current maturities of long-term bank loans and convertible note	4,088	5,028	6,879	7,983	7,778
Long-term liabilities	2,686	4,450	4,564	4,274	4,073
Share Capital	6,571	10,628	13,159	13,225	13,959
Additional paid in Capital	48,330	54,758	55,830	57,042	56,805
Shareholders' equity	12,349	14,438	11,244	3,643	3,713
(*)Working capital comprises of:					
Current assets	12,540	16,409	19,644	19,682	14,730
Less: current liabilities	9,494	10,252	16,153	19,445	14,344
	<u>3,046</u>	<u>6,157</u>	<u>3,491</u>	<u>237</u>	<u>386</u>

3B. Capitalization and Indebtedness

Not applicable.

3C. Reasons for the Offer and Use of proceeds

Not applicable.

3D. Risk Factors

The following 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 long term 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 March 31, 2011 we had \$2.5 million of long term convertible notes , \$827,000 in long-term debt to Dimex Systems Ltd. (includes current maturities of \$312,000) and \$829,000 in long-term bank loans (includes current maturities of \$510,000). In addition, at March 31, 2011, we had \$8.0 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 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 "Section 5B. Liquidity and Capital Resources").

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 our products, 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").

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

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

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

As of March 31, 2011, we had an accumulated deficit of \$67 million. In 2010, we had a net loss of \$0.64 million. Our ability to maintain and improve future levels of sales and achieve profitability depends on many factors, which include:

- developing and selling new RFID and Mobile Solutions products to meet market needs;
- delivering our products in a timely manner;
- successfully implementing our business strategy;
- increased demand for our existing products;
- controlling costs; and
- having access to sufficient working capital financing to support our operations.

There can be no assurance that we will be able to meet our challenges and experience any growth in sales or achieve profitability in the future, 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 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. 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 our short and long term loans.

We rely primarily on Bank Leumi le-Israel Ltd. ("Bank Leumi"), to provide credit facilities to our subsidiaries. As of March 31, 2011 we had \$8.0 million of short term bank loans drawn under Bank Leumi revolving credit facility, \$510,000 current maturities of long term loans and \$318,000 of long terms bank loans with Bank Leumi. Our short and long term bank loans contain certain provisions, restrictions and financial covenants, which if violated, could result in the full principal amounts together with interest and other amounts becoming immediately due and payable in cash. One of the restrictions is on the transfer of funds from our subsidiaries to the Company (See "Section 5B. Liquidity and Capital Resources").

Our assets are subject to security interests in favor of our bank lenders. Our failure to repay the bank loans, if required, could result in legal action against us, which could require the sale of all of our assets.

The repayment of our bank debt 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 issued and unpaid-for share capital, its goodwill and its shares of our subsidiaries, BOS - Dimex Ltd. ("Dimex") and BOS - Odem Ltd. ("Odem"). In addition, the Company and its subsidiaries entered into a series of inter company guarantees in favor of our bank lenders.

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

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. Our loan agreements also contain various covenants, which require that we maintain certain financial ratios related to shareholder's equity and operating results. These limitations and covenants 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 covenants and restrictions contained in our loan agreements could lead to a default under the terms of these agreements (See "Section 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 divisions;
- attract and retain additional qualified personnel to provide technological depth and support to enhance existing products and develop new products; and
- attract and retain highly skilled computer operating, marketing and financial personnel.

We cannot make assurances that we will be successful in attracting, integrating, motivating and retaining key personnel. If we are unable to retain our key personnel and attract additional qualified personnel as and when needed, our business may be adversely affected.

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

Our goal is to grow significantly 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 recent years, the Company has made several acquisitions, such as the acquisition of Dimex Systems business in March 2008, and the acquisition of Summit (which has recently been liquidated). There can be no assurance that we will be able to successfully integrate and manage future acquisitions, if they further occur, in order to maintain and grow the combined business and maximize the potential synergies.

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.

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.

If our efforts to raise capital do not succeed, our efforts to increase our business may be seriously jeopardized.

The continued growth of our RFID and Mobile Solutions segment depends on our ability to expand sales abroad.

In 2010, our RFID and Mobile Solutions revenues, that were generated from sales outside of Israel, amounted to \$0.3 million or 2.4% of the entire RFID and Mobile Solutions revenues, which represented a decrease of approximately \$0.6 million from fiscal 2009. Continued growth of this segment depends on our ability to increase our sales abroad. There can be no assurance that we will be able to maintain and increase our revenues from these markets.

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, North America and Europe. We do not have any collateral and have limited credit insurance in respect of our customers' debt. The balance of allowance for bad debt as of December 31, 2010 amounted to \$44,000, which was determined by the management to be sufficient. In face of a global economic slowdown or recession reoccurs, we may be required to record additional and significant allowances for bad debts.

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

Supply Chain Solutions programs of electronic components accommodate the preference of customers to work with a limited number of suppliers that will be able to provide a wide range of electronic components under one order. In the event we are not able to provide certain of the components ordered, or in purchase orders that provide for termination before delivery, the customer could elect to terminate the entire order before its 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 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 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. Non compliance 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.

The Supply Chain 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 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. 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.

The Supply Chain division engages in a number of business activities governed by U.S. Government procurement laws and regulations, which change frequently. Failure by us or our sales representatives to comply with these laws and regulations could result in administrative, civil, or criminal liabilities and could have a material adverse effect on our business.

We are required to make additional payments towards the acquisition of the assets of Dimex Systems.

The Dimex Systems Asset Purchase Agreement, as amended, provides for NIS 3.1 million to be paid in monthly installments commencing July 2010 through December 2013. Dimex Systems also holds a total of NIS 3.1 million long-term convertible debt.

If we are unable to make the payments to Dimex Systems, we will be in breach of contract and our financial position, and results of operation could be adversely affected.

We rely on certain key suppliers.

Most of our sales rely on products of certain key suppliers, which we represent. 18% of our first quarter of 2011 Supply Chain Solutions segment purchases were sourced from five key suppliers and 69% of our first quarter of 2011 RFID and Mobile Solutions segment purchases were sourced from five key suppliers. In the year 2010, 30% of our Supply Chain Solutions segment purchases were sourced from five key suppliers and 53% of our RFID and Mobile Solutions segment purchases were sourced from five 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.

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 Solution segment'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 2008, 2009 and 2010, the NIS appreciated by approximately 1.1%, 0.7% and 6.0%, respectively, against the U.S. dollar. In 2008, 2009 and 2010, the annual inflation rate in Israel was approximately 3.8%, 3.9% and 2.7%, respectively, and therefore the U.S. dollar cost of our Israeli operations has increased. 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 "Section 5A. Results of Operation - Impact of Inflation and Currency Fluctuations.")

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

The market for some of our products is characterized by rapidly changing technology and evolving industry standards. The introduction of products embodying new technology and the emergence of new industry standards can render existing products obsolete and unmarketable and can exert price pressures on existing products.

Our ability to anticipate changes in technology and industry standards and successfully develop and introduce 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. Although these products are related to, and even incorporate our existing products, there can be no assurance that we will be able to successfully develop and market any such new products. If we are unable, for technological or other reasons, to develop products that are competitive in technology and price and responsive to customer needs, our business will be materially adversely affected.

We have significant sales worldwide and could encounter problems if conditions change in the places where we market our products.

We have sold and intend to continue to sell our products in North and South America, Europe, China and Asia Pacific.

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;
- 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.

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, as a result of an act or omission of such person in its capacity as a director or officer of the Company, and (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. Payment pursuant to such indemnification may materially adversely affect our financial condition.

The measures we take in order to protect our intellectual property may not be effective or sufficient.

Our success is dependent upon our proprietary rights and technology. We currently rely on a combination of trade secrets, copyright and trademark law, together with non-disclosure and invention assignment agreements, to establish and protect the proprietary rights and technology used in our products. We generally enter into confidentiality agreements with our employees, consultants, customers and potential customers and limit the access to and the distribution of our proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our technology without authorization, or to develop similar technology independently. We do not believe that our products and proprietary rights infringe upon the proprietary rights of others. However, there can be no assurance that any other party will not argue otherwise. The cost of responding and adequately protecting ourselves against any such assertion may be material, whether or not the assertion is valid. Further, the laws of certain countries in which we sell our products do not protect our intellectual property rights to the same extent as do the laws of the United States. Substantial unauthorized use of our products could have a material adverse effect on our business. We cannot make assurances that our means of protecting our proprietary rights will be adequate or that our competitors will not independently develop similar technology. Additionally, there are risks that arise from the use of intranet networks and the Internet. Although we utilize firewalls and protection software, we cannot be sure that our proprietary information is secured against penetration. Such penetration, if occurs, could have an adverse effect on our business.

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.

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 2010 through May 2011, the daily closing price of our ordinary shares in NASDAQ has ranged from \$0.77 to \$3.52 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:

- the liquidation of Summit and Lynk;
- the limited trading volume in our stock;
- actual or anticipated variations in our quarterly operating results;
- increase in our bank debts;
- sales of securities in private placements.

In addition, the stock market in general, and stocks of technology companies in particular, 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.

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

In past 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 market. In September 2009, the Company received notices, from the NASDAQ Stock Market that its ordinary shares were subject to delisting from the NASDAQ Global Market for failure to meet NASDAQ's minimum bid price, the minimum market value of publicly held shares requirement (\$5 million) and the shareholders' equity requirements (\$10 million) for continued listing on the Global Market.

Consequently, the Company had applied for, and the Nasdaq Stock Market approved the transfer of its listing from the Nasdaq Global Market to the Nasdaq Capital Market, as of October 16, 2009. The Company currently satisfies all of The Nasdaq Capital Market standards for its continued listing.

However, 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 an electronic bulletin board such as the OTC Bulletin Board. 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 our 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. Political, economic, security and military conditions in Israel directly influence us. We could be adversely affected by any major hostilities involving Israel, the interruption or curtailment of trade between Israel and its trading partners or a significant downturn in the economic or financial condition of Israel.

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, and a state of hostility, varying from time to time in intensity and degree, has led to security and economic problems for Israel. Although Israel has entered into various agreements with Egypt, Jordan and the Palestinian Authority, since September 2000, there has been a high level of violence between Israel and various Palestinian groups. In July 2006, the Israeli army was engaged in extensive hostilities along Israel's northern border with Hezbollah operating from Lebanon, and to a lesser extent in the Gaza Strip. Since June 2007, the Hamas militant group has taken over the Gaza Strip from the Palestinian Authority, and the hostilities along Israel's border with the Gaza Strip have increased, escalating to a wide scale attack by Israel in December 2008, in retaliation to rocket attacks into southern Israel.

In May 2011, the Palestinian Authority and Hamas signed a reconciliation agreement, the effects of which are unclear, and the future of the “peace process” as a whole with the Palestinians remains uncertain.

Recently, countries in the region, such as Egypt, Syria and other Arab and Islamic countries, have experienced political change and instability, the effects of which are currently difficult to assess.

Ongoing violence between Israel and the Palestinians, armed conflicts, terrorist activities, tension between Israel and neighboring Syria and Lebanon, or political instability in the region, may have a material adverse effect on our business, financial condition and results of operations. In addition, several countries still restrict business with Israel and with companies doing business in Israel. We could be adversely affected by adverse developments in the “peace process” or by boycotts, restrictive laws or policies directed towards Israel or Israeli businesses.

Generally, all nonexempt male adult citizens and permanent residents of Israel, are obligated to perform military reserve duty annually, and are subject to being called to active duty at any time under emergency circumstances. While we have operated effectively under these requirements since our incorporation, we cannot predict the full impact of such conditions on us in the future, particularly if emergency circumstances occur. If many of our employees are called for active duty, our business may be adversely affected.

Additionally, in recent years Israel has been going through periods of recession in economic activity, resulting in low growth rates and growing unemployment. Our operations could be adversely affected if the economic conditions in Israel deteriorate. Furthermore, Israel is a party to certain trade agreements with other countries, and material changes to these agreements could have an adverse effect on our business.

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

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. Shares held by a party to the merger and certain of its affiliates are not counted towards the required approval. 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. A merger may not be approved if the surviving company will not be able to satisfy its obligations. At the request of a creditor, a court may block a merger on this ground. In addition, a merger can be completed only after all approvals have been submitted to the Israeli Registrar of Companies, provided that 30 days have elapsed since shareholder approval was received and 50 days have passed from the time that a proposal for approval of the merger was filed with the Registrar.

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 25% or more of the voting power at general meetings, and no other shareholder owns a 25% stake in the company. 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 45% or more of the voting power at general meetings, unless someone else already holds 45% of the voting power. An acquisition from a 25% or 45% holder, which results in the purchaser becoming 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. These rules also do not apply if the acquisition is made by way of a merger.

The Israeli Companies Law also provides specific rules and procedures for the acquisition of shares held by minority shareholders, that result in the majority shareholder holding more than 90% of the outstanding shares.

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

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

All of our directors and most of our 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.

Item 4: Information on the Company

4A. History and Development of the Company

We were incorporated in Israel in 1990 and are subject to the Israeli Companies Law. Our executive offices and engineering, development, testing, 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.

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

- 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 aviation, aerospace and high technology industry 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, combining mobile infrastructure of manufacturers that we represent, middleware software and a software application.

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 (Automatic Identification and Data Collection) solutions based on RFID and barcode technology. The consideration was NIS 44.6 million (approximately \$12,426,000). The consideration was comprised of cash, payable over a 24-month period and of 100,045 BOS shares (equal to approximately 4.4% of the then outstanding shares of BOS).

In March 2009, the Company entered into an amendment to the 2008 Dimex Systems Asset Purchase Agreement that revised the payment schedule of the approximately NIS 10 million payable in three semi-annual installments through March 2010. The amendment provided for a NIS 3.5 million payment in March 2009, NIS 4 million to be paid in 6 equal monthly installments each, starting on January 15, 2010, and the remaining approximately NIS 2.5 million (equivalent to \$675,000) was converted into the same type of convertible debentures subsequently issued by the Company in July 2009.

On February 4, 2010, the Company entered into an additional amendment to the Dimex Systems Asset Purchase Agreement, further revising the schedule of remaining payments in the amount of NIS 4 million, to Dimex Systems. The amendment provides for payment of:

1. NIS 300,000 in February 2010 and NIS 3.1 million plus 8% interest per annum, to be paid in monthly installments commencing July 2010 through December 2013.
2. NIS 600,000 (equivalent to \$161,000) were converted into the same long-term convertible debentures, into which NIS 2.5 million were previously converted. In addition, the Company issued to Dimex Systems a warrant to purchase 69,096 ordinary shares at an exercise price of \$3.25 per ordinary shares during the first 18 months commencing August 3, 2011 and \$4.00 per ordinary share thereafter.

Following this amendment, Dimex Systems holds a total of NIS 3.1 million long-term convertible debt.

In addition, we have an interest in two companies:

(a) Surf Communication Solutions Ltd. (“Surf”), in which, as of December 31, 2010, we held 6.2% of the issued and outstanding share capital. Established in 1996, Surf is an Israeli privately held company. Surf develops a suite of hardware and software products that drives a wide variety of applications whose common goal is high-capacity distribution of voice and video.

(b) New World Brands Inc. (PINK:NWBD) (“New World” or “NWB”), a U.S. public corporation. On February 26, 2010, the Company sold all of its holdings in NWB to P&S Spirit LLC. and recorded a capital loss of \$7,000. The Company sold 61,441,827 shares of common stock of NWB and 1,430,178 warrants to purchase common stock of NWB at an exercise price of \$ 0.2098 per share expiring on December 31, 2010. The consideration for the NWB shares and warrants was \$ 300,000 of which \$ 150,000 was paid in March 2010 and the remaining \$ 150,000 plus annual interest of 4% were to be paid in twelve monthly installments commencing March 2011. The shares and warrants were delivered to an escrow agent to be released to the buyer upon full payment of the remaining debt. In May 2011, the buyer notified the Company that it will not pay the remaining debt, and the shares and warrants were released back to the Company. The value of the shares based on share price as of June 26, 2011 is \$98,000, which reflects a loss of \$52,000.

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 BOSC. 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.

In August 2009, the Company closed a \$2.4 million Convertible Loan Financing ("Convertible Loan Financing") with several lenders including Catalyst Private Equity Partners (Israel) II L.P., Telegraph Hill Capital Fund I, LLC, certain existing shareholders and members of its management. The financing consisted of loans with a three year term that bear interest at a rate equal to 8% per annum, compounded annually. The Company shall repay the loan principal amount and the accrued interest in one payment at the end of the term, unless converted earlier into ordinary shares at the discretion of the lender. The loan conversion rate is \$3.25 per ordinary share. The Company also granted to the lenders warrants to purchase 100% of the number of ordinary shares into which the loan is convertible. The warrants are exercisable, in whole or in part, during a period starting from 18 months to 36 months from grant, at an exercise price per ordinary share of \$2.75. In addition, the lenders received certain registration rights. A total of \$675,000 of the loan was extended to the Company by conversion into the debt financing of a payment otherwise due to Dimex Systems by April 2010, pursuant to an amendment to the Asset Purchase Agreement the Company had entered into with Dimex Systems. On February 4, 2010, pursuant to an additional amendment to the Dimex Systems Asset Purchase Agreement, NIS 600,000 (equivalent to \$161,000) of the payment due to Dimex Systems was converted into long-term convertible debentures on terms similar to those of the debentures the Company issued in August 2009.

Pursuant to its undertaking in connection with the Convertible Loan Financing, on August 23, 2010, the Company filed with the Securities and Exchange Commission a registration statement on Form F-3 covering the resale of ordinary shares that are issuable upon conversion of the notes and exercise of the warrants. The registration statement has not yet become effective and the Company intends to file an amendment to the registration statement in the near future.

For more details on the aforementioned loan financing see Section 5B- Liquidity and Capital Resources.

In November 2009, as part of a separation agreement between the Company and its former CEO, Shalom Daskal, the Company repaid to Mr. Daskal \$50,000 of convertible loan he had previously extended to it as part of the August 2009 Convertible Loan Financing.

In December 2009, Dimex and its former U.S. distributor, 10ZIG Technologies Inc., a Nevada corporation, (formerly known as BOSaNOVA Inc.) ("10ZIG") entered into a distribution agreement for a period of ten years ending in December 2019. Under the agreement, 10ZIG shall become an exclusive distributor of the Company's BOSaNOVA product, on a world wide basis. 10ZIG agreed to pay to the Company a total amount of \$310,000 in installments through the end of 2011 in consideration for the BOSaNOVA product licensing. Concurrently with the distribution agreement, the parties executed a Settlement & Release Agreement, pursuant to which the claims brought by Dimex, Summit and 10ZIG in the U.S. District Court of Arizona were withdrawn.

On November 23, 2010 the Company's two U.S. subsidiaries that are part of its Supply Chain 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. The proceedings in respect of Summit are continuing. 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 worldwide provider of turnkey AIDC (Automatic ID Data Capture) mobility solutions, focusing on RFID technologies, and a leading distributor of electronic components for the civil aircraft industry and for the defense industry.

The Company's products and services assist customers worldwide 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). These divisions are complementary with strong synergy.

The Company's customers represent a cross-section of multinational industry leaders, from the avionics, defense, retail, government, utilities, and livestock markets around the world. Our Supply Chain division customers include, among others, Bombardier, Elbit system, Refael and IAI. Our RFID and Mobile division customers include, among others, IKEA, Blue Square, Shufersal Teva, Plasan Sasa, IKEA and BEE Group.

In its Supply Chain division, the Company has expanded its penetration to global, top-tier aircraft manufacturers (such as Bombardier, Airbus, Dassault, Indra, Eads) and has begun expansion to international markets (e.g., India, Europe, China). In 2010, the Company has begun supplying electronic components to several customers in India.

In its RFID and Mobile division, the Company continues to invest in research and development in order to further enhance its software platform, BOS ID and is working to establish sales channels for BOS ID through partnerships with systems integrators in Europe.

In 2011, the Company was recognized with the Entrepreneurial Company of the Year Award in the field of Automatic Identification Data Capture (AIDC) for the Europe, Middle East and Africa region, by Frost & Sullivan, a leading global research organization.

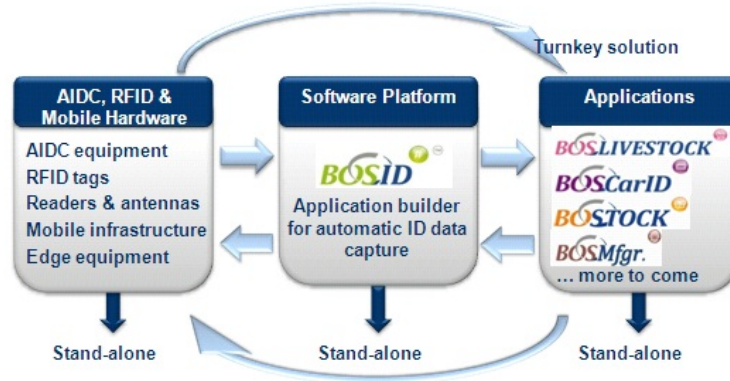
BOS continues to execute a growth strategy in order to strengthen its product offerings and distribution channels worldwide.

BOS Product Offerings

RFID and Mobile Solutions

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

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



Our RFID and mobile division represents leading 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., Texas Instruments, Alien Technology, Cisco Systems Inc., 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:**
 - o Thermal and barcode printers
 - o RFID and barcode scanners and readers
 - o Wireless, mobile and forklift terminals
 - o Wireless infrastructure
 - o Active and passive RFID tags (HF & UHF)
 - o Consumables (ribbons, labels, tags)
- **BOS ID Software Platform:**
 - o BOS ID is a software platform for systems integrators to assemble applications, without programming, for transfer to any AIDC client such as a handheld rugged terminal, barcode reader or mobile PC.
- **Applications:**

Using its proprietary BOS ID, BOS has developed the following set of vertical applications:

- o **BOS LIVESTOCK** is a software application that enables livestock operations to manage, track, support and plan all day-to- day tasks.
- o **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.
- o **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.
- o **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 lab offers maintenance and repair services to data collection equipment, as well as warehouse and on-site service plans.

In 2010, 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, networking and telecommunications equipment, and components consolidation services to the aerospace, defense, medical and telecommunications industries and enterprise customers worldwide.

These services include:

- o Representation of global manufacturers and distribution of their electronics components, communications and networking products (see below);
- o Kitting (electronics components consolidation) services for aerospace, defense, medical, and telecommunications industries and enterprise customers;
- o Inventory and quality control management of components entering production lines; and
- o Warehouse management for ongoing projects, including all warehouse functions such as storage, operations and inventory management.

Our Supply Chain division represents, among others, Honeywell International Inc., Holtek Semiconductor Inc., Sensata Technologies Inc., Inova, IPD, Adam Technologies Inc., Wintek Corporation, Positronic Industries, Tyco Electronics, D-Link Corporation, Netgear, Bluegiga Technologies, Switchcraft Inc., Silicon Sensor, API Group Inc., Winchester, Wintek, Fema, SGC, Stroco and Jamicon Corporation USA. The electronic components from these suppliers fall into four main categories:

- 1) Active Components - semiconductors, transistors, detectors, diodes, integrated circuits, hybrid modems, cellular components, communication ICs, memories, displays and LEDs;
- 2) Passive Components - capacitors, thermistors, varistors, oscillators, crystals, resistors, C-DC converters, and power supplies; and
- 3) Electro-Mechanical Components - relays, connectors, circuit breakers, filters, transformers, plugs, thermostats and switches.
- 4) Microwave components such as repeaters and filters.

We also provide full access networks equipment for IT and telecommunications (LAN/WAN), communication servers, multi-protocol print servers, server adapters, USB products, switches, fiber optics equipment, ADSL and XDSL routers, modems, VoIP, storage equipment and ATM devices.

In 2010, 59% of our revenues were attributed to sales of the Supply Chain Solutions segment.

Marketing, Distribution and Sales

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

RFID and Mobile Solutions

We market our solutions directly to customers or through distributors and system integrators. We intend to increase our international sales force with new distributors, system integrators, sales representatives and direct salespersons who specialize in the RFID and Mobile Solutions sector.

In Europe, we are targeting system's integrators as the main channel through which to sell our software products. As a secondary effort, we will focus on hardware vendors that may be seeking to enhance their product offerings by adding complementary products such as BOS ID.

Supply Chain Solutions

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

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:

	2010	%	2009	%	2008	%
America	2,596	9	1,548	6	3,344	10
Far East	2,228	7	998	4	904	3
Europe	811	3	566	2	1,317	4
Israel and others	24,552	81	22,355	88	28,501	83
Total Revenues	30,187	100	25,467	100	34,066	100

Sales by divisions:

	2010	%	2009	%	2008	%
RFID and Mobile Solutions	12,463	41	10,729	42	11,280	33
Supply Chain Solutions	17,724	59	14,738	58	22,786	67
Total Revenues	30,187	100	25,467	100	34,066	100

Intellectual Property

We currently rely on a combination of trade secrets, copyright and trademark law, together with non-disclosure agreements and technical measures, to establish and protect proprietary rights in our products.

We believe that the improvement of existing products and solutions, reliance upon trade secrets and proprietary know-how and the development of new products are generally as important as patent protection in establishing and maintaining a competitive advantage. We believe that the value of our products is dependent upon our proprietary software and hardware remaining "trade secrets" or subject to copyright protection.

Generally, we enter into non-disclosure and invention assignment agreements with our employees, partners and subcontractors. However, there can be no assurance that our proprietary technology will remain a trade secret, or that others will not develop similar technology or use such technology in products competitive with those offered by us.

While our competitive position may be affected by our inability to protect our proprietary information, we believe that because of the rapid pace of technological change in the industry, factors such as the technical expertise and the knowledge and innovative skill of our management and technical personnel, name recognition, the timeliness and quality of our support services and our ability to rapidly develop, produce, enhance and market software products may be more significant in maintaining our competitive position.

As the number of software products in the industry increases and the functionality of these products further overlaps, we believe that software programs will increasingly become subject to infringement claims. The cost of responding to any such assertion may be material, whether or not the assertion is valid.

Competition

RFID and Mobile Solutions

The RFID and Mobile Solutions market is subject to rapidly changing technology and evolving standards incorporated into mobile equipment, ERP systems, computer networks and host computers. As the market grows, so does the number of competitors. Some of the competitors have substantially greater financial, marketing and technological resources as well as stronger name recognition than BOS.

In Israel, our main competitors in the RFID and Mobile Solutions market are Soft Solutions Ltd., eWave Ltd., Dangot Computers Ltd., Darnet Advanced Technologies Ltd., Micronet Ltd., LogiTag Systems Ltd. and Galbital RFID Solutions Ltd. In the global market, competition to our platform products such as BOS ID primarily stems from existing modules in ERP systems, and system integrators that provide turnkey solutions that include both hardware and software such as GlobeRanger Corp., OATSystems, a division of Checkpoint Systems, Inc., Omnitrol Networks, Inc., RF-iT Solutions GmbH and InSync Software, Inc.

The RFID market is highly fragmented and no one player has taken a significant share of the software platform market. We believe that we will be able to attract systems integrators, RFID hardware vendors and thus end-customers to our core offering BOS ID, due to the following factors:

- Unlike other products on the market, BOS ID enables code-free creation and implementation of data collection applications and processes;
- BOS software products were built specifically for systems integrators, based on 30 years of experience in the data collection market;
- Our software can be used in a wide range of vertical markets;
- BOS' software products enable rapid implementation and centralized deployment for every RFID and AIDC project; and
- Our software is flexible, hardware-independent and can function with any communication and networking protocol.

Supply Chain Solutions

We hold several representation agreements with major suppliers and manufacturers, such as Honeywell International Inc., Holtek Semiconductor Inc., Sensata Technologies, Inc., Inova, IPD, Adam Technologies, Inc., Wintek Corporation, Positronic Industries, Tyco Electronics, D-Link Corporation, Netgear, Bluegiga Technologies, Switchcraft Inc., Silicon Sensor, API Group, Inc., Jamicon Corporation USA. 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., Chayon Group 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 worldwide 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:

- Continue to develop our range of RFID and Mobile Solutions to include platform software products, as well as a suite of business line applications, based on the BOS ID platform;
- Increase our international sales force by new partnerships with distributors, system integrators, and hardware vendors specialized in RFID and Mobile Solutions in the United States and select European countries;
- Secure several reference-able customers in Europe, potentially leveraging our position as a trusted supplier in the aerospace Supply Chain Solutions market;
- Increase partnerships with manufacturers for our Supply Chain Solutions division.

Exchange Controls

See "Section 10D. Exchange Controls".

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

4C. Organizational Structure

The Company's wholly owned subsidiaries include:

In Israel:

- (1) Dimex, and its wholly owned subsidiary, Dimex Hagalil 2008. Dimex and Dimex Hagalil 2008 are part of the RFID and Mobile Solutions division;
- (2) Odem, which is part of the Supply Chain Solutions division; and
- (3) Quasar Telecom (2004) Ltd., which is inactive. In March 2011, the Company decided to dissolve this subsidiary.

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) BOS Delaware Inc., a Delaware corporation, is a wholly owned subsidiary of Dimex, which ceased operation in 2002.
- (3) On November 23, 2010 the Company's two U.S. subsidiaries that are part of its Supply Chain 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. The proceedings in respect of Summit are continuing.

In Europe:

- Better On-Line Solutions Ltd., a U.K. subsidiary of Dimex, and its subsidiary, Better On-Line Solutions S.A.S in France. Since 2002, these subsidiaries are no longer active.

In addition, the Company holds or held interest in Surf and in New World – see Section 4A: History and Development of the Company.

4D. Property, Plants and Equipment

Our executive offices and engineering, development, testing, shipping and service operations are located in Israel, as follows:

Location	Size (square meters)	End of lease period	Extension Option
Rishon Lezion*	2,504	July 6, 2011 – January 31, 2012	February 1, 2012 - January 31, 2016
Kibutz Dafna	578	On a month-to-month basis	

*Includes 302 square meters in the same building rented by Odem.

Our average monthly rental fee in 2011 (up until April 30, 2011), for the year 2010 and for the year 2009 amounted to \$14,000, \$14,000 and \$15,000, respectively.

Item 4A: Unresolved Staff Comments

Not Applicable.

Item 5: Operating and Financial Review and Prospects

The following management's discussion and analysis of financial condition and results of operations should be read in conjunction with our financial statements and notes thereto. Certain matters discussed below and throughout this Annual Report are forward-looking statements that are based on our beliefs and assumptions as well as information currently available to us. Such forward-looking statements may be identified by the use of the words "anticipate", "believe", "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.

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:

- financial statements in U.S. dollars
- inventories
- investment in other companies
- valuation of long-lived assets and goodwill
- revenue recognition
- income taxes
- accounting for share-based compensation
- discontinued operations

a. Financial statements in U.S. dollars:

A substantial portion of the Company's revenues is generated in U.S. dollars. In addition, most of the Company's costs are incurred in 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 remeasured into U.S. dollars in accordance with ASC 830, *Foreign Currency Matters*. All transactions gains and losses from the remeasurement of monetary balance sheet items are reflected in the statement of operations as financial income or expenses, as appropriate.

The financial statements of our subsidiary Dimex, whose functional currency is other than the dollar, have been translated into U.S. dollars. All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Statement of operations amounts have been translated using the average exchange rate for the period. The resulting translation adjustments are reported as a component of shareholders' equity in accumulated other comprehensive loss.

b. 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. As of December 31, 2010 and 2009, inventory is presented net of \$ 1,494,000 and \$ 1,458,000, respectively, for technological obsolescence and slow-moving items.

c. Investment in other companies:

Management evaluates investments in other companies for evidence of other-than-temporary declines in value.

The Company recognizes an impairment charge when a decline in the fair value of its marketable securities below the cost basis is judged to be other-than-temporary. The Company considers various factors in determining whether to recognize an impairment charge, including the Company's intent and ability to hold the marketable securities for a period of time sufficient to allow for any anticipated recovery in market value, the length of time and extent to which the fair value has been less than the cost basis and the financial condition and near-term prospects of the issuers. If, after consideration of all available evidence to evaluate the realizable value of its marketable securities, impairment is determined to be other-than-temporary, then an impairment loss should be recognized equal to the difference between the marketable securities' carrying amount and its fair value. Accordingly, during 2010, 2009 and 2008, an impairment loss, due to other-than-temporary decline in fair value, of \$ 0, \$ 304,000 and \$ 744,000, respectively, has been recorded and presented in other expenses, net in the consolidated statements of operations.

1. Investment in NWB and Qualmax:

The Company accounts for its holdings in NWB shares as available for sale in accordance with ASC 320, *Investments - Debt And Equity Securities* ("ASC 320"). Unrealized gains and losses, net of the related tax effect are included in other comprehensive loss. Till the consummation of a merger of Qualmax with and into NWB in January 2009 the investment in Qualmax, which was traded in the Pink Sheet, was presented at cost according to ASC 325-20, *Cost Method Investments* ("ASC 325-20") due to virtually no trading volume in the shares.

Following the consummation of the merger of Qualmax and NWB, holdings in Qualmax were converted into shares of NWB.

During 2008, the Company sold 6.6 million shares of NWB for a total consideration of \$ 165,000 and recorded a gain of \$8,000.

On February 26, 2010, the Company sold all of its holdings in NWB to P&S Spirit LLC. and recorded a capital loss of \$7,000. The Company sold 61,441,827 shares of common stock of NWB and 1,430,178 warrants to purchase common stock of NWB at an exercise price of \$ 0.2098 per share expiring on December 31, 2010. The consideration for the Shares and Warrants was \$ 300,000 of which \$ 150,000 was paid in March 2010 and the remaining \$ 150,000 plus annual interest of 4% was to be paid in twelve monthly installments commencing March 2011. The shares and warrants were delivered to an escrow agent to be released to the buyer upon full payment of the remaining debt. On May 2011, P&S Spirit LLC notified the Company that it will not pay the Remaining debt and the shares and warrants were released back to the Company. The value of the shares based on share price as of June 26, 2011 is \$98,000, which reflects a loss of \$52,000.

2. Investment in Surf:

The Company's holding in Surf (a private company) as of December 31, 2010 is 6.2% of Surf's issued and outstanding shares. The Company's investment in Surf is accounted for based on the cost accounting method. During 2010, 2009 and 2008, an impairment loss, due to other-than-temporary decline in fair value, of \$ 111,000, \$ 53,000 and \$712,000, respectively, has been recorded and presented in other expenses, net in the consolidated statements of operations.

The Company's investment in Surf is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable, in accordance with ASC 325-20.

d. Valuation 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 their fair value as determined based on 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 by the amount by which the carrying amount of the assets exceeds their fair value. During 2010, 2009 and 2008, 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.

Testing Methodology:

The Company performs its annual impairment analysis of goodwill as of December 31st 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 Company determines the fair value of each 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. 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 Company considers 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 Company corroborates the fair values using the Market Approach. The Company evaluates the reasonableness of the estimated fair value of its reporting units by reconciling to its market capitalization. This reconciliation allows the Company to consider market expectations in corroborating the reasonableness of the fair value of its reporting units. In addition, the Company compares its market capitalization, including an estimated control premium that an investor would need to pay for a controlling interest in the Company, to the fair value of the Company based on a third-party valuation study. The determination of a control premium requires the use of judgment and is based primarily on comparable industry and deal-size transactions, related synergies and other benefits. The Company's reconciliation of the gap between its market capitalization and the aggregate fair value of the Company depends on various factors, some of which are qualitative and involve management judgment, including stable relatively high backlog coverage and experience in meeting operating cash flow targets.

The reporting units of the Company for purposes of the impairment test are: the Company's RFID and Mobile operating segments, and the Supply Chain segment, as these are the components of the business for which discrete financial information is available and segment management regularly reviews the operating results of those components.

Testing Results:

During 2009 and 2008 impairment losses in the amount of \$ 383,000 and \$ 568,000, respectively, were recorded and attributed to the Supply Chain reporting unit. During 2010, no impairment losses have been identified.

e. Revenue recognition:

The Company derives its revenues from the sale of products through direct sales, license fees for its products, commissions, support and services.

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

Most of the Company's revenues are generated from sales of its products directly to end-users. Other than pricing terms which may differ due to the volume of purchases between end-users, there are no material differences in the terms and arrangements among end-users.

Revenue from license fees, related to the RFID and Mobile segment, is recognized in accordance with ASC No. 985-605, *Software Revenue Recognition*, when persuasive evidence of an agreement exists, delivery has occurred, no significant obligations with regard to implementation remain, the fee is fixed or determinable, and collectability is probable. The Company generally does not grant a right of return to its customers. When a right of return exists, the Company defers revenue until the right of return expires, at which time revenue is recognized, provided that all other revenue recognition criteria have been met.

Revenues from maintenance and support services are recognized ratably over the period of the support contract. The fair value of the support contract is determined based on the price charged when it is sold separately or renewed.

With regard to software arrangements involving multiple elements such as software product and maintenance and support, revenue should be allocated to each element based on the relative fair value of the elements. However, with respect to certain transactions, that include multiple elements, revenue can be recognized under the "residual method", when vendor specific objective evidence ("VSOE") of fair value exists for all undelivered elements, and VSOE does not exist for the delivered elements. Under the residual method, at the outset of the arrangement with the customer, the Company defers revenue for the fair value of its undelivered elements (maintenance and support) and recognizes revenue for the remainder of the arrangement fee attributable to the elements initially delivered in the arrangement (software product) when the basic criteria in ASC 985, *Revenue Recognition - Software* have been met. Any discount in the arrangement is allocated to the delivered element. Maintenance and support revenue is deferred and recognized on a straight-line basis over the term of the maintenance and support agreement. The VSOE of fair value of the undelivered elements (maintenance and support) is determined based on the price charged for the undelivered element when sold separately.

In the case of arrangements which require significant customization of the Company's RFID software to customer-specific specifications, the Company follows the guidance in ASC 605-35, whereby the Company applies the completed contract method since the Company is unable to obtain reasonable dependable estimates of the total effort required for completion. Under the completed contract method, all revenue and related costs of revenue are deferred and recognized upon completion. Provisions for estimated losses on contracts in process are recognized in the period such losses are determined.

f. 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 financial reporting and 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.

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. During the years ended December 31, 2008 and 2007, the Company had no unrecognized tax positions. During the year ended December 31, 2010, and 2009 the Company recorded \$ 67,000 and \$ 421,000, respectively in regard to uncertain tax position.

g. Accounting for share-based compensation:

The Company accounts for equity-based compensation in accordance with ASC 718, *Stock Compensation* ("ASC 718") which requires the recognition of compensation expenses based on estimated fair values for all equity-based awards made to employees and nonemployees 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 options 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 term. 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. 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 2009 and 2008 was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Year ended December 31,	
	2009	2008
Risk-free interest	1.45%	1.52%
Dividend yields	0%	0%
Volatility	77%	37%
Expected option term	3.46 years	3.43 years
Forfeiture rate	15%	10%

No options were granted during 2010.

During 2010, 2009 and 2008, the Company recognized stock-based compensation expense related to employee and director stock options as follows:

	Year ended December 31,		
	2010	2009	2008
Selling and marketing	\$ 39	\$ 377	\$ 169
General and administrative	178	252	412
Total stock-based compensation expense	<u>\$ 217</u>	<u>\$ 629</u>	<u>\$ 581</u>

The Company applies ASC 718 and ASC 505-50 for equity instruments that are issued to other than employees for acquiring, or in conjunction with selling, goods or services.

h. Fair value of financial instruments:

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

The carrying amounts of cash and cash equivalents, trade receivables, other accounts receivable, short term loans and trade payables approximate their fair value due to the short-term maturities of such instruments. The carrying amounts of long-term loans and convertible notes approximate their fair value.

Assets and liabilities measured at fair value on a recurring basis are comprised of marketable securities and foreign currency forward contracts.

Effective January 1, 2008, the Company adopted ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"). ASC 820 clarifies that fair value is an exit price, representing the amount that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 - Unobservable inputs which are supported by little or no market activity.

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.

i. Impact of recently issued accounting pronouncements:

In January 2010, the FASB issued Accounting Standards Update "ASU" No. 2010-06, "Improving Disclosures about Fair Value Measurements," which requires disclosures about inputs and valuation techniques used to measure fair value, as well as disclosures about significant transfers, beginning in the first quarter of 2010. Additionally, these amended standards require presentation of disaggregated activity within the reconciliation for fair value measurements using significant unobservable inputs (Level 3) beginning in the first quarter of 2011. The adoption of the effective portions of this ASU did not have a material impact on the Company's consolidated financial position, results of operations or cash flows. The Company does not anticipate that the adoption of the remaining portions of this ASU will have a material impact on its consolidated financial position, results of operations or cash flows.

In October 2009, the FASB issued ASU 2009-13, *Multiple-Deliverable Revenue Arrangements*, (amendments to FASB ASC Topic 605, *Revenue Recognition*) ("ASU 2009-13") and ASU 2009-14, *Certain Arrangements That Include Software Elements*, (amendments to FASB ASC Topic 985, *Software*) ("ASU 2009-14").

- ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendment eliminates the residual method of revenue allocation and requires revenue to be allocated using the relative selling price method.
- ASU 2009-14 ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 and ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company does not anticipate that the adoption of this ASU will have a material impact on its consolidated financial position, results of operations or cash flows.

j. Reclassification:

Certain 2009 figures have been reclassified to conform to the 2010 presentation. The reclassification had no effect on previously reported net income or shareholders' equity.

k. Discontinued operations:

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 (see Note 1e to the Consolidated Financial Statements for the year ended December 31, 2010).

Legal Contingencies

The Company has been a party to various legal proceedings in the normal course of its business. The results of legal proceedings are difficult to predict and an unfavorable resolution of a lawsuit or proceeding may occur. Management believes that the prospects of these proceedings to prevail and recover a significant amount, seem remote, and a corresponding provision was recorded in this respect. For additional information see "Section 8A. Consolidated Statements and Other Financial Information - Legal Proceedings". As additional information becomes available, management will reassess the potential liability related to these legal proceedings and may revise its estimate of the probable cost of these proceedings. Such revisions in the estimates of the probable cost could have a material adverse effect on the Company's future results of operations and financial position.

5A. Operating Results

On January 12, 2010, we effected a 5:1 reverse share split. All share and per share data for periods prior to that date have been retroactively adjusted to reflect this reverse share split.

Comparison of 2010 and 2009

Revenues for 2010 were \$30.2 million, compared to \$25.5 million in 2009. The growth in revenues was in both our Mobile and RFID and Supply Chain divisions.

Gross profit for 2010 was \$7.5 million (gross margin of 24.8%), compared to \$3.5 million (gross margin of 13.7%) for 2009. The improvement in the gross profit in year 2010 is attributed mainly to a minor inventory write-off in the amount of \$36,000 compared to a \$2.2 million inventory write-off in year 2009, which was attributed to the global economic slowdown in year 2009.

Research and development expenses for 2010 were \$372,000, compared to \$360,000 in 2009.

Selling and marketing expenses for 2010 decreased to \$4.1 million from \$5.4 million in 2009. The decrease is attributed to cost reduction, mainly in workforce, during year 2010.

General and administrative expenses for 2010 decreased to \$1.8 million, compared to \$2.0 million in the year 2009. The decrease is attributed to cost reduction that was implemented in year 2010.

Impairment of goodwill in 2009 amounted to \$383,000. There was no impairment of goodwill in 2010. The goodwill impairment of the Supply Chain Solutions segment was due to the global economic slowdown, which affected the future revenues and cash flows of this segment.

As a result of the above, operating profit in 2010 amounted to \$1.26 million compared to operating loss of \$4.7 million in year 2009.

Financial expenses for 2010 were \$961,000, compared to \$606,000 in 2009. The increase is related to the convertible notes in the aggregate amount of \$2.4 million, which were issued in August 2009 (see "Section 5B. Liquidity and Capital Resources").

Other expenses in years 2010 and 2009, which amounted to \$120,000 and \$409,000, respectively, are mainly attributed to the decrease in the value of the Company investments in NWB and Surf.

Tax on income in 2010 amounted to \$5,000, compared to a tax on income of \$329,000 in 2009. Tax expenses in year 2009 related to uncertain tax positions.

Income from continuing operations in 2010 amounted to \$171,000 compared to a loss of \$6 million in 2009. On a per share basis, the basic and diluted net earning per share from continuing operations in 2010 was \$0.07, compared to net loss per share of \$2.32 in 2009.

Loss from discontinuing operations is attributed to the closing of the operation of Lynk and its subsidiary Summit in November, 2010. Both companies belong to the Supply chain division. Loss from discontinued operation amounted to \$806,000 in 2010 compared to a loss of \$3.1 million in 2009. On a per share basis, the basic and diluted net loss per share from discontinuing operations in 2010 was \$0.31, compared to net loss per share of \$1.18 in 2009.

The U.S. dollar cost of our NIS expenses increased in year 2010 as compared to year 2009 because of the differential between the rate of inflation in Israel and change in the value of the NIS relative to the U.S. dollar. In year 2010, the inflation rate in Israel, as adjusted for the appreciation of the NIS against the U.S. dollar, was 8.6 % compared to 4.6% in year 2009.

Comparison of 2009 and 2008

Revenues for 2009 were \$25.5 million, compared to \$34.1 million in 2008.

Gross profit for 2009 was 3.5 million (gross margin of 13.7%), compared to \$6.8 million (gross margin of 20%) for 2008. The decrease in the gross profit is attributed mainly to inventory write-off in the amount of \$2.2 million in 2009, compared to a write-off of \$339,000 in year 2008.

Research and development expenses for 2009 were \$360,000, compared to \$844,000 in 2008. The decrease in 2009 expenses related to a reduction in the research and development team reflecting a focus on developing the BOS ID platform as opposed to year 2008, in which research and development resources were invested also in additional products such as of Optimize IT and Cyms.

Selling and marketing expenses for 2009 decreased to \$5.4 million from \$6.4 million in 2008. The decrease is attributed mainly to cost reductions implemented in 2009.

General and administrative expenses were approximately \$2 million in both 2009 and 2008.

Impairment of goodwill in 2009 amounted to \$383,000. Impairment of goodwill in 2008 amounted to \$568,000 and is attributed to impairment of goodwill in the Supply Chain Solutions segment due to the economic slowdown.

As a result of the above, operating loss in 2009 amounted to \$4.6 million compared to an operating loss of \$3 million in year 2008

Financial expenses for 2009 were \$606,000, compared to \$431,000 in 2008. The increase is related to the convertible notes in the aggregate amount of \$2.4 million, which were issued in August 2009 (see "Section 5B. Liquidity and Capital Resources").

Other expenses in year 2009 and 2008 amounted to \$409,000 and \$1.45 million respectively, and mainly relate to the decreases in the value of the Company's investments in NWB and Surf.

Tax on income in 2009 amounted to \$329,000, compared to a tax benefit of \$241,000 in 2008. The tax benefit in year 2008 reflects the future usage of carry forward losses while tax expenses in year 2009 were related to uncertain tax positions.

Loss from continuing operations in 2009 amounted to \$6 million, compared to a loss of \$4.6 million in 2008. On a per share basis, the basic and diluted loss per share from continuing operations in 2009 was \$2.32, compared to \$1.94 in 2008.

Loss from discontinued operation in 2009 amounted to \$3.1 million compared to \$1.7 million in 2008. Loss from discontinuing operations is attributed to closing the operation of Lynk and its subsidiary Summit in November, 2010.

On a per share basis, the basic and diluted net loss per share from discontinuing operations in 2009 was \$1.18, compared to net loss per share of \$0.73 in 2008.

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 distribution channels and manage them;
- develop, introduce and deliver new products on a timely basis;
- anticipate accurately customer demand patterns; and
- manage future inventory levels in line with anticipated demand.

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

The U.S. dollar cost of our operations in Israel is influenced by the differential between the rate of inflation in Israel and any change in the value of the NIS relative to the U.S. dollar.

A devaluation of the NIS in relation to the U.S. dollar will have the effect of decreasing the U.S. dollar costs in any of our NIS expenses and a converse effect in case of devaluation of the U.S. dollar in relation to the NIS.

A devaluation of the NIS in relation to the U.S. dollar will also have the effect of decreasing the U.S. dollar value of any of our NIS assets (unless such asset is linked to the U.S. dollar). Such a devaluation would further have the effect of reducing the U.S. dollar amount of any of our liabilities and expenses which are payable in NIS (unless such payables are linked to the U.S. dollar). Conversely, any increase in the value of the NIS in relation to the U.S. dollar will have the effect of increasing the U.S. dollar value of our NIS assets (unless such asset is linked to the U.S. dollar). Such an increase would also have the effect of increasing the U.S. dollar amount of any of our liabilities and expenses which are payable in NIS (unless such payables are linked to the U.S. dollar).

In the years ended December 31, 2010, 2009, 2008, 2007, 2006 the inflation rate in Israel, as adjusted for the depreciation or appreciation of the NIS against the U.S. dollar, was 8.6 %, 4.6%, 4.9%, 12.4%, and 8.1%, respectively. The closing representative exchange rate of the U.S. dollar at the end of each such period, as reported by the Bank of Israel, was NIS 3.549, NIS 3.775, NIS 3.802, NIS 3.846 and NIS 4.225, respectively.

Effective Corporate Tax Rate

The rate of the Israeli corporate tax has been decreasing in recent years as follows: 2007 - 29%, 2008 - 27%, 2009 - 26% and 2010 - 25%. Tax at a reduced rate of 25% applies to capital gains arising after January 1, 2003. In July 2009, the "Knesset" (Israeli Parliament) passed the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among others, an additional gradual reduction in the rates of the Israeli corporate tax and real capital gains tax to the following tax rates: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%.

The Company and its Israeli subsidiaries have accumulated losses for Israeli income tax purposes as of December 31, 2010, in the amount of approximately \$ 30.3 million. These losses may be carried forward and be offset against taxable income in the future for an indefinite period. In addition, the Company and its Israeli subsidiaries have accumulated capital losses, which may be carried forward under certain limitations.

Grants and Participation

Under the Law for the Encouragement of Industrial Research and Development, 1984 (the "Research Law"), research and development programs approved by a research committee of the Office of the Chief Scientist of Israel's Ministry of Industry, Trade and Labor, are eligible for grants in exchange for payment to the Government of royalties from the sale of products developed in accordance with the program. In order to be eligible, the applicant must be an Israeli company that proposes to invest in the development of industrial know-how, the development of new products, the development of new processing or manufacturing procedures or the development of significant improvements to an existing process or product. A committee of the OCS reviews the applications, evaluates the feasibility of the proposal, determines whether or not to approve a grant, and also determines the extent of Chief Scientist funding (within a range specified by the law) for approved projects. Depending on the nature of the project, the OCS grants generally amount to up to 50% of the approved research expenses.

Under the Company's research and development agreements with the 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 (U.S. 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 were received.

The Research Law requires that the manufacture of any product developed as a result of research and development funded by the Israeli Government take place in Israel. If any of the manufacturing is performed outside of Israel, the Company would ordinarily be required to pay royalties at an increased rate and to increase the aggregate repayment amount to between 120% and 300% of the grant amount, depending on the manufacturing volume that is performed outside Israel, except in special cases that receive the prior approval of the research committee, and subject to certain payments to be made to the Israeli Government (generally an amount no less than the aggregate grants plus interest less royalties paid).

The Research Law also provides that know-how from the research may not be transferred to third parties in Israel without prior approval of the research committee. This approval, however, is not required for the sale or export of any products resulting from such research and development. Approval of such transfer of know-how may be granted in specific circumstances, only if the recipient abides by the provisions of the Research Law and related regulations, including the restrictions on the transfer of know-how and the obligation to pay royalties in an amount that may be increased. The Research Law further provides that the know-how developed under an approved research and development program may not be transferred to any third parties outside Israel, except with the approval of the OCS and subject to particular payments.

The Research Law imposes reporting requirements with respect to certain changes in the ownership of a grant recipient. The law requires the grant recipient and its controlling shareholders and interested parties to notify the Office of the Chief Scientist of any change in control of the recipient or a change in the holdings of the significant shareholders of the recipient that results in a non-Israeli becoming an interested party directly in the recipient, and requires the new interested party to undertake to the Office of the Chief Scientist to comply with the Research Law. In addition, the rules of the Office of the Chief Scientist may require prior approval of the Office of the Chief Scientist or additional information or representations in respect of certain of such events.

The funds available for Office of the Chief Scientist grants out of the annual budget of the State of Israel have been reduced, and the Israeli authorities have indicated that the government may further reduce or abolish Office of the Chief Scientist grants in the future.

Since 2006, we have not participated in research and development programs supported by the OCS. The Company submitted in 2011, a request to participate in programs supported by the OCS. The request is currently under consideration by the OCS.

As of December 31, 2010, the Company has an outstanding contingent obligation to pay royalties to the OCS, including interest, in the amount of approximately \$ 3.5 million, in respect of previous grants.

We are also committed to paying royalties to the Fund for the Encouragement of Exports for its participation, by way of grants, in our marketing expenses outside of Israel. Royalties payable are 3% of the growth in exports, from the year we received the grant, up to 100% of the U.S. dollar-linked amount of the grant received at the date the grants received.

Since 1996, we have not participated in Fund for the Encouragement of Exports programs. As of December 31, 2010, the Company has an outstanding contingent obligation to pay royalties including interest of \$ 95,000 with respect to export grants. No expenses incurred on account of such royalties during 2010 and 2009. Expenses in the amount of \$6 were incurred for such royalties in 2008.

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.

In 1998, the Israeli currency control regulations were liberalized dramatically. As a result, Israeli citizens can generally freely purchase and sell Israeli currency and assets. The Government of Israel has periodically changed its policies in these areas. There are currently no Israeli currency control restrictions on remittances of dividends on ordinary shares or proceeds from the sale of ordinary shares; however, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time.

5B. Liquidity and Capital Resources

As of December 31, 2010 we had \$703,000 in cash, \$7.3 million of short term bank loans drawn under a revolving credit facility, \$500,000 current maturities of long term loans, long terms loans in the amount of \$394,000 and long term convertible notes in an aggregate amount of \$2.46 million.

As of March 31, 2011 we had \$0.2 million in cash, \$8 million of short term bank loans drawn under a revolving credit facility, \$511,000 current maturities of long term loans, long terms loans in the amount of \$318,000 and long term convertible notes in an aggregate amount of \$2.6 million. All of our bank loans are supplied by Bank Leumi.

In August 2009, the Company closed a \$2.4 million Convertible Loan Financing with several lenders including Catalyst Private Equity Partners (Israel) II L.P., Telegraph Hill Capital Fund I, LLC, certain existing shareholders and members of its management. The financing consists of loans with a term of three years that bear interest at a rate equal to 8% per annum, compounded annually. The Company shall repay the loan principal amount and the accrued interest in one payment at the end of the term, unless converted earlier into ordinary shares at the discretion of the lender. The loan conversion rate is \$3.25 per ordinary share. The Company granted the lenders warrants to purchase 100% of the number of ordinary shares into which the loan is convertible. The warrants are exercisable, in whole or in part, from 18 months to 36 months from grant, at an exercise price per ordinary share of \$2.75. In addition, the lenders received certain registration rights. A total of \$675,000 of the loan was extended to the Company by conversion into the debt financing of a payment otherwise due to Dimex Systems by April 2010, pursuant to the Asset Purchase Agreement the Company had entered into with Dimex Systems.

In November 2009, as part of a separation agreement between the Company and its former CEO, Shalom Daskal, the Company repaid to Mr. Daskal \$50,000 of convertible loan he had previously extended to it as part of the August 2009 Convertible Loan Financing.

In March 2009, the Company entered into an amendment to the 2008 Dimex Systems Asset Purchase Agreement that revised the payment schedule of the approximately NIS 10 million payable in three semi-annual installments through June 2010. The amendment provided for a NIS 3.5 million payment in March 2009, NIS 4 million to be paid in 6 equal monthly installments each, starting on January 15, 2010, and the remaining approximately NIS 2.5 million was converted into the same type of convertible debentures subsequently issued by the Company in July 2009.

On February 4, 2010, the Company entered into an additional amendment to the Dimex Systems Asset Purchase Agreement, further revising the schedule of remaining payments in the amount of NIS 4 million, to Dimex Systems. The amendment provides for payment of:

(*) NIS 300,000 in February 2010 and NIS 3.1 million plus 8% interest per annum, to be paid in monthly installments commencing July 2010 through December 2013.

(*) NIS 600,000 (equivalent to \$161,000) were converted into the same long-term convertible debentures, into which NIS 2.5 million were previously converted. In addition, the Company issued to Dimex Systems a warrant to purchase 69,096 ordinary shares at an exercise price of \$3.25 per ordinary shares during the first 18 months commencing August 3, 2011 and \$4.00 per ordinary share thereafter.

Following this amendment, Dimex Systems holds a total of NIS 3.1 million long-term convertible debt.

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

- first ranking fixed charges on the goodwill of the Company and its Israeli subsidiaries, on our shareholdings in the Israeli subsidiaries and on certain Bank Leumi accounts of Odem; and
- floating charges on all of the assets of the Company and its subsidiaries, owned now or in the future; and

The Company also guarantees the liabilities of its Israeli subsidiaries to Bank Leumi and each of its Israeli subsidiaries guarantee the Company's liabilities to Bank Leumi.

The loan agreements signed by the Company and its Israeli subsidiaries contain various financial covenants, which require that the Company and the Israeli subsidiaries maintain certain financial ratios related to shareholders' equity and operating results. On March 23, 2009, the Company and its Israeli subsidiaries executed revised loan documents, effective December 31, 2008, governing the Company's and its Israeli subsidiaries' short-term revolving credit line from Bank Leumi. In the revised loan documents, the Company and its Israeli subsidiaries undertook updated covenants relating to, among other things, financial ratios of equity and EBITDA, and to continue to provide Bank Leumi with various security interests and cross guarantees. The loan terms continue to restrict substantial asset sales, cash dividends, and certain inter-company and shareholders payments. As of December 31, 2009, the Company did not meet the bank covenants. However, the Company received a written waiver from Bank Leumi, under which the Bank agreed, subject to certain conditions, not to act upon the Company's default. In February 2010, the Company and its Israeli subsidiaries executed further revised loan documents governing the credit line from Bank Leumi. In the revised loan documents, the Company and its Israeli subsidiaries undertook updated covenants for 2010. The Company met the revised Bank covenants through December 31, 2010 and March 31, 2011.

We finance our activities by different means, including equity financings, 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, supplier and customer credit terms, the level of resources devoted to research and development, new product introductions, and marketing and acquisition activities.

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 short-term (less than 3 months) U.S. dollars and NIS interest bearing deposits with banks. As of December 31, 2010, our trade receivables' and trade payables' aging days were 92 and 73 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, (c) directors and officers' indemnities, in excess of the proceeds received from liability insurance which we obtain, and (d) legal proceedings.

The Company believes that its cash resources are sufficient to meet its operating needs for at least the next 12 months.

Cash Flows

Net cash provided by operating activities from continuing operations in 2010 was \$1.46 million, compared to net cash provided by operating activities of \$21,000 in 2009. The difference in cash flows is attributed to the 2010 profit as compared to 2009 losses.

Net cash used in investing activities from continuing operation in 2010 amounted to \$105,000 compared to \$1.3 million in 2009. In 2009, cash used in investing activities included payment of \$967,000 related to the acquisition of Dimex System's assets, as compared to a payment of \$147,000 in 2010.

Net cash used in financing activities in 2010 amounted to \$604,000 as compared to net cash provided from financing activities of \$1.2 million in 2009. The Company used part of the cash flows provided in operating activities in 2010 to pay bank loans in the amount of \$841,000. In 2009 the Company raised \$1.6 million by issuance of long term convertible note.

2008 Private Placements

In July 2008, the Company entered into a Share Purchase Agreement with three non-U.S. investors, under which the Company issued 148,148 ordinary shares at a price per share of \$6.75 (reflecting an aggregate investment of \$1 million) and 74,074 ordinary shares issuable upon the exercise of warrants at an exercise price \$8.00 per ordinary share, exercisable for 2 years from their date of issuance.

In August 2008, the Company entered into a Share Purchase Agreement with an Australian investor, under which the Company issued 163,266 ordinary shares at a price per share of \$6.125 (reflecting an aggregate investment of \$1 million) and 81,633 ordinary shares issuable upon the exercise of warrants at an exercise price \$7.375 per ordinary share, exercisable for 2 years from their date of issuance.

2009 Private Placements

In August 2009, the Company closed a \$2.4 million Convertible Loan Financing with several lenders including Catalyst Private Equity Partners (Israel) II L.P., Telegraph Hill Capital Fund I, LLC, certain existing shareholders and members of its management. The financing consists of loans with a term of three years that bear interest at a rate equal to 8% per annum, compounded annually. The Company shall repay the loan principal amount and the accrued interest in one payment at the end of the term, unless converted earlier into ordinary shares at the discretion of the lender. The loan conversion rate is \$3.25 per ordinary share. The Company granted the lenders warrants to purchase 100% of the number of ordinary shares into which the loan is convertible. The warrants are exercisable, in whole or in part, from 18 months to 36 months from grant, at an exercise price per ordinary share of \$2.75. In addition, the lenders received certain registration rights. A total of \$675,000 of the loan was extended to the Company by conversion into the debt financing of a payment otherwise due to Dimex Systems by April 2010, pursuant to the Asset Purchase Agreement the Company had entered into with Dimex Systems.

In November 2009, as part of a separation agreement between the Company and its former CEO, Shalom Daskal, the Company repaid to Mr. Daskal \$50,000 of convertible loan he had previously extended to it as part of the August 2009 Convertible Loan Financing.

2010 Private Placements

On February 4, 2010, the Company entered into an additional amendment to the Dimex Systems Asset Purchase Agreement, whereby among others, NIS 600,000 was converted into long-term convertible debentures on terms similar to those of the debentures the Company issued in August 2009. In addition, the Company issued to Dimex Systems a warrant to purchase 69,096 ordinary shares at an exercise price of \$3.25 per ordinary shares during the first 18 months commencing August 3, 2011 and \$4.00 per ordinary share thereafter.

On October 5, 2010 the Company entered into a Share Purchase Agreement with Telegraph Hill Capital Fund I, LLC for the issuance of an aggregate of 96,362 Ordinary Shares at a price per share of \$3.11, or approximately \$300,000 in total.

5C. Research and Development

We believe that our future growth will depend upon our ability to enhance our existing products and introduce new products on a timely basis. Since we commenced operations, we have conducted extensive research and development activities.

Historically our research and development efforts related to our Communication Solutions, until sold in December 2005. Our current research and development efforts focus on our RFID and Mobile solutions for enterprise logistics and organizational processes and on our software products offering (see "Section 4B. Business Overview" for the detailed list of our software products).

We intend to finance our research and development activities with our own resources and by raising equity and debt financings.

5D. Trend Information

BOS' vision is to become a worldwide 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 segment revenues will increase gradually going forward.

Growth of the RFID and Mobile division depend on sales of BOS ID software product outside of Israel. We anticipate that the revenues of BOS ID will increase gradually going forward and will increase our gross margin.

In addition, we are working towards an increase of our Supply Chain Solution to the international markets.

The vast majority of our sales are made in U.S. dollars and a significant portion of our expenses is in NIS. The U.S. dollar cost of our operations in Israel is increased by the extent to which the NIS appreciates in relation to the U.S. dollar. In 2010, and until April 30, 2011, the U.S. dollar decreased in value against the NIS by approximately 10.1%, which resulted in a corresponding increase in the U.S. dollar cost of our operating expenses. We cannot predict any future trends in the rate of devaluation or appreciation of the NIS against the U.S. dollar, and may not be successful in attempting to purchase instruments that reduce exposure to currency exchange fluctuations. Further significant depreciation could have an adverse effect on our results of operations and financial condition.

The vast majority of our bank loans are quoted in NIS and bear interest which is based on the Prime rate. The Prime rate increased from 2.75% to 4.5% in April 2011, which resulted in a corresponding increase in the U.S. dollar cost of our financial expenses. Further significant increase in interest rate could have an adverse effect on our results of operation and financial condition. We cannot predict any future trends in the rate of interest and may not be successful in attempting to purchase instruments that reduce exposure to increases in interest.

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, 2010, summarizes the aggregate effect that these obligations are expected to have on our cash flow in the periods indicated:

	Payment due by period		
	Total	Less than 1 year	1-3 years
Long-term loans (1)	\$ 894,098	\$ 500,172	\$ 393,926
Accrued severance pay (2)	166,652	-	166,652
Convertible note (3)	2,797,357	-	2,797,357
Other short and long term liabilities	864,271	300,559	563,712
Operating lease - cars	399,779	202,381	197,398
Purchase obligation for service and inventory	673,645	673,645	-
Facilities lease	116,156	112,188	3,968
Total	\$ 5,911,958	\$ 1,788,945	\$ 4,123,013

- (1) Does not include interest. For information on interest rate on long terms loans see note 12 to the Consolidated Financial Statements for the year ended December 31, 2010.
- (2) The time for payment of the severance cannot be predicted.
- (3) Doesn't include a discount related to warrants compensation in a depreciated amount of \$336,982.

As of December 31, 2010 and 2009, we had a total liability of \$395,000 and \$354,000, respectively for uncertain tax positions.

The above table does not include: (i) contingent obligations to pay royalties to the Office of the Chief Scientist and to the Fund for the Encouragement of Export, since the total amount to be paid under the terms of those agreements is a function of future sales, and (ii) contingent legal claims (see "Section 8A. Consolidated Statements and Other Financial Information - Legal Proceedings").

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. Edouard Cukierman ¹	46	Chairman of the Board of Directors
Mr. Yuval Viner	48	Chief Executive Officer
Mr. Avidan Zelicovsky ¹	41	President
Mr. Eyal Cohen	42	Chief Financial Officer
Mr. Guillaume Binder	56	Director
Mr. Joel Adler	57	Director
Mr. Gérard Limat	70	Director
Mr. Ronen Zavlik (*)	50	Director
Mr. Luis Gutierrez Roy	40	Director
Ms. Nelly Assouline (*)	45	External Director
Mr. David Golan (*)	70	External Director

(*) Member of our Audit Committee.

Mr. Edouard Cukierman has been a director since May 2003 and Chairman of the Company since June 2003. Mr. Cukierman is the founder and CEO of Catalyst Funds and serves as Chairman of Cukierman & Co Investment House. Since its establishment in 1993 Cukierman & Co., Investment House realized €3 billion of corporate finance transactions. Mr. Cukierman is a Board member of Lamina Technologies in Switzerland and Mainsoft in Israel. Prior to managing Catalyst in 2000, he was the President and CEO of the Astra Technological Investments, a venture capital fund established in 1993, which was the first Israeli company which went public in continental Europe. He is also the Chairman of the Board of "Friends of Sar-El", an Israeli Defense Forces volunteer organization and is a board member of the "Alliance Israelite Universelle en Israel". He serves as an officer in the Israeli Defense Forces Spokesman Unit and is part of the Hostage & Crisis Negotiation Team (Reserves). Mr. Cukierman holds an MBA from INSEAD, Fontainebleau, France and a B.Sc from the Technion - Israel Institute of Technology.

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.

¹ Mr. Cukierman and Mr. Zelicovsky are first cousins. There are no other family relationships among the officers and directors.

Mr. Joel Adler has been a director since June 2005. Mr. Adler is a partner in Mishcon de Reya a leading law firm in London. He specializes in mergers & acquisitions and corporate finance work, in particular international corporate transactions. Mr. Adler advises a number of major Israel based companies on their business activities in the UK and Europe and on IPO of foreign companies on the London Stock Exchange (AIM). Mr. Adler joined Mishcon de Reya as a partner in 2006, from the London law firm of Speechly Bircham, where he was a partner from 1999. Previously, Mr. Adler was head of the corporate department of Rakisons (now part of U.S. law firm Steptoe & Johnson). He gained his experience with other leading law firms in London Herbert Oppenheimer Nathan & Vandyck (now Denton Wilde Sapte) and DJ Freeman. He is a member of the Israeli Bar and worked for the well-known Israeli law firm Caspi & Co. for two years. Mr. Adler holds a Law degree from Bar Ilan University in Israel, and an LLM from London University. He was born and educated in Vienna.

Mr. Ronen Zavlik has been a director since May 2003. He is a partner in the CPA firm of Grinberg-Zavlik, which he founded in 1987. His firm provides a wide range of audit, tax consultancy and CFO services to a wide variety of companies. Mr. Zavlik provides internal auditing services to a number of large companies whose shares are traded on the Tel-Aviv Stock Exchange, including Ma'ariv Holdings Ltd., Extra Plastic Ltd., Rapid Vision Ltd., Hachsharat Hayishuv Hotels Ltd., Danshar (1963) Ltd., Elad Europe Ltd., Orad (Hai) Investments and Holdings Ltd. Mr. Zavlik holds a B.A. in Accountancy and Business Management from the College of Management in Tel-Aviv. Mr. Zavlik holds an accounting license in Israel, is a certified internal auditor in the United States and a member of the Institute of Certified Public Accountants in Israel.

Mr. Gérard Limat has been a director of the Company since April 2008. Since 1968, Mr. Limat has held various managerial positions with the Dassault group, which operates in the civil aviation and the military sectors. Mr. Limat is also the founder and Chief Executive Officer of Dasnair, a business plane charter company. In addition, Mr. Limat serves as a director in Générale Immobilière Dassault and in Cendres & Métaux SA, a company that produces semi-finished and finished products for the dental, jewellery and heavy industries. Mr. Limat is a certified public accountant.

Mr. Guillaume Binder has been a director of the Company since July 2008. Mr. Binder is a licensed lawyer in France and holds a Masters in Law from Paris University, a certificate of specialization in Corporate and Tax Law and a degree of superior accounting study (DECS). Mr. Binder serves as a director in several seed and startup companies, including First Care products and Neuronix.

Mr. Luis Gutierrez Roy has been a director of the Company since October 2010. Mr. Gutierrez Roy has been a managing partner at Telegraph Hill Capital Fund I, LLC 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, and head of 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 the Barcelona Stock Exchange, where he started his professional career in 1993. Mr. Gutierrez Roy has 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.

Ms. Nelly Assouline has been an external director of the Company since November 2008. Ms. Assouline has been holding various positions in Dexia since 1989, and in 2010 joined BNP Paribas as a Senior Banker in Israel. Between the years 2001-2007 she has served as Deputy General Manager and Chief Financial Officer of Dexia Israel. She has set up and served as a board member of Dexia Israel Issuance Ltd. and of Dexia Operational Financing Ltd. Between the years 1989 and 2001 she was the senior executive funding director - Financial Markets in the Dexia Funding Department. Ms. Assouline holds a Post Graduate degree in Mathematics and Finance from the Dauphine University and an International Executive MBA from the Kellogg University of Management (Northwestern and Tel-Aviv University).

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 bachelors 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.

6B. Board and Executive Compensation

On February 18, 2003 the shareholders approved compensation for all directors who are not employees or consultants, including directors appointed in the future, at the same rate the external directors of the Company are paid. However, on August 5, 2004, the shareholders approved an exception - that Edouard Cukierman, Chairman of the Board, will receive remuneration (retroactively from the date of his nomination in May 2003) as a Board member, under the same terms as all other directors, despite his being (indirectly) a controlling shareholder and senior executive of Cukierman & Co. (a service provider to the Company). On November 7, 2007 the shareholders approved an Active Chairman Agreement with Mr. Edouard Cukierman. Pursuant to this Agreement, in consideration for Mr. Cukierman's services as the Company's Active Chairman in the years 2007-2010, he is granted 80,000 options to purchase the Company's ordinary shares in four equal annual tranches (pro-rated for any part of the calendar year). This consideration is in lieu of any compensation, fees or options otherwise payable by the Company to Cukierman as a director.

In March 2011, the Company's Audit Committee and Board of Directors approved a new Active Chairman Agreement with Mr. Cukierman for services in the years 2011-2014. The Agreement, which is subject to shareholders' approval, provides that Mr. Cukierman shall be granted options to purchase 89,440 ordinary shares (subject to vesting in 16 quarterly installments) and a monthly cash fee of \$5,000. (see "Section 7B. Related Party Transactions").

In May 2011, the Company's Audit Committee and Board of Directors approved a grant of options to the Company's senior management in respect of their service with the Company during the years 2011-2015. Each of Avidan Zelicovsky (President) and Yuval Cohen (CEO) were granted 92,000 options and Eyal Cohen (CFO) was granted 61,333 options. The options' exercise price is \$2 per ordinary share, they are exercisable through March 2016, and are subject to a quarterly vesting schedule of 5 calendar years, commencing January 1, 2011.

The current compensation rates for our directors, excluding the external directors, are an annual fee of approximately \$7,744 and a meeting participation fee of approximately \$400. These rates reflect a voluntary waiver by each of the non-external directors of 15% of their fees for the year 2010. The rates for our external directors are an annual fee of approximately \$8,167 and a participation fee in meetings of approximately \$520. Additionally, the Company's directors are granted options (see "Section 6E. Share Ownership"). The Company does not have any contracts with any of its non employee/consultant directors, that would provide for benefits upon termination of service.

The following tables present 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, 2010:

	Salaries, Directors' fees, Service fees, Commissions and Bonus ¹	Pension, Retirement and Similar benefits
All directors and officers as a group (then 12 persons)	\$904,027	\$127,818

¹ Includes consulting and other fees paid to Cukierman & Co., of which Mr. Edouard Cukierman, the Company's Chairman, is (indirectly) a controlling shareholder and Stock based compensation in the amount of \$168,548.

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.

6C. Board Practices

Directors:

Our Board of Directors is currently comprised of eight directors, including two external directors. The directors are elected at the annual shareholders meeting, by a simple majority, to serve until the next annual meeting of our shareholders and until their respective successors are elected and qualified, with the exception of the external directors who, 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. Adler, Zavlik, Binder, Limat, Gutierrez Roy, Golan and Ms. Assouline, who constitute a majority of the Board of Directors, are independent directors under the applicable Nasdaq Stock Market requirements.

Under the Israeli Companies Law and the regulations promulgated pursuant thereto, Israeli companies whose shares have been offered to the public, or that are publicly traded, are required to appoint at least two natural persons as "external directors". No person may be appointed as an external director if the person, or a relative, partner or employer of the person, or any entity under the person's control, has or had, on or within the two years preceding the date of the person's appointment to serve as an external director, any affiliation with the company to whose board the external director is proposed to be appointed or with any entity controlling or controlled by such company or by the entity controlling such company. The term "affiliation" includes an employment relationship, a business or professional relationship maintained on a regular basis, control and service as an office holder (which term includes a director).

In addition, no person may serve as an external director if the person's position or other business activities create, or may create, a conflict of interest with the person's responsibilities as an external director or interfere with the person's ability to serve as an external director or if the person is an employee of the Israel Securities Authority or of an Israeli stock exchange. If at the time of election of an external director, all other directors are of the same gender, the external director to be elected must be of the other gender. The external directors must have professional qualifications to serve as directors. At least one of the external directors must be a financial expert.

In March 2011, the Israeli Parliament adopted Amendment No. 16 to the Israeli Companies Law, or the Companies Law Amendment. The Companies Law Amendment, *inter alia*, enhanced the independence requirements of external directors. See "Companies Law Amendment (March 2011)" below.

Up until recently, external directors were elected for a term of three years and were entitled to be re-elected for *one* additional three-year term. The Companies Law Amendment now allows for the initial three-year term of service to be extended, at the election of the company subject to certain conditions, by *two* additional three-year terms. See "Companies Law Amendment (March 2011)" below.

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 must include all external directors.

Up until recently, external directors were elected at the general meeting of shareholders by a simple majority, provided that the majority includes at least one-third of the shareholders who are not controlling shareholders, who are present and voting, or that the non-controlling shareholders who vote against the election hold one percent or less of the voting power of the company. The Companies Law Amendment increased the majority requirement that would be applicable for future election of external directors. See "Companies Law Amendment (March 2011)" below.

Under the Israeli Companies Law an external director cannot be dismissed from office unless: (i) the Board of Directors determines that the external director no longer meets the statutory requirements for holding the office, or that the external director is in breach of the external director's fiduciary duties and the shareholders vote, by the same majority required for the appointment, to remove the external director after the external director has been given the opportunity to present his or her position; (ii) a court determines, upon a request of a director or a shareholder, that the external director no longer meets the statutory requirements of an external director or that the external director is in breach of his or her fiduciary duties to the company; or (iii) a court determines, upon a request of the company or a director, shareholder or creditor of the company, that the external director is unable to fulfill his or her duty or has been convicted of specified crimes.

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.

Audit Committee:

The Israeli Companies Law requires public companies to appoint an audit committee comprised of at least three directors, including all of the external directors, and further stipulates that the chairman of the Board of Directors, any director employed by or providing other services to a company and a controlling shareholder or any relative of a controlling shareholder may not be members of the audit committee. The responsibilities of the audit committee include identifying flaws in the management of a company's business, making recommendations to the Board of Directors as to how to correct them and deciding whether to approve actions or transactions which by law require audit committee approval. An audit committee may not approve an action or transaction with a controlling shareholder or with an office holder unless at the time of approval two external directors are serving as members of the audit committee and at least one participated in the meeting at which the action or transaction was approved.

In order to comply with the Sarbanes-Oxley Act of 2002, the Board of Directors has expanded the role of the Company's Audit Committee to provide assistance to the Board of Directors in fulfilling its legal and fiduciary obligations with respect to matters involving the accounting, auditing, financial reporting and internal control functions of the Company. In carrying out these duties, the Audit Committee must meet at least once in each fiscal quarter with management at which time, among other things, it reviews, and either approves or disapproves, the financial statements of the Company for the immediately preceding fiscal quarter and conveys its conclusions in this regard to the Board of Directors. The Audit Committee also monitors generally the services provided by the Company's external auditors to ensure their independence, and reviews, and either approves or disapproves, all audit and non-audit services provided by them. The Company's external and internal auditors must also report regularly to the Audit Committee at its meetings, and the Audit Committee discusses with the Company's external auditors the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the Company's financial statements, as and when it deems it appropriate to do so.

Under the Sarbanes-Oxley Act of 2002, the Audit Committee is also 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.

In 2003 the Company adopted an Audit Committee Charter, which sets forth the responsibilities of the committee.

The Companies Law Amendment added certain additional functions to the audit committee. See "Companies Law Amendment (March 2011)" below.

Remuneration Committee:

The role of the Remuneration Committee is to provide assistance and make recommendations to the Board of Directors regarding matters related to the compensation of employees of the Company. The Remuneration Committee of the Company is formed and meets on an ad hoc basis. Under the Israeli Companies Law, in respect of the grant of options, the Remuneration Committee may only make recommendations to the Board of Directors (and in some cases, such grants may need approval of the audit committee, the Board of Directors and the shareholders as well).

In accordance with Nasdaq rules, the compensation of the Company's Chief Executive Officer and other executive officers is recommended to the Board of Directors by a majority of the Company's independent directors.

Companies Law Amendment (March 2011)

The Israeli Parliament has recently adopted an amendment to the Companies Law which implements a comprehensive reform in corporate governance in Israel. Most of the provisions of the Companies Law Amendment have become effective on May 14, 2011.

A summary of the principal changes introduced by the Companies Law Amendment is set forth below:

- **Audit Committee.** A majority of the Audit Committee must be comprised of "independent directors" (as defined in the Companies Law); any person regularly engaged by or rendering services to a controlling shareholder may not serve on the Audit Committee.

The functions to be performed by the audit committee were expanded to include, *inter alia*, the following: determination whether certain related party actions and transactions are "material" or "extraordinary" in connection with their approval procedures, to assess the scope of work and compensation of the company's independent accountant, to assess the company's internal audit system and the performance of its internal auditor and to set whistle blower procedures (including in respect of the protections afforded to whistle blowers);

- **External Directors.** The initial three-year term of service of External Directors can be extended, at the election of the company subject to certain conditions, by two additional three-year terms. External Directors must 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 (instead of one-third, before the amendment) 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 (instead of one percent, before the amendment) of the aggregate voting rights in the company.

Furthermore, 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 (which was the only available way to re-elect external directors prior to the adoption of this amendment), or (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;

The independence requirements of External Directors were enhanced such that 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; in addition, 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.

- Extraordinary Transactions with a Controlling Shareholder. Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and agreements relating to employment and compensation of a controlling shareholder, require shareholders' approval that shall either include at least one-half (instead of one-third, before the amendment) of the shares held by disinterested shareholders participating in the vote, or, alternatively, the total shareholdings of disinterested shareholders voting against the transaction must not represent more than two percent (instead of one percent, before the amendment) of the voting rights: Agreements with a controlling shareholder relating to engagement or provision of services for a period exceeding three years, must generally be approved once every three years.
- Code of Corporate Conduct. A code of recommended corporate governance practices has been attached to the Companies Law Amendment.
- Fines. The Israeli Securities Authority shall be authorized to impose fines on any person or company breaching certain provisions designated under the Companies Law Amendment.
- CEO and Chairman. A higher shareholder approval threshold was adopted to permit a chief executive officer to also serve as chairman of the board and for the chairman of the board to serve as the CEO, and a prohibition was adopted on the chairman's ability to serve the company in any capacity other than as the chief executive officer.
- Officers' employment. The terms of employment of an officer now require the approval of the audit committee as well as the board of directors.
- Tender offers: With respect to full tender offers (tender offers for the acquisition of all outstanding shares in a company), the time-frame for a shareholder to a request appraisal rights with respect to the tender offer was extended from three to six months following the consummation of a the tender, but it is now permitted for the acquirer to stipulate in the offer that any shareholder tendering his shares will not be entitled to appraisal rights.

6D. Employees

As of December 31, 2010, we employed 92 employees. As of April 30, 2011, we employed 96 employees, all of them in Israel. Of these 96 employees: 13 employees are in general and administrative positions, 21 employees in marketing and sales, 8 employees in research and development, 4 employees in project implementation, and 50 employees 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. The laws principally concern the length of the work day, minimum daily wages for professional workers, contributions to a pension fund, insurance for work-related accidents, allotment of vacation and sickness days, procedures for dismissing employees, determination of severance pay and other conditions of employment.

All Israeli employers are required to provide a certain escalation of wages in relation to the increase in the Israeli Consumer Price Index. The specific formula of such escalation varies according to agreements reached between the Government of Israel, the Manufacturers' Association and the Histadrut, the general labor union in Israel. 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.

In December 2008 and in May 2009, we effected a progressive reduction in the salaries of the employees of the Company and its subsidiaries of up to 15%, depending on the level of salary. In connection with such reduction, in May 2009, the Company granted its employees a total of 107,751 options to purchase ordinary shares of the Company with exercise price of \$0.00 per ordinary share. The options vested on a quarterly basis starting from January 2009 over a period of four quarters, in four equal parts and are now fully vested. The exercise period of the options is 5 years from January 1, 2009.

In addition, in May 2009, the Company's employees were granted a total of 109,034 options to purchase the Company's ordinary shares, as a prospective incentive. The exercise price of these options is \$5.00 per ordinary share. These options vest on a yearly basis starting from January 2009 over a period of four years, in four equal parts. The exercise period of the options is 5 years from January 1, 2009.

6E. Share Ownership

As of May 31, 2011, shares and options held by our officers and directors, then consisting of 11 persons, are as follows:

Name	Position	Shares	Options
Mr. Edouard Cukierman ¹	Chairman of the Board of Directors	8,139	95,592
Mr. Joel Adler ²	Director	28,185	4,300
Mr. Avidan Zelicovsky ³	President	14,600	177,876
Mr. Yuval Viner ⁴	Chief Executive Officer	8,597	133,242
Mr. Eyal Cohen ⁵	Chief Financial Officer	-	88,585
Mr. Luis Gutierrez Roy ⁶	Director	96,362	14,400
Other directors and officers		-	14,400

- 1 Mr. Edouard Cukierman held 4,334 ordinary shares directly, 1,285 ordinary shares through a wholly owned company, E.D.I European Development and Investments Ltd. and an additional 2,520 ordinary shares through Cukierman & Co. Investment House that is indirectly controlled by Mr. Cukierman. Does not include shares as to which Mr. Cukierman may be deemed to share beneficial ownership. See Section 7A: Major Shareholders. Does not include options pursuant to the new Active Chairman Agreement, that is subject to shareholders' approval. See Section 7B: Related Party Transactions.
- 2 Brada Investments Limited is a discretionary trust of which Mr. Joel Adler, a director of the Company, is one of the beneficiaries. Brada Investments Limited holds 28,185 ordinary shares. Mr. Joel Adler holds 4,300 options, which he received as a director.
- 3 Does not include 1,077 ordinary shares of the Company underlying a convertible loan extended by Avidan Zelicovsky and 1,077 ordinary shares underlying a warrant granted to Avidan Zelicovsky in connection with the convertible loan. The warrants are exercisable during a period of 18 months commencing February 2011.
- 4 Does not include 1,077 ordinary shares of the Company underlying a convertible loan extended by Yuval Viner and 1,077 ordinary shares underlying a warrant granted to Yuval Viner in connection with the convertible loan, exercisable during a period of 18 months commencing February 2011.
- 5 Does not include 308 ordinary shares of the Company underlying a convertible loan extended by Eyal Cohen and 308 ordinary shares underlying a warrant granted to Eyal Cohen in connection with the convertible loan, exercisable during a period of 18 months commencing February 2011.
- 6 Securities are held by Telegraph Hill Capital Fund I, LLC. Does not include 61,539 ordinary shares of the Company underlying a convertible loan extended by Telegraph Hill Capital Fund I, LLC and 61,539 ordinary shares underlying a warrant granted to Telegraph Hill Capital Fund I, LLC in connection with the convertible loan, exercisable during a period of 18 months commencing February 2011. 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.

On February 18, 2003 the Company's shareholders approved the grant of 1,500 options to any future first-time director, who is not an employee or paid consultant of the Company. The terms and conditions of the grant, as approved by the shareholders, are as follows: the exercise price shall be \$9.20; the options will vest over a three year period from the date of grant (one-third vesting every year) and be exercisable within five years from the date of grant. Due to share fluctuation, at the recommendation of the Board of Directors, the shareholders resolved, on August 5, 2004, that future issuances to new directors will have an exercise price equal to the average closing price of the shares on the Nasdaq Market on the 20 trading days preceding their appointment.

The shareholders approved, on August 5, 2004, that Edouard Cukierman, Chairman of the Board, will be granted 1,500 options under the same terms as all other directors, despite his being (indirectly) a controlling shareholder and senior executive of Cukierman & Co. (a service provider to the Company), and therefore not eligible for options according to the February 18, 2003 shareholders resolution.

The shareholders also approved, on June 29, 2005, to grant all directors of the Company (including external directors), who are not employees or consultants of the Company (or who have been granted options similar to all directors despite their employment and/or services), an additional 1,500 options to purchase ordinary shares of the Company on the third anniversary of their service as directors, under the same terms approved by the shareholders on February 18, 2003 and as amended on August 5, 2004. Following this decision Edouard Cukierman was granted 1,500 options at an exercise price of \$13.475.

On May 18, 2006 and in November 2007 the shareholders approved to grant Mr. Edouard Cukierman, a total of 4,334 ordinary shares (for no consideration), and 126,776 options to purchase ordinary shares of the Company, pursuant to the Company's 2003 Israeli Share Option Plan. (see "Section 7B. Related Party Transactions")

On May 14, 2009 the shareholders approved the grant to each of the directors of the Company (excluding the external directors and Mr. Edouard Cukierman) 2,800 options to purchase the Company's ordinary shares in accordance with the Company's 2003 Israeli Share Option Plan. The terms and conditions of the grant, as approved by the shareholders, are as follows: the exercise price shall be \$5.00; the options will vest over a four year period from May 14, 2009, in four equal parts and be exercisable within five years from the date of grant.

Share Option Plans

The purpose of the 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 will expire 10 years after their adoption, unless terminated earlier by the Board of Directors.

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.

Under the Share Option Plans, 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 Section 102 Share Options Plans are designed to afford qualified optionees certain tax benefits under the Israel Income Tax Ordinance.

2003 Plan

In May 2003 the Company's shareholders approved the adoption of the 2003 Israeli Stock Option Plan, pursuant to which 125,000 ordinary shares were reserved for purchase by the employees, directors, consultants and service providers of the Company and its subsidiaries. Subsequently, the shareholders approved increases of the shares reserved for issuance under the 2003 Plan, initially to 200,000, and thereafter to 300,000, to 520,000 and in May 14, 2009 to 830,000. The Board of Directors has resolved that no further grants shall be made under previous plans. The Company has elected to designate the 2003 Plan as providing benefits available under the "capital gains" alternative. 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 Section 102, 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 May 31, 2011 we had 721,720 options outstanding under this plan (of which 417,334 are exercisable) with the exercise prices as set forth below:

Exercise Price Per Share \$	Outstanding
Less than \$0.02	80,261
\$ 2.00	245,333
\$ 2.478	1,500
\$ 2.50	20,000
\$ 2.75	14,400
\$ 3.05	6,000
\$ 3.485	1,500
\$ 5.0	100,840
\$ 5.891	50,000
\$ 7.33	1,500
\$ 7.495	1,500
\$ 8.40	20,000
\$ 8.565	1,500
\$ 11.925	80,000
\$ 12.60	63,720
\$ 13.40	28,066
\$ 15.00	5,600
Total	721,720

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 May 31, 2011, 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 2,757,276 shares outstanding as of May 31, 2011.

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			Percent
	Outstanding Shares	Warrant and Convertible Debt Shares (2)	Total Shares	
Catalyst Investments (1) 3 Daniel Frisch Street, Tel-Aviv 64731, Israel	423,452	380,336	803,788	25.62%
SITA S.A. (3) 27, RTE DE GY 1252 Meinier, Geneva, Switzerland	175,734	345,724	521,458	16.80%
Bellite Pty Limited (4) 7 Beresford Road, Rose Bay 2029, NSW, Australia	163,266	230,770	394,036	13.19%
Dimex Systems (1988) Ltd. (5) 3 Tvuot Ha'aretz Street, Tel Aviv 69546, Israel	91,449	583,732	675,181	20.21%
Telegraph Hill Capital Fund I, LLC (6)	96,362	137,478	233,840	8.08%
Mr. Mehra Ashim	214,797		214,797	7.79%

- (1) Catalyst Investments L.P. is the general partner of Catalyst Fund L.P., Catalyst Fund II L.P. and Catalyst Fund III, L.P., all of which are limited partnerships organized and existing under the laws of the State of Israel. Recently, the Catalyst Funds were dissolved and the Company's shares are held by Catalyst Investments on behalf of the limited partners of the funds.

Mr. Edouard Cukierman may be deemed to have sole voting and dispositive power with respect to shares held by Catalyst Investments. Mr. Cukierman disclaims beneficial ownership in such shares, except to the extent of his proportionate interest in them as an indirect shareholder in Catalyst Investments.

Includes 163,077 shares underlying a convertible loan extended by Catalyst Private Equity Partners (Israel) II L.P. ("Catalyst Private Equity"), an Israeli limited partnership whose general partner is Catalyst Investments II L.P. In addition, includes 163,077 ordinary shares underlying a warrant granted to Catalyst Private Equity as part of the convertible loan, exercisable during a period of 18 months commencing February 2011.

Mr. Edouard Cukierman may be deemed to have voting and dispositive power with respect to shares held by Catalyst Private Equity. Mr. Cukierman disclaims beneficial ownership in such shares except to the extent of his proportionate interest in them as an indirect shareholder in the general partner of Catalyst Investment II.

- (2) Shares issuable upon exercise of warrants or upon conversion of convertible debt that may be exercised or converted within 60 days following the date of this report.
- (3) Mr. Gérard Limat, a member of our board of directors, is the Chairman of SITA SA and may be deemed to have sole voting and dispositive power with respect to the shares held by SITA SA.
- (4) Mr. Les Szekely may be deemed to have sole voting and dispositive power with respect to the shares held by Bellite Pty Limited.
- (5) Ms. Gabriela Jacobs may be deemed to have sole voting and dispositive power with respect to the shares held by Dimex Systems.
- (6) Messrs. Luis Gutierrez Roy and Clarence Wesley may be deemed to have shared voting and dispositive power with respect to the shares held by Telegraph Hill Capital Fund I, LLC.

The changes in holdings (excluding warrants and convertible loans) 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, 2008	December 31, 2009	December 31, 2010	May 31, 2011
Catalyst Investments	423,451	423,451	423,451	423,451
D.S. Apex Holdings Ltd.	270,994	270,994	-	-
SITA	175,734	175,734	175,734	175,734
Bellite Pty Limited	163,266	163,266	163,266	163,266
Mr. Mehra Ashim	-	-	-	214,797

As of May 31, 2011, there were 43 record holders of ordinary shares, of which 11 were registered with addresses in the United States, representing approximately 52% 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 and to Mr. Cukierman

On November 7, 2007 the shareholders approved an Active Chairman Agreement with Mr. Edouard Cukierman. Pursuant to this Agreement, in consideration for Mr. Cukierman's services as the Company's Active Chairman in the years 2007-2010, he shall be granted 80,000 options in four equal annual tranches (pro-rated for any part of the Calendar year). The options shall be in lieu of any compensation, fees or options otherwise payable by the Company to Mr. Cukierman as a director.

The options shall vest on a quarterly basis. The exercise price of the options is \$11.925, which was equal to the weighted average of the closing prices of the Company's ordinary shares on the Nasdaq Global Market during the thirty-day period preceding the shareholders approval. Unexercised options shall expire after five years from their respective grant date.

In March 2011, the Company's Audit Committee and the Board of Directors approved a new Active Chairman Agreement with Mr. Edouard Cukierman. Pursuant to this Agreement, which is still subject to the shareholders' approval, in consideration for Mr. Cukierman's services as the Company's Active Chairman in the years 2011-2014, he shall be granted options to purchase 89,440 ordinary shares, and paid a monthly cash payment of \$5,000 (Five Thousand Dollars), plus VAT at the prevailing rate. Payment of the cash fee shall be made each month in respect of the previous month of service, except that no cash fees shall be paid prior to or in the absence of shareholders approval and, subject to such approval, the cash fees shall be paid retroactively to January 2011. The options and the cash fee shall be in lieu of any compensation, fees or options otherwise payable by the Company to Mr. Cukierman as a director.

The exercise price of the options shall be equal to 110% of the weighted average of the closing prices of the Company's ordinary shares on the Nasdaq Capital Market, during the thirty-day period preceding the date of approval of the Agreement by the Company's shareholders.

The options shall vest and become exercisable in 16 equal quarterly installments of 5,590 options each. The first three installments shall vest immediately following the shareholders approval, the fourth installment shall vest on December 31, 2011, and any additional installment shall vest at the end of each subsequent calendar month, provided that in each case, Mr. Edouard Cukierman shall hold his position as Chairman of the Board at the applicable vesting date.

Pursuant to the Agreement, if the Service is terminated by the Company for no Cause (as defined in the Agreement) 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 (24) months following the termination.

In 2003, the Company's audit committee and Board approved the engagement of 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, he serves 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, the Company's largest shareholder. For its services, Cukierman & Co. is paid a monthly sum of \$10,000 plus VAT (from February 9, 2009 until December 31, 2010, 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. According to its terms, the Company may terminate the Services Agreement at any time, by giving one month prior written notice. The Services Agreement provided that the success fees for securing M&A transactions shall be discussed and drafted as an Addendum to the Services Agreement. Such an Addendum was approved on August 22, 2004, and it provides for a success fee of 3.5% of the proceeds exchanged in such a transaction.

The Services Agreement also provided that the success fees for securing Business Development Services shall be discussed and drafted as an additional Addendum to the Services Agreement. Such an Addendum was approved by the Audit Committee and Board of Directors, in May 2010, and it provides 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.

For payments the Company paid and accrued pursuant to the Services Agreement in year 2010 see Note 19 to the Consolidated Financial Statements for the year ended December 31, 2010.

Management Agreement with Shalom Daskal and N-D-P Consulting Ltd.

Starting from November 2008 until October 2009, Mr. Shalom Daskal provided the Company with CEO services through a management agreement by and among the Company, Shalom Daskal and N-D-P Consulting Ltd. In addition, Mr. Daskal received 80,000 options to purchase the Company's ordinary shares, in connection with his service as a director in the Company's subsidiaries. The terms of the options are as follows: (1) options to purchase 30,000 ordinary shares, which have an exercise price of NIS 0.05 per ordinary Share and vest and become exercisable in 3 equal semi-annual installments of 10,000 options each, with the first installment vesting upon the lapse of 6 months from November 19, 2008. (2) Options to purchase up to 50,000 ordinary shares, which have an exercise price equal to NIS 20.00. These options vest and become exercisable in 10 equal quarterly installments of 5,000 options each, with the first installment vesting in March 30, 2009 and thereafter upon the lapse of every 4 months.

In May 2009, Mr. Daskal was granted an additional 38,967 options to purchase the Company's ordinary shares. The terms of the options are as follows: (a) 12,567 options to purchase ordinary shares, with an exercise price of \$0.00 per ordinary share. The options vest on a quarterly basis starting from January 2009 over a period of four quarters, in four equal parts. The exercise period of these options is 5 years from the commencement of vesting; (b) 26,400 options to purchase ordinary shares, with an exercise price of \$5.00 per ordinary share. These options vest on a yearly basis starting from January 2009 over a period of four years, in four equal parts. The exercise period of these options is 5 years from the commencement of the vesting.

On October 20, 2009, Shalom Daskal has ceased to serve as the Chief Executive Officer of the Company. In November 2009, as part of a separation agreement between the Company and Shalom Daskal, the Company repaid to Mr. Daskal \$50,000 of convertible loan he had previously extended to it. As of April 30, 2011, Mr. Daskal holds 50,000 options to purchase the Company's ordinary shares.

August 2009 Private Placement

In August 2009, the Company closed a \$2.4 million Convertible Loan Financing with several lenders including Catalyst Private Equity Partners (Israel) II L.P (For more details on the aforementioned loan financing see "Section 5B-Liquidity and Capital Resources"). In connection with certain lenders participating in this transaction, BOS paid \$40,000 to Cukierman & Co., equaling 6% of the investment amount, as placement fees. Placement fees in respect of Catalyst and SITA, in amount of \$61,800 were credited to the accounts of these lenders.

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.

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 continued operations from sales out of Israel has been as follows:

Year	Export revenues	% of all revenues
2010	\$5,635,000	19%
2009	\$3,112,000	12%
2008	\$5,565,000	16%

Legal Proceedings

In November 2008, Blockshtil Ltd. filed a claim in the Petach-Tikva Magistrate Court alleging breach of contract by the Company and seeking damages in the amount of NIS 149,000 (approximately \$42,000). The Company's financial statements include a provision in this respect.

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 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".

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 1:5 reverse share split effected on January 12, 2010.

Period	High (\$)	Low (\$)
Annual Information		
2006 Annual	14.85	10.55
2007 Annual	14.50	9.50
2008 Annual	10.25	1.15
2009 Annual	3.30	1.10
2010 Annual	3.30	0.77
Quarterly Information (2009)		
First Quarter	3.20	1.10
Second Quarter	3.30	1.95
Third Quarter	2.45	1.75
Fourth Quarter	2.20	1.25
December	1.80	1.25
Quarterly Information (2010)		
First Quarter	1.45	1.12
Second Quarter	1.43	0.93
Third Quarter	3.30	0.77
Fourth Quarter	3.10	1.35
December	1.77	1.35
Monthly Information (2011)		
January	1.70	1.45
February	1.82	1.36
March	2.68	1.57
April	3.52	2.78
May	3.15	2.79
June (until June 29)	2.94	1.90

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 Article 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, filed as exhibits 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.

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.

The Israeli Companies Law codifies the fiduciary duties that an Office Holder has towards the Company. An "Office Holder" is defined in the Israeli Companies Law as any Director, a general manager, chief business manager, vice general manager, any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title, or a manager directly subordinate to the general manager.

An Office Holder's fiduciary duties consist of a Duty of Loyalty and a Duty of Care.

The Duty of Loyalty includes: the avoidance of any conflict of interest between the Office Holder's position in the Company and his personal affairs; the avoidance of any competition with the Company; the avoidance of any exploitation of any business opportunity of the Company in order to receive personal advantage for himself or others; and a duty to reveal to the Company any documents or information relating to the Company's affairs that the Office Holder has received due to his position.

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 (1) information regarding the appropriateness of a given action brought for his approval or performed by him by virtue of his position and (2) all other information of importance pertaining to the foregoing actions.

Under the Israeli Companies Law, all arrangements with regard to the compensation of Office Holders who are not Directors require the approval of the Audit Committee and of the Board of Directors. Arrangements regarding the compensation of Directors require Audit Committee, Board and Shareholder approval.

The Companies Law requires that an Office Holder of a company promptly disclose to the company's Board of Directors any personal interest that he or she may have, and all related material information known to him in connection with any existing or proposed transaction by the company. This disclosure must be made by the Office Holder, whether orally or in writing, no later than the first meeting of the Company's Board of Directors, which discusses the particular transaction. An Office Holder is deemed to have a "personal interest" if he, certain members of his family, or a corporation in which he or any one of those family members is a 5% or greater shareholder or exercises or has the right to exercise control, has an interest in a transaction with the company. An "Extraordinary Transaction" is defined as a transaction - not in the ordinary course of business, not on market terms, or that is likely to have a material impact on the company's profitability, assets or liabilities.

In the case of a transaction that is not an Extraordinary Transaction, after the office holder complies with the above disclosure requirements, only board approval is required. The transaction must not be adverse to the company's interests. In the case of an Extraordinary Transaction, the company's Audit Committee and the Board of Directors, and, under certain circumstances, the shareholders of the company must approve the transaction, in addition to any approval stipulated by the Articles of Association. An Office Holder who has a personal interest in a matter that is considered at a meeting of the Board of Directors or the Audit Committee may not be present at this meeting or vote on this matter, unless a majority of the members of the Board of Directors or Audit Committee, respectively, have a personal interest in the matter, in which case they may all be present and vote, after which the matter must be approved by the shareholders of the Company. See also Section 6C: Board Practices.

(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 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.

(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 Section 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) Discriminaion

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).

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).

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 33⅓% of the voting rights (including presence through a proxy or a voting instrument), within half an hour of the time fixed for the meeting's commencement (Article 13.1). If no quorum is present at a general meeting within half an hour of the time fixed for the commencement thereof, the meeting shall be adjourned for one week, to the same day, time and place, or to a later time if stated in the invitation to the meeting or in the notice of the meeting (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 isn't 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.

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. These tender offer requirements do not apply to companies whose shares are listed for trading outside of Israel if, under local law or the rules of the stock exchange on which their shares are traded, there is a limitation on the percentage of control which may be acquired or the purchaser is required to make a tender offer to the public.

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 a 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. If 5% or more of the shares of the company are not tendered, the purchaser may not purchase shares in a manner which will grant him more than 90% of the shares of the company.

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*

All exchange control restrictions previously imposed by the State of Israel have been removed, although there are still reporting requirements for foreign currency transactions. Legislation remains in effect, however, pursuant to which currency controls can be imposed by administrative action at any time.

At this time, due to the removal of the restrictions, non-residents of Israel who purchase our ordinary shares will be able to convert any proceeds from the sale of these ordinary shares, as well as dividend and liquidation distributions, if any, into non-Israeli currency. There are no limitations on the Company's ability to import and export capital.

10E. *Taxation*

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

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

ISRAELI TAX CONSIDERATIONS

The following is a 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 publicly traded securities. Pursuant to changes made to the Israeli Income Tax Ordinance in January 2006, capital gains on the sale of our ordinary shares will be subject to Israeli capital gains tax, generally at a rate of 20% unless the holder holds 10% or more of our voting power during the 12 months preceding the sale, in which case it will be subject to a 25% capital gains tax. 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.

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 20%, which tax 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 25%.

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 20%. However, if the individual shareholder is a "Controlling Shareholder" such dividend will be taxed at the rate of 25%. Dividends paid on our ordinary shares to Israeli companies are exempt from such tax, except for dividends distributed from income derived outside of Israel, which are subject to the 25% tax rate.

An Israeli resident company whose shares are listed in a stock exchange is obligated to withhold tax, upon the distribution of a dividend. The following withholding tax rates will apply: (i) Israeli resident corporation – 0%, (ii) Israeli resident individual – 20% (iii) non-Israeli resident – 20%, subject to a reduced tax rate under an applicable double tax treaty.

General Corporate Tax Structure

Income derived by the Company is generally subject to the regular Israeli corporate tax rate.

Until December 31, 2003, the regular tax rate applicable to income of Israeli companies was 36%. In June 2004 and in July 2005, the “Knesset” (Israeli parliament) passed amendments to the Income Tax Ordinance (No. 140 and Temporary Provision), 2004 and (No. 147), 2005, respectively, which determined, among other things, that the corporate tax rate was to be gradually reduced to the following tax rates: 2006 - 31%, 2007 - 29%, 2008 - 27%, 2009 - 26% and 2010 - 25%.

In July 2009, the Knesset passed the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among others, an additional gradual reduction in the rates of the Israeli corporate tax and real capital gains tax starting 2011 to the following tax rates: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%.

Our effective corporate tax rate may substantially exceed the Israeli tax rate. Our US subsidiary will generally each be subject to applicable federal, state and local taxation. Because of the complexity of these local tax provisions, it is not possible to anticipate the actual combined effective corporate tax rate that will apply to us.

Tax Benefits and Grants for Research and Development

Israeli tax law allows, under certain conditions, a tax deduction in the year incurred for expenditures (including capital expenditures) in scientific research and development projects, if the expenditures are approved by the relevant Israeli government ministry, determined by the field of research, the research and development is for the promotion of the enterprise and is carried out by or on behalf of the company seeking such deduction.

In case the tax deduction, in the year research and development expenditures are incurred, is not approved by the relevant Israeli government ministry, the Company will be entitled for the tax deduction over a period of three years.

Special Provisions Relating to Taxation Under Inflationary Conditions

In February 2008, the Israeli legislator adopted an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting in 2008 and thereafter. Starting in 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Consumer Price Index carried out in the period up to December 31, 2007. The amended law includes, *inter alia*, the elimination of the inflationary additions and deductions and the additional deduction for depreciation starting in 2008.

UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

Subject to the limitations described herein, the following is a discussion of the material U.S. federal income tax consequences of the purchase, ownership and disposition of our ordinary shares to a U.S. holder. A U.S. holder is a beneficial owner of our ordinary shares who is:

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

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

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

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 all of which are subject 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, 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 or gift taxes or any aspect of state, local or non-U.S. tax laws.

Each holder of our ordinary shares is advised to consult his or her tax advisor with respect to the specific U.S. federal, state, local and foreign income tax consequences to him or her of purchasing, holding or disposing of our ordinary shares.

U.S. Holders of Ordinary Shares

Taxation of distributions on ordinary shares

Subject to the discussion below under “Tax consequences if we are a passive foreign investment company,” a distribution paid by us with respect to our ordinary shares, including the amount of any non-US 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 the rate applicable to long-term capital gains (currently a maximum rate of 15% for the taxable years beginning on or before December 31, 2012), provided that such dividends meet the requirements of “qualified dividend income.” 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. 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. 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 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 "Tax consequences if we are a passive foreign investment company" 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 tax basis in the ordinary shares. 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 are currently taxable at a maximum rate of 15% for taxable years beginning on or before December 31, 2012). Capital gain from the sale, exchange or other disposition of ordinary shares held for one year or less is short-term capital gain. 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.

Tax consequences if we are a passive foreign investment company

We will be a passive foreign investment company, or PFIC, for a taxable year if either (1) 75% or more of our gross income in a taxable year is passive income or (2) 50% or more of the value, determined on the basis of a quarterly average, of our assets in the taxable year produce, or are held for the production of, passive income. If we own (directly or indirectly) at least 25% by value of the stock of another corporation, we will be treated for purposes of the foregoing tests as owning our proportionate share of the other corporation's assets and as directly earning our proportionate share of the other corporation's income. Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions.

We believe that we were not a PFIC for our 2010 taxable year. Our status in the current and future taxable years will depend on our assets and income in those years. We have no reason to believe that our assets or income will change in a manner that would cause us to be classified as a PFIC. However, since the determination of whether we are a PFIC is based upon such factual matters as the valuation of our assets (which may depend upon our market capitalization, which is subject to fluctuation) and, in certain cases, the assets of companies held by us, there can be no assurance that we will not become a PFIC. If we were a PFIC, and you are a U.S. holder, you generally would be subject to imputed interest charges and other disadvantageous tax treatment with respect to any gain from the sale or exchange of, and certain distributions with respect to, your ordinary shares (including the denial of the taxation of such distributions and gains at the lower rates applicable to long-term capital gains as discussed above under "Taxation of distributions on ordinary shares" and "Taxation of the disposition of ordinary shares").

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

U.S. holders are urged to consult their tax advisors regarding the application of the PFIC rules, including eligibility for and the manner and advisability of making certain elections with respect to our PFIC status.

Information reporting and backup withholding

A U.S. holder generally is subject to information reporting and may be subject to backup withholding 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.

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.

10L. 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 do have purchased forward but do not use derivative financial instruments for speculative trading purposes.

Foreign currency exchange rate risk:

The results of operation and financial position of Dimex, whose functional currency is NIS, have been translated into U.S. dollars at the applicable exchange rate for inclusion in our consolidated financial statements, exposing us to currency translation risk.

In addition, we are exposed to currency transaction risk 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 devaluates against this currency, 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. The notional principal of foreign exchange contracts to purchase U.S. dollars with foreign currencies was \$1,500,000 on December 31, 2010. 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, the United States, Europe and the Far East. The Company generally does not require collateral, however, in certain circumstances, the Company may require letters of credit, guarantees, 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, 2010 and December 31, 2009:

	December 31	
	2010	2009
Americas	\$ 490,000	\$ 380,000
Europe	56,000	148,000
Far East	166,000	-
Israel and others	7,007,000	6,724,000
	<u>\$ 7,719,000</u>	<u>\$ 7,252,000</u>

Interest Rate Risk

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

A material change in interest pay on our loans may have an effect on the Company's financial results and cash flow.

Bank Risk

The Company manages its loans mainly in Bank Leumi, which provides credit to the Company and its 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 (d) 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. This Annual Report does not include an attestation report of our registered public accounting firm regarding the effectiveness of the Company's internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this Annual Report.

(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(e) and Rule 15d-15(e) 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, 2010. 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). Based on this assessment, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2010, 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.

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.

(c) 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, 2010, that have materially affected or are reasonably likely to materially affect these controls.

(d) Other.

The Company believes that a control system, no matter how well designed and operated, can not 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, 2010, that our disclosure controls and procedures were effective in achieving that level of reasonable assurance.

Item 16: Reserved

Item 16A: Audit Committee Financial Expert

The Company's Board of Directors has determined that Ms. Nelly Assouline, Mr. David Golan and Mr. Ronen Zavlik, all members of the audit committee, are "audit committee financial experts", as defined by the applicable SEC regulations. The experience of each is listed under Item 6A. All are "independent" under the applicable SEC and Nasdaq regulations.

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 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 2009 and 2010 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 2009 and 2010:

	<u>Year Ended December 31, 2010</u>		<u>Year Ended December 31, 2009</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Audit Fees	\$ 91,000	90%	\$ 75,000	93%
Tax Fees (1)	\$ 10,000	10%	\$ 6,000	7%
Total	\$ 101,000	100%	\$ 81,000	100%

(1) "Tax Fees" are fees for professional services rendered by the Company's auditors with respect to to annual tax reports.

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 2010.

Item 16F: Change in Registrant's Certifying Accountant

Not applicable.

Item 16G: Corporate Governance

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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The audited financial statements filed as part of this Form 20-F are identical to the audited financial statements that were furnished under Form 6-K on March 31, 2011.

Item 19: Exhibits

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

- 1.1 Memorandum of Association, as amended (incorporated by reference to the Company's Annual Report on Form 20-F filed on June 30, 2010).
- 1.2 Articles of Association, as amended (incorporated by reference to the Company's Annual Report on Form 20-F filed on June 30, 2010).
- 4.1 Form of Indemnification Agreement between the Company and its officers and directors, as amended (incorporated by reference to Exhibit 4.1 of the Company's Annual Report on Form 20-F filed with the SEC on June 28, 2006).
- 4.2 Services Agreement, dated as of April 15, 2003, between Cukierman & Co. Investment House Ltd., Dimex Solutions Ltd. and the Registrant (incorporated by reference to the Company's Annual Report on Form 20-F filed on June 17, 2004).
- 4.3 M&A Addendum to the Service Agreement, as of August 22, 2004, by and among Cukierman & Co. Investment House Ltd., Dimex Solutions Ltd. and the Registrant (incorporated by reference to the Company's Annual Report on Form 20-F filed on June 27, 2005).
- 4.4 Business Development Addendum to the Service Agreement, as of May 24, 2010, by and among Cukierman & Co. Investment House Ltd., BOS-Dimex Ltd., BOS-Odem Ltd. and the Registrant. (incorporated by reference to the Company's Annual Report on Form 20-F filed on June 30, 2010).
- 4.5 The Registrant's Israeli 2003 Share Option Plan (incorporated by reference to the Company's Registration Statement on Form S-8 No. 333-11650).
- 4.6 Asset Purchase Agreement dated as of the January 29, 2008 by and between Dimex Systems (1988) Ltd., Dimex Hagalil Ltd., and the Registrant (incorporated by reference to the Company's Annual Report on Form 20-F filed on June 30, 2008).
- 4.7 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).

- 4.8 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).
- 4.9 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).
- 4.10* 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); Credit Line Agreement by and between Bank Leumi Le-Israel Ltd. and BOS-Odem Ltd.; Credit Line Agreement by and between Bank Leumi Le-Israel Ltd. and BOS-Dimex Ltd.; EBIDTA Covenants Letter by and among Bank Leumi Le-Israel Ltd., B.O.S Better Online Solutions Ltd., BOS-Odem Ltd. and BOS-Dimex Ltd.; Tangible Equity Capital Covenants Letter by and between Bank Leumi Le-Israel Ltd. and BOS-Odem Ltd.; Tangible Equity Capital Covenants Letter by and between Bank Leumi Le-Israel Ltd. and BOS-Dimex Ltd.; Form of Subordination Letters of BOS-Dimex Ltd. and of BOS-Odem Ltd.; and B.O.S Better Online Solutions Ltd. Subordination Letter.
- 4.11 Form of 2009 Loan Agreement and Registration Rights Agreement by and among certain lenders and the Registrant. Form of Warrant issued by the Registrant to certain lenders. (incorporated by reference to the Company's Annual Report on Form 20-F filed on June 30, 2010).

- 4.12* Share Purchase Agreement dated as of October 4, 2010 between the Company and Telegraph Hill Capital Fund I, LLC.
- 8.1 List of subsidiaries (incorporated by reference to Item 4C of this Annual Report on Form 20-F).
- 11* Statement of Computation of Earnings Per Share.
- 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.
- 23.2* Consent of Arik Eshel, CPA & Assoc., PC

* 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
Yuval Viner
Chief Executive Officer

/s/ Eyal Cohen
Eyal Cohen
Chief Financial Officer

Date: June 30, 2011

B.O.S. BETTER ONLINE SOLUTIONS LTD.
AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2010
IN U.S. DOLLARS
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

B.O.S. BETTER ONLINE SOLUTIONS LTD.

We have audited the accompanying consolidated balance sheets of B.O.S Better Online Solutions Ltd. ("the Company") and its subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2010. 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 did not audit the 2009 and 2008 financial statements of BOS - Supply Chain Solutions (Lynk) Inc., a wholly-owned U.S. subsidiary, which statements reflected total assets constituting 19% and 9% of the consolidated totals at December in 2009 and 2008, respectively and total revenues constituting 0% and 0% of the related consolidated totals for 2009 and 2008, respectively of the related consolidated totals. These statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for BOS - Supply Chain Solutions (Lynk) Inc., is based solely on the report of the other auditors.

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 audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries at December 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

Tel-Aviv, Israel
March 31, 2011

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

ARIK ESHEL, CPA & ASSOC., PC
Certified Public Accountants and Consultants

Report of Independent Registered Public Accounting Firm

To the Board of Directors and

Stockholders of BOS - Supply Chain Solutions (Lynk) Inc.

We have audited the accompanying consolidated balance sheets of BOS - Supply Chain Solutions (Lynk) Inc. ("the Company") and its subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity (deficit), and cash flows for each of the years in the two-year period ended December 31, 2009. The Company's management is responsible for these financial statements. 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. The company is not required to have, nor were we engaged to perform, an audit of its 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BOS - Supply Chain Solutions (Lynk) Inc. and its subsidiaries as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

ARIK ESHEL, CPA & ASSOC., PC

New York, NY

March 29, 2010

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 703	\$ 564
Trade receivables (net of allowance for doubtful accounts of \$ 44 and \$ 92 at December 31, 2010 and 2009, respectively)	7,719	7,252
Available for sale securities (Note 6)	-	361
Other accounts receivable and prepaid expenses (Note 3)	1,183	914
Inventories (Note 5)	5,125	5,168
Assets related to discontinued operations (Note 1e)	-	5,423
Total current assets	14,730	19,682
LONG-TERM ASSETS:		
Severance pay fund	47	110
Investment in other company (Note 6)	107	218
Other assets	161	123
Total long-term assets	315	451
PROPERTY, PLANT AND EQUIPMENT, NET (Note 7)	1,135	1,221
OTHER INTANGIBLE ASSETS, NET (Note 8)	1,512	1,836
GOODWILL (Note 9)	4,438	4,172
	\$ 22,130	\$ 27,362

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

CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2010	2009
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term bank loans and current maturities (Note 10)	\$ 7,778	\$ 7,983
Trade payables	4,317	3,906
Employees and payroll accruals	735	645
Deferred revenues	474	731
Accrued expenses and other liabilities (Note 11)	1,040	951
Liabilities related to discontinued operations (Note 1e)	-	5,229
Total current liabilities	14,344	19,445
LONG-TERM LIABILITIES:		
Long-term bank loans, net of current maturities (Note 12)	394	816
Income tax accruals (Note 16)	488	425
Accrued severance pay	167	228
Convertible note (Note 13)	2,460	1,886
Other long-term liabilities (Note 13)	564	919
Total long-term liabilities	4,073	4,274
COMMITMENTS AND CONTINGENT LIABILITIES (Note 14)		
SHAREHOLDERS' EQUITY (Note 15) (*):		
Share capital:		
Ordinary shares of NIS 20.00 nominal value: Authorized; 7,000,000 shares at December 31, 2010 and 2009; Issued and outstanding: 2,752,517 and 2,618,159 shares at December 31, 2010 and 2009, respectively	13,959	13,225
Additional paid-in capital	56,805	57,042
Accumulated other comprehensive profit (loss)	52	(156)
Accumulated deficit	(67,103)	(66,468)
Total shareholders' equity	3,713	3,643
Total liabilities and shareholders' equity	\$ 22,130	\$ 27,362

(*) All share data are reported after the effect of the 1 for 5 reverse split that occurred on January 12, 2010.

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31,		
	2010	2009	2008
Revenues	\$ 30,187	\$ 25,467	\$ 34,066
Inventory write off	36	2,235	339
Cost of revenues	22,668	19,741	26,893
Gross profit	7,483	3,491	6,834
Operating costs and expenses:			
Research and development	372	360	844
Sales and marketing	4,068	5,426	6,408
General and administrative	1,786	2,004	2,029
Impairment of goodwill	-	383	568
Total operating costs and expenses	6,226	8,173	9,849
Operating Profit (loss)	1,257	(4,682)	(3,015)
Financial expenses, net (Note 17a)	(961)	(606)	(431)
Other expenses, net (Note 2g)	(120)	(409)	(1,448)
Income (loss) before taxes on income	176	(5,697)	(4,894)
Tax benefit (taxes on income) (Note 16)	(5)	(329)	241
Income (loss) from continuing operations	171	(6,026)	(4,653)
Loss from discontinued operations (Note 1e)	(806)	(3,075)	(1,747)
Net loss	\$ (635)	\$ (9,101)	\$ (6,400)
Basic and diluted net earnings (loss) per share from continuing operations (Note 17b) (*)	\$ 0.07	\$ (2.32)	\$ (1.94)
Basic and diluted net loss per share from discontinued operations (Note 17b) (*)	\$ (0.31)	\$ (1.18)	\$ (0.73)
Basic and diluted net loss per share (Note 17b) (*)	\$ (0.24)	\$ (3.50)	\$ (2.67)

(*) All earnings (loss) per share data are reported after the effect of the 1 for 5 reverse split that occurred on January 12, 2010.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share data

	Ordinary shares (*)	Share capital	Additional paid-in capital	Accumulated other comprehensive income (loss) (**)	Accumulated deficit	Total comprehensive loss	Total shareholders' equity
Balance at January 1, 2008	2,171,599	10,628	54,758	19	(50,967)		14,438
Issuance of Ordinary shares for options exercised	534	3	(3)	-	-		-
Issuance of shares related to the private placement, net	311,414	1,843	(52)	-	-		1,791
Issuance of shares related to acquisition of Dimex, net	122,045	685	546	-	-		1,231
Share-based compensation expense	-	-	581	-	-		581
Other comprehensive loss:							
Foreign currency translation adjustments	-	-	-	(397)	-	\$ (397)	(397)
Net loss	-	-	-	-	(6,400)	(6,400)	(6,400)
Total comprehensive loss						\$ (6,797)	
Balance at December 31, 2008	2,605,592	13,159	55,830	(378)	(57,367)		11,244
Issuance of Ordinary shares for options exercised	12,567	66	(66)	-	-		-
Issuance expenses	-	-	(17)	-	-		(17)
Issuance of warrants related to convertible note	-	-	646	-	-		646
Share-based compensation expense	-	-	649	-	-		649
Other comprehensive loss:							
Foreign currency translation adjustments	-	-	-	168	-	\$ 168	168
Unrealized gain related to available for sale securities	-	-	-	54	-	54	54
Net loss	-	-	-	-	(9,101)	(9,101)	(9,101)
Total comprehensive loss						\$ (8,879)	
Balance at December 31, 2009	2,618,159	\$ 13,225	\$ 57,042	\$ (156)	\$ (66,468)		\$ 3,643
Issuance of Ordinary shares for options exercised	37,996	201	(201)	-	-		-
Issuance of shares related to the private placement (net of \$35 issuance expenses)	96,362	533	(268)	-	-		265
Issuance of warrants related to convertible note	-	-	15	-	-		15
Share-based compensation expense	-	-	217	-	-		217
Other comprehensive loss:							
Foreign currency translation adjustments	-	-	-	262	-	\$ 262	262
Realized gain related to available for sale securities	-	-	-	(54)	-	(54)	(54)
Net loss	-	-	-	-	(635)	(635)	(635)
Total comprehensive loss						\$ (427)	
Balance at December 31, 2010	<u>2,752,517</u>	<u>\$ 13,959</u>	<u>\$ 56,805</u>	<u>\$ 52</u>	<u>\$ (67,103)</u>		<u>\$ 3,713</u>

(*) All share data are reported after the effect of the 1 for 5 reverse split that occurred on January 12, 2010.

(**) December 31, 2009 balance includes both foreign currency translation adjustments and unrealized gains related to available for sale securities. December 31, 2010 balance includes only foreign currency translation adjustments.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Net loss	\$ (635)	\$ (9,101)	\$ (6,400)
Loss from discontinued operations	806	3,075	1,747
Net profit (loss) from continuing operations	171	(6,026)	(4,653)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	611	596	588
Inventory write off	36	2,235	339
Impairment of goodwill	-	383	568
Capital loss (gain) from sale of investment in other company	7	-	(8)
Impairment of available for sale securities	-	304	744
Impairment of investment in other company	111	53	712
Severance pay, net	-	(160)	168
Share-based compensation expenses related to employees, directors and service providers	217	649	581
Discount on convertible note	225	108	-
Accrued interest on long-term convertible notes	196	104	-
Decrease (increase) in trade receivables, net	(252)	2,897	1,997
Change in deferred taxes, net	52	343	(154)
Decrease (increase) in other accounts receivable and other assets	(114)	(155)	216
Decrease (increase) in inventories	138	(66)	217
Increase (decrease) in trade payables	332	(818)	(246)
Increase (decrease) in employees and payroll accruals, deferred revenues, accrued expenses and other liabilities	(270)	(426)	733
Net cash provided by operating activities from continuing operations	1,460	21	1,802
Net cash used in operating activities from discontinued operations	(176)	(1,291)	(1,386)
Net cash provided by (used in) operating activities	1,284	(1,270)	416
Cash flows from investing activities:			
Purchase of property, plant and equipment	(108)	(320)	(217)
Proceeds from sale of investment in other company	150	-	165
Acquisitions, net of cash acquired (a)	(147)	(967)	(8,709)
Net cash used in investing activities from continuing operations	(105)	(1,287)	(8,761)
Net cash used in investing activities from discontinued operations	-	(74)	(289)
Net cash used in investing activities	(105)	(1,361)	(9,050)
Cash flows from financing activities:			
Proceeds from issuance of shares, net	265	(17)	1,758
Proceeds (payments) from short and long-term bank loans	(841)	(363)	3,273
Proceeds (payments) from long-term convertible note and warrants, net of issuance expenses	(28)	1,584	-
Net cash provided by (used in) financing activities from continuing operations	(604)	1,204	5,031
Net cash provided by (used in) financing activities from discontinued operations	(308)	385	969
Net cash provided by (used in) financing activities	(912)	1,589	6,000
Increase (decrease) in cash and cash equivalents	267	(1,042)	(2,634)
Increase (decrease) in cash and cash equivalents from discontinued operations	(128)	359	254
Cash and cash equivalents at the beginning of the year	564	1,247	3,627
Cash and cash equivalents at the end of the year	\$ 703	\$ 564	\$ 1,247

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2010	2009	2008
Supplemental disclosure of cash flow activities:			
(i) Net cash paid during the year for:			
Interest	\$ 463	\$ 538	\$ 495
Income tax	\$ 2	\$ 1	\$ 200
(ii) Non-cash activities:			
Conversion of payable into long-term convertible debentures	\$ 161	\$ 675	\$ -
Deferred charges related to convertible note	\$ -	\$ 62	\$ -
Sale of investment in other company	\$ 150	\$ -	\$ -
Purchase of property and equipment	\$ -	\$ 47	\$ -

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Year ended December 31,		
	2010	2009	2008
(a) Acquisition of BOS - Dimex Ltd.			
Fair value of net tangible assets acquired (excluding cash and cash equivalents) and liabilities assumed at acquisition date	\$ -	\$ -	\$ 7,326
Fair value of net intangible assets acquired at acquisition date	-	-	5,191
Less - amount acquired by issuance of shares	-	-	(1,053)
Less - unpaid balance on account of acquisition	-	-	(2,755)
Less - repayment of deferred consideration on account of acquisition	147	967	-
	<u>\$ 147</u>	<u>\$ 967</u>	<u>\$ 8,709</u>

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

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 in NASDAQ under the ticker BOSC. Effective as of May 12, 2009, the Company's Ordinary shares were delisted from trade on the Tel-Aviv Stock Exchange ("TASE"). Following the delisting of the Company's shares from the TASE, the Company is not subject to reporting requirements in Israel, under the Israeli Securities Law.

- b. All share and per share data in this report is reported after giving effect to the 1 for 5 reverse split that occurred on January 12, 2010 (see Note 15).

- c. The Company has two operating segments, the RFID and Mobile Solutions segment and the Supply Chain Solutions segment.

The Company's wholly-owned subsidiaries include:

In Israel:

- (1) BOS-Dimex Ltd. (previously "Dimex Solutions Ltd"), which purchased in March 2008 all of Dimex Systems Ltd. assets and activities, and its wholly-owned subsidiary, Dimex Hagalil Projects (2008) Ltd., which was incorporated in January 2008 and purchased all of Dimex Hagalil Ltd. assets and activities (together: "BOS-Dimex"). BOS-Dimex is a part of the RFID and Mobile Solutions segment;
- (2) BOS-Odem Ltd. ("BOS-Odem"), an Israeli company, is a distributor of electronics components and advance technologies worldwide. BOS-Odem is a part of the Supply Chain Solutions segments; and
- (3) Quasar Telecom (2004) Ltd. ("Quasar Telecom"), which is inactive.

In the U.S.:

- (1) Ruby-Tech Inc., a New York corporation, a wholly-owned subsidiary of BOS-Odem and a part of the Supply Chain Solutions segments;
- (2) BOS - Supply Chain Solutions (Lynk) Inc., a Delaware Corporation ("Lynk"), and its subsidiaries BOS-Supply Chain Solutions Inc. (Summit) Ltd. ("Summit"), Pacific Information Systems, Inc. ("PacInfo"), a Delaware corporation and PacInfo's subsidiary and Dean Tech Technologies Associates, LLC., a Texan corporation, both of which are no longer active. On November 23, 2010 the Company announced that its two U.S. subsidiaries that are part of its Supply Chain division, Lynk and its subsidiary Summit, have filed with the US Bankruptcy Court a Chapter 7 petition.
- (3) BOS Delaware Inc., a Delaware corporation, which ceased operations in 2002.

In Europe:

BOS-Dimex has a UK subsidiary, Better On-Line Solutions Ltd., Since 2002, this company and its subsidiary, Better On-Line Solutions S.A.S incorporated in France, are not active.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL (Cont.)

In addition, the Company holds shares in Surf Communication Systems Ltd. ("Surf"). Surf is a developer and global supplier of universal access and network convergence software solutions to the wire line and wireless telecommunications and data communications industries. As of December 31, 2010, the Company holds 6.2% of the outstanding shares of Surf (see Note 2g).

On February 26, 2010, the Company sold all of its holdings in NWB to P&S Spirit LLC (see Note 2g).

d. **Business combination:**

Acquisition of BOS-Dimex:

In March 2008, BOScom Ltd. (now BOS-Dimex) and its subsidiary, Dimex Hagalil Projects (2008) Ltd., purchased the assets and activities of Dimex Systems (1988) Ltd., an Israeli private company and of its subsidiary, Dimex Hagalil Ltd. Dimex is an integrator of AIDC (Automatic Identification and Data Collection) solutions based on RFID and barcode technology. The consideration was NIS 44.6 million (approximately \$ 12,426). The consideration is comprised of cash, payable over a 24-month period and of 100,045 BOS shares.

The Company's consolidated financial statements reflect the purchase price determined as follows:

	March 1, 2008
Cash consideration	\$ 4,253
Issuance of BOS shares (1)	1,053
Deferred payment (include transaction costs of \$ 181)	7,120
Total purchase price	\$ 12,426

- (1) The value of the Ordinary shares issued was determined based on the average market price of the Company's Ordinary shares over the period of two days before and after the terms of the transaction were agreed to and announced.

The Company has allocated the total purchase price as follows:

Allocation of purchase price	BOS-Dimex	Estimated useful life
Cash	\$ 11	
Tangible assets	7,326	
Customer list (1)	462	6 years
Brand name (2)	704	8 years
Backlog (3)	29	
Deferred tax liability	(305)	
Goodwill	4,199	
Total purchase price	\$ 12,426	

- (1) Customer list - the Company's allocation of purchase price to the acquired customer list was performed by calculating cash flow benefits based on the income approach.
- (2) Brand name - the Company's allocation of purchase price to the acquired brand name by calculating cash flow benefits based on relief from the royalties approach.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL (Cont.)

- (3) Backlog - the economic value of the backlog is calculated by deducting the relative expenses which will be accrued to sales equal to the backlog.

The acquisitions have been treated using the purchase method of accounting in accordance with FAS 141 (prior to adoption of ASC 805). The purchase price has been allocated to the assets acquired based on their estimated fair value at the date of acquisition. The results of operations of BOS-Dimex are included in the consolidated statements of operations as of the acquisition date.

The excess of the purchase price over the estimated fair value of the tangible and intangible assets acquired has been recorded as goodwill.

The results of operations of BOS-Dimex have been included in the Company's consolidated statements of operations since the completion of the acquisition on March 1, 2008. The following unaudited pro forma information presents a summary of the results of operations of the Company assuming the acquisition of BOS-Dimex occurred on January 1, 2008:

	<u>Year Ended</u> <u>December 31, 2008</u> <u>(Unaudited)</u>	
Revenues	\$	52,924
Net loss	\$	(6,300)
Net loss per share - basic and diluted	\$	(0.50)

The unaudited pro forma results of operations are not necessarily indicative of what would have occurred had the acquisition taken place at January 1, 2008, or of the results that may occur in the future.

e. Discontinued operations:

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.

- In February 2009, the Company sold its OptimizeIT product and related Intellectual Property (following the Company's decision in December 2008 to cease the operation of this product line) in consideration for \$ 70 plus contingent royalties amounting to 7.5% of future revenues until the earlier of: (i) payment of \$1,500 or (ii) the lapse of forty-two months from February 2009. As of December 31, 2010, no income from royalties was recorded.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL (Cont.)

Summarized selected financial information and cash flows of the discontinued operations are as follows:

	Year ended December 31, 2008
Revenues	\$ 61
Cost of revenues	-
	<u>61</u>
Operating expenses:	
Research and development	153
Sales and marketing	168
Total operating expenses	<u>321</u>
Operating loss	<u>(260)</u>
Net loss	<u>\$ (260)</u>

The results of operations, including revenues, cost of revenues, operating expenses and other income and expenses of the discontinued product line operations for 2008, have been reclassified in the statements of operations. Taxes were not attributed to the discontinued operations due to utilization of losses from previous years, for which a valuation allowance was provided.

- On November 23, 2010 the Company announced that its two U.S. subsidiaries that are part of its Supply Chain division, Lynk and its subsidiary Summit, have filed with the US Bankruptcy Court a Chapter 7 petition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL (Cont.)

Summarized selected financial information and cash flows of the discontinued operations are as follows:

	December 31,	
	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ -	\$ 33
Trade receivables	-	1,433
Other accounts receivable and prepaid expenses	-	129
Inventories	-	3,608
Total current assets	-	5,203
PROPERTY, PLANT AND EQUIPMENT, NET	-	57
OTHER INTANGIBLE ASSETS, NET	-	163
Total Assets	\$ -	\$ 5,423
LIABILITIES		
CURRENT LIABILITIES:		
Short-term bank loans and current maturities	\$ -	\$ 3,804
Trade payables	-	1,191
Employees and payroll accruals	-	7
Accrued expenses and other liabilities	-	180
Total current liabilities	-	5,182
LONG-TERM LIABILITIES:		
Deferred taxes and income tax accruals	-	47
Total long-term liabilities	-	47
COMMITMENTS AND CONTINGENT LIABILITIES		
Total liabilities	\$ -	\$ 5,229

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL (Cont.)

	Year ended December 31,		
	2010	2009	2008
Revenues	\$ 8,338	\$ 8,615	\$ 17,018
Cost of revenues	6,990	7,704	13,853
Gross profit	1,348	911	3,165
Impairment of goodwill	-	835	1,305
Total operating costs and expenses	1,487	2,705	3,625
Operating loss	(139)	(2,629)	(1,444)
Financial expenses, net	(213)	(232)	(205)
Other expenses, net (*)	(496)	-	-
Loss before taxes on income	(848)	(2,861)	(1,649)
Tax benefit (taxes on income)	42	(214)	162
Net loss	\$ (806)	\$ (3,075)	\$ (1,487)

(*) Other expenses includes \$554 related to the write off of net assets and liabilities related to discontinued operations.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared according to United States generally accepted accounting principles ("U.S. GAAP").

a. Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles 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, revenue recognition, tax assets and tax positions, legal contingencies, stock-based compensation costs, and assumptions utilized in troubled debt restructuring. Actual results could differ from those estimates.

b. Financial statements in U.S. dollars:

A substantial portion of the Company's revenues is generated in U.S. dollar ("dollars"). In addition, most of the Company's costs are incurred in dollars. 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 remeasured into U.S. dollars in accordance with ASC 830, *Foreign Currency Matters*. All transactions gains and losses from the remeasurement of monetary balance sheet items are reflected in the statement of operations as financial income or expenses as appropriate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The financial statements of a certain subsidiary, whose functional currency is other than the dollar, have been translated into U.S. dollars. All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Statement of operations amounts have been translated using the average exchange rate for the period. The resulting translation adjustments are reported as a component of shareholders' equity in accumulated other comprehensive loss.

c. Principles of consolidation:

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

d. Cash equivalents:

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

e. 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. As of December 31, 2010 and 2009, inventory is presented net of \$ 1,494 and \$ 1,458, respectively, for technological obsolescence and slow- moving items (see also Note 5).

f. Grants and royalty-bearing grants:

Grants and royalty-bearing grants from the Chief Scientist of the Ministry of Industry and Trade in Israel for funding certain approved research and development projects are recognized at the time the Company is entitled to such grants, on the basis of the related costs incurred, and are presented as a deduction of research and development costs.

There were no grants in 2010, 2009 and 2008.

g. Investment in other companies:

1. Investment in NWB and QMX:

The Company accounts for its holdings in NWB shares as available for sale in accordance with ASC 320, *Investments - Debt And Equity Securities* ("ASC 320"). Unrealized gains and losses, net of the related tax effect are included in other comprehensive loss. Till the consummation of a merger of Qualmax with and into NWB in January 2009 the investment in Qualmax, which was traded in the Pink Sheet, was presented at cost according to ASC 325-20, *Cost Method Investments* ("ASC 325-20") due to no trading volume in share. Management evaluates investments in other companies for evidence of other than temporary declines in value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Following the consummation of the merger of Qualmax and NWB, holdings in Qualmax were converted into shares of NWB.

The Company recognizes an impairment charge when a decline in the fair value of its marketable securities below the cost basis is judged to be other-than-temporary. The Company considers various factors in determining whether to recognize an impairment charge, including the Company's intent and ability to hold the marketable securities for a period of time sufficient to allow for any anticipated recovery in market value, the length of time and extent to which the fair value has been less than the cost basis and the financial condition and near-term prospects of the issuers. If, after consideration of all available evidence to evaluate the realizable value of its marketable securities, impairment is determined to be other-than-temporary, then an impairment loss should be recognized equal to the difference between the marketable securities' carrying amount and its fair value. Accordingly, during 2010, 2009 and 2008, an impairment loss, due to other-than-temporary decline in fair value, of \$ 0, \$ 304 and \$ 744, respectively, has been recorded and presented in other expenses, net in the consolidated statements of operations.

During 2008, the Company sold 6.6 million shares of NWB for a total consideration of \$ 165 and recorded a gain of \$8.

On February 26, 2010, the Company sold all of its holdings in NWB to P&S Spirit LLC. and recorded a capital loss of \$7. The Company sold 61,441,827 shares of common stock of NWB (the "Shares") and 1,430,178 warrants to purchase common stock of NWB at an exercise price of \$ 0.2098 per share expiring on December 31, 2010 (the "Warrants"). The consideration for the Shares and Warrants was \$ 300 of which \$ 150 was paid in March 2010 and the remaining \$ 150 plus annual interest of 4% shall be paid in twelve monthly installments commencing March 2011. The Shares and Warrants were delivered to an escrow agent which will release the shares to the Buyer upon full payment of the Remaining Debt.

2. Investment in Surf:

The Company's holding in Surf (a private company) as of December 31, 2010 is 6.2% of Surf's issued and outstanding shares. The Company's investment in Surf is accounted for based on the cost accounting method. During 2010, 2009 and 2008, an impairment loss, due to other-than-temporary decline in fair value, of \$ 111, \$ 53 and \$712, respectively, has been recorded and presented in other expenses, net in the consolidated statements of operations.

The Company's investment in Surf is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable, in accordance with ASC 325-20.

h. Property, plant and equipment:

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:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

	%	
Computers and software	20 - 33	(mainly 33%)
Office furniture and equipment	6 - 15	(mainly 10%)
Leasehold improvements	10	(over the shorter of the period of the lease or the life of the assets)
Motor vehicles	15	
Plant	4	

i. 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 by the amount by which the carrying amount of the assets exceeds their fair value of the assets. During 2010, 2009 and 2008, no impairment losses have been identified.

j. Goodwill:

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

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 Company determines the fair value of each 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. 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 Company considers 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company corroborates the fair values using the Market Approach. The Company evaluates the reasonableness of the estimated fair value of its reporting units by reconciling to its market capitalization. This reconciliation allows the Company to consider market expectations in corroborating the reasonableness of the fair value of its reporting units. In addition, the Company compares its market capitalization, including an estimated control premium that an investor would need to pay for a controlling interest in the Company, to the fair value of the Company based on a third-party valuation study. The determination of a control premium requires the use of judgment and is based primarily on comparable industry and deal-size transactions, related synergies and other benefits. The Company's reconciliation of the gap between its market capitalization and the aggregate fair value of the Company depends on various factors, some of which are qualitative and involve management judgment, including stable relatively high backlog coverage and experience in meeting operating cash flow targets.

The reporting units of the Company for purposes of the impairment test are: the Company's RFID and Mobile operating segments, and the Supply Chain segment, as these are the components of the business for which discrete financial information is available and segment management regularly reviews the operating results of those components.

Testing Results:

During 2009 and 2008 impairment losses in the amount of \$ 383 and \$ 568, respectively were recorded and attributed to the supply chain reporting unit. During 2010, no impairment losses have been identified.

k. Research and development costs:

ASC 985, *Software*, requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. Based on the Company's product development process, technological feasibility is established upon completion of a working model. Research and development costs incurred in the process of developing product improvements or new products, are generally charged to expenses as incurred. Costs incurred by the Company between completion of the working model and the point at which the product is ready for general releases are insignificant.

l. Severance pay:

The Company's liability for severance pay for Israeli resident 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. The Company's liability for its Israeli resident employees is covered by insurance policies designed solely for distributing severance pay. The value of these policies is not under the Company's control, thus neither an asset nor a liability were recorded regarding these policies.

The Company has one main deposit fund. The value of the deposited funds includes profit, and is recorded as an asset in the Company's balance sheet.

The Company's payroll includes employees regarding whom its liability for severance pay is calculated pursuant to article 14 of Israel's Severance Pay Law. The Company currently deposits the corresponding amounts to the relevant pension funds. As a result, the Company is released from the fulfillment of the obligation pursuant to Israel's Severance Pay Law. The aforementioned deposited amounts are not reflected on the financial statements due to the fact that they are not under the Company's control.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Severance expenses for 2010, 2009 and 2008 amounted to 137, \$ 263 and \$ 723, respectively.

m. Revenue recognition:

The Company sells its products through direct sales.

The Company derives its revenues from the sale of products, license fees for its products, commissions, support and services.

Revenues from product sales, related to both the Supply Chain and RFID and Mobile 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.

Most of the Company's revenues are generated from sales of its products directly to end-users. Other than pricing terms which may differ due to the volume of purchases between end-users, there are no material differences in the terms and arrangements among end-users.

Revenue from license fees, related to the RFID and Mobile segment, is recognized in accordance with ASC No. 985-605, *Software Revenue Recognition*, when persuasive evidence of an agreement exists, delivery has occurred, no significant obligations with regard to implementation remain, the fee is fixed or determinable, and collectability is probable. The Company generally does not grant a right of return to its customers. When a right of return exists, the Company defers revenue until the right of return expires, at which time revenue is recognized provided that all other revenue recognition criteria have been met.

Revenues from maintenance and support services are recognized ratably over the period of the support contract. The fair value of the support contract is determined based on the price charged when it is sold separately or renewed.

With regard to software arrangements involving multiple elements such as software product and maintenance and support, revenue should be allocated to each element based on the relative fair value of the elements. However, with respect to certain transactions, including multiple elements, revenue can be recognized under the "residual method" when vendor specific objective evidence ("VSOE") of fair value exists for all undelivered elements and VSOE does not exist for the delivered elements. Under the residual method, at the outset of the arrangement with the customer, the Company defers revenue for the fair value of its undelivered elements (maintenance and support) and recognizes revenue for the remainder of the arrangement fee attributable to the elements initially delivered in the arrangement (software product) when the basic criteria in ASC 985, *Revenue Recognition - Software* ("ASC 985") have been met. Any discount in the arrangement is allocated to the delivered element. Maintenance and support revenue is deferred and recognized on a straight-line basis over the term of the maintenance and support agreement. The VSOE of fair value of the undelivered elements (maintenance and support) is determined based on the price charged for the undelivered element when sold separately.

In the case of arrangements which require significant customization of the Company's RFID software to customer-specific specifications, the Company follows the guidance in ASC 605-35, ("ASC 605-35"), whereby the Company applies the completed contract method since the Company is unable to obtain reasonable dependable estimates of the total effort required for completion. Under the completed contract method, all revenue and related costs of revenue are deferred and recognized upon completion. Provisions for estimated losses on contracts in process are recognized in the period such losses are determined.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. 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 financial reporting and 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.

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. During the years ended December 31, 2008 and 2007, the Company had no unrecognized tax positions. During the year ended December 31, 2010 and 2009 the Company recorded an amount of \$ 67 and \$ 421, respectively in regard to uncertain tax position.

o. 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, other accounts receivable and marketable securities.

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

p. Derivative financial instruments:

The Company's Derivatives are not designated as hedging accounting instruments under ASC 815, *Derivatives and Hedging* (originally issued as SFAS 133 and SFAS161). Those derivatives consist primarily of forward contracts the Company uses to hedge the Company's exposures to currencies other than the U.S. dollar. The Company recognized derivative instruments as either assets or liabilities and measures those instruments at fair value. Since the derivative instruments that the Company holds do not meet the definition of hedging instruments under ASC 815, the Company recognizes changes in the fair values in its statement of income in financial income, net, in the same period as the remeasurement gain and loss of the related foreign currency denominated assets and liabilities.

The notional principal of foreign exchange contracts to purchase U.S. dollars with foreign currencies was \$ 1,500 at December 31, 2010. The Company recorded the fair value of derivative asset in the amount of \$ 63 in other accounts receivable and prepaid expenses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Basic and diluted net earnings (loss) per share:

Basic net earnings (loss) per share are calculated based on the weighted average number of Ordinary shares outstanding during each year. Diluted net earnings (loss) per share are calculated based on the weighted average number of Ordinary shares outstanding during each year, plus dilutive potential Ordinary shares considered outstanding during the year, in accordance with ASC 260, *Earning Per Share*.

The total number of shares related to the outstanding options and warrants excluded from the calculations of diluted net earnings (loss) per share, since they would have an anti-dilutive effect, was 1,442,339, 1,333,370 and 802,662 for the years ended December 31, 2010, 2009 and 2008, respectively.

r. Accounting for share-based compensation:

The Company accounts for equity-based compensation in accordance with ASC 718, *Stock Compensation* ("ASC 718") which requires the recognition of compensation expenses based on estimated fair values for all equity-based awards made to employees and nonemployees 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 options 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 term. 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. 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 2009 and 2008 was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

	Year ended December 31,	
	2009	2008
Risk-free interest	1.45%	1.52%
Dividend yields	0%	0%
Volatility	77%	37%
Expected option term	3.46 years	3.43 years
Forfeiture rate	15%	10%

No options were granted during 2010.

During 2010, 2009 and 2008, the Company recognized stock-based compensation expense related to employee and director stock options as follows:

	Year ended December 31,		
	2010	2009	2008
Selling and marketing	\$ 39	\$ 377	\$ 169
General and administrative	178	252	412
Total stock-based compensation expense	\$ 217	\$ 629	\$ 581

The Company applies ASC 718 and ASC 505-50 for equity instruments that are issued to other than employees for acquiring, or in conjunction with, selling, goods or services.

s. Fair value of financial instruments:

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

The carrying amounts of cash and cash equivalents, trade receivables, other accounts receivable, short term loans and trade payables approximate their fair value due to the short-term maturities of such instruments. The carrying amounts of long-term loans and convertible notes approximate their fair value.

Assets and liabilities measured at fair value on a recurring basis are comprised of marketable securities and foreign currency forward contracts (See Note 4).

Effective January 1, 2008, the Company adopted ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"). ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

- Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Level 3 - Unobservable inputs which are supported by little or no market activity.

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.

t. Reclassification:

Certain 2009 figures have been reclassified to conform to the 2010 presentation. The reclassification had no effect on previously reported net income or shareholders' equity.

u. Impact of recently issued accounting pronouncements:

In January 2010, the FASB issued Accounting Standards Update "ASU" No. 2010-06, "Improving Disclosures about Fair Value Measurements," which requires disclosures about inputs and valuation techniques used to measure fair value, as well as disclosures about significant transfers, beginning in the first quarter of 2010. Additionally, these amended standards require presentation of disaggregated activity within the reconciliation for fair value measurements using significant unobservable inputs (Level 3) beginning in the first quarter of 2011. The adoption of the effective portions of this ASU did not have a material impact on the Company's consolidated financial position, results of operations or cash flows. The Company does not anticipate that the adoption of the remaining portions of this ASU will have a material impact on its consolidated financial position, results of operations or cash flows.

In October 2009, the FASB issued ASU 2009-13, Multiple-Deliverable Revenue Arrangements, (amendments to FASB ASC Topic 605, Revenue Recognition) ("ASU 2009-13") and ASU 2009-14, Certain Arrangements That Include Software Elements, (amendments to FASB ASC Topic 985, Software) ("ASU 2009-14").

- ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendment eliminates the residual method of revenue allocation and requires revenue to be allocated using the relative selling price method.
- ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 and ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is currently evaluating the impact on its consolidated results of operations and financial condition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 3:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2010	2009
Government authorities	\$ 213	\$ 248
Advances to suppliers	536	226
Prepaid expenses	57	130
Deferred expenses attributed to software projects	146	294
Receivable in respect of investment sale	127	-
Derivative asset	63	-
Other	41	16
	<u>\$ 1,183</u>	<u>\$ 914</u>

NOTE 4:- FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The Company's financial assets and liabilities measured at fair value on a recurring basis, consisted of derivatives which were classified within Level 2 and amounted to \$63 and (\$4) as of December 31, 2010 and 2009, respectively.

As of December 31, 2010, the Company's investment in Surf (a cost method investee) was measured at fair value of \$107, on a nonrecurring basis, due to other than temporary impairment of \$111. The fair value was determined based on the price set at a new equity financing round raised by the investee in 2010 and was classified as Level 2 in the ASC 820 hierarchy (i.e., quoted price of identical asset in a non-active market).

NOTE 5:- INVENTORIES

	December 31,	
	2010	2009
Raw materials	\$ 135	\$ 110
Finished goods	4,990	5,058
	<u>\$ 5,125</u>	<u>\$ 5,168</u>

The inventories are presented net of write-offs for technological obsolescence and slow-moving items of \$ 1,494 and \$ 1,458, as of December 31, 2010 and 2009, respectively.

NOTE 6:- INVESTMENT IN OTHER COMPANIES

The Company's investments in companies comprise of:

	December 31,	
	2010	2009
Under long-term assets : Surf Communication Systems Ltd. (see Note 2g)	\$ 107	\$ 218
Under current assets :New World Brands Inc. ("NWB") (see Note 2g)	-	361

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 7:- PROPERTY, PLANT AND EQUIPMENT

	December 31,	
	2010	2009
Cost:		
Computers and software	\$ 2,197	\$ 2,037
Office furniture and equipment	1,027	913
Leasehold improvements and plant	1,417	1,357
Motor Vehicles	205	196
	<u>4,846</u>	<u>4,503</u>
Accumulated depreciation:		
Computers and software	2,024	1,821
Office furniture and equipment	594	504
Leasehold improvements and plant	930	821
Motor vehicles	163	136
	<u>3,711</u>	<u>3,282</u>
Depreciated cost	<u>\$ 1,135</u>	<u>\$ 1,221</u>

Depreciation expenses amounted to \$ 241, \$ 199 and \$ 195 for the years ended December 31, 2010, 2009 and 2008, respectively.

NOTE 8:- OTHER INTANGIBLE ASSETS, NET

	December 31,	
	2010	2009
Cost:		
Backlog	\$ 29	\$ 27
Technology	226	226
Brand name	722	679
Customer list	2,483	2,455
	<u>3,460</u>	<u>3,387</u>
Accumulated amortization:		
Backlog	29	27
Technology	226	226
Brand name	259	158
Customer list	1,434	1,140
	<u>1,948</u>	<u>1,551</u>
Amortized cost	<u>\$ 1,512</u>	<u>\$ 1,836</u>

Amortization expenses amounted to \$ 369, \$ 397 and \$ 392 for the years ended December 31, 2010, 2009 and 2008, respectively.

Estimated amortization expenses for the years ended:

<u>December 31,</u>	
2011	\$ 376
2012	376
2013	376
2014	351
2015	<u>33</u>
	<u>\$ 1,512</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 9:- GOODWILL

Goodwill attributed to operating segments for the years ended December 31, 2010 and 2009 is as follows:

	RFID and Mobile Solutions	Supply Chain Solutions	Total
Balance as of January 1, 2009	4,143	383	4,526
Impairment	-	(383)	(383)
Foreign currency translation adjustments	29	-	29
Balance as of December 31, 2009	\$ 4,172	\$ -	\$ 4,172
Foreign currency translation adjustments	266	-	266
Balance as of December 31, 2010	<u>\$ 4,438</u>	<u>\$ -</u>	<u>\$ 4,438</u>

In accordance with ASC 320, *Goodwill and Other Intangible Assets*, goodwill is not amortized, but instead is reviewed and tested for impairment at least annually and whenever events or circumstances occur which indicate that goodwill might be impaired. Impairment of goodwill is tested at the Company's reporting unit level by comparing the carrying amount, including goodwill, to the fair value. In performing the analysis, the Company uses the best information available, including reasonable and supportable assumptions and projections. If the carrying amount of the Company exceeds its implied fair value, goodwill is considered impaired and a second step is performed to measure the amount of impairment loss, if any.

The Company performed its annual impairment test on December 31, 2008 and recorded an impairment charge of \$568 that relates to the Supply chain solutions reporting unit.

During the second quarter of 2009, the Company performed an impairment test as a result of the overall global economic conditions and determined that goodwill related to the Supply Chain Solutions segment was fully impaired.

The annual goodwill impairment tests for the RFID and Mobile segment performed on December 31, 2009 and December 31, 2010 did not result in any impairment charges.

NOTE 10:- SHORT-TERM BANK LOANS AND CURRENT MATURITIES

Loan currency	Weighted interest rate as of December 31, 2010	December 31,	
	%	2010	2009
NIS	5.95	\$ 5,473	\$ 4,564
\$	3.37	1,804	2,906
		7,277	7,470
Current maturities	5.54	501	513
		<u>\$ 7,778</u>	<u>\$ 7,983</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10:- SHORT-TERM BANK LOANS (Cont.)

The repayment of the Company's bank debt (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 the subsidiaries. The loan terms restrict substantial asset sales, cash dividends, and certain inter-company and shareholders payments. In addition, the Company and its subsidiaries entered into a series of inter-company guarantees in favor of the bank.

The Bank Leumi loan agreements contain various financial covenants which require that the Company maintain certain financial ratios related to shareholders' equity, EBITDA and operating results. On February 8, 2010, the Company and its Israeli subsidiaries executed revised loan documents governing their credit line from Bank Leumi, in which they undertook revised covenants. As of December 31, 2010 the Company has met the bank covenants for 2010.

NOTE 11:- ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31,	
	2010	2009
Government authorities	\$ 514	\$ 454
Professional services	145	171
Liability to BOS-Dimex sellers (see Note 13)	301	128
Other	80	198
	<u>\$ 1,040</u>	<u>\$ 951</u>

NOTE 12:- LONG-TERM BANK 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, 2010	December 31,	
	%	2010	2009
NIS	5.54 (Prime plus 0 – 2.1)	\$ 895	\$ 1,329
		895	1,329
Less - current maturities	5.54	<u>501</u>	<u>513</u>
		<u>\$ 394</u>	<u>\$ 816</u>

The repayment of the Company's bank debt is secured by a first priority floating charge on all of the 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 issued and unpaid share capital, its goodwill and its shares of the subsidiaries. In addition, the Company and its subsidiaries entered into a series of inter company-guarantees in favor of the bank.

The Company's loan agreements also contain various covenants which require that the Company maintain certain financial ratios related to shareholders' equity and operating results. As of December 31, 2010 the Company has met the bank covenants for 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- LONG-TERM BANK LOANS (Cont.)

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

2011 (Current maturities)	\$	501
2012		394
	\$	<u>895</u>

NOTE 13:- CONVERTIBLE NOTE

On August 20, 2009, the Company closed a \$ 2,400 Convertible Loan Financing ("Convertible Loan Financing") with several lenders including Catalyst Private Equity Partners (Israel) II L.P., Telegraph Hill Capital Fund I, LLC, certain existing shareholders and members of its management. The financing proceeds shall be used mainly for working capital. The financing consists of loans with a term of three years that bear interest at a rate equal to 8% per annum, compounded annually. The Company shall repay the loan principal amount and the accrued interest in one payment at the end of the term, unless converted earlier into Ordinary shares at the discretion of the lender. Each lender shall be entitled to demand the immediate repayment in cash of its respective portion of the Convertible loan amount, upon the occurrence of events of Default, as stipulated in the Convertible loans agreement. In case of a Default, the Company undertook to pay the lenders the entire Convertible loans amounts due to them and any accrued interest. The loan conversion rate is \$ 3.25 per Ordinary share. The Company granted the lenders warrants to purchase 100% of the number of ordinary shares into which the loan is convertible. The warrants are exercisable, in whole or in part, from 18 months to 36 months from grant, at an exercise price per Ordinary share of \$ 2.75. The fair values of the warrants were calculated based on the Black-Scholes option pricing model, amounted to approximately \$ 646 and are recorded as a component of shareholders' equity. In addition, the lenders received certain registration rights (on the Company's best effort). A total of \$ 675,000 of the loan was extended to the Company by conversion into the debt financing of a payment otherwise due to Dimex Systems by April 2010, pursuant to the Asset Purchase Agreement the Company had entered into with Dimex Systems. In November 2009, as part of a separation agreement between the Company and Shalom Daskal, the Company repaid to Mr. Daskal \$50 of convertible loan he had previously extended to it.

In connection with the above convertible loan financing, the Company accumulated in 2009 and 2010 deferred charges in the amount of \$150 and \$ 172, respectively, which were recorded in long-term assets and which will be amortized over the period of the convertible note.

In March 2009, the Company entered into an amendment to the Dimex Systems Asset Purchase Agreement ("the 2009 restructuring")(see Note 1d) whereby it has revised the schedule of remaining payments of NIS 10 then still owed by the Company to Dimex Systems. The amendment to the agreement provided for a NIS 3.5 million payment in March 2009, NIS 4 million to be paid in 6 equal monthly installments each, starting on January 15, 2010, and the remaining approximately NIS 2.5 million (equivalent to \$675) was converted into convertible note as part of the aforementioned convertible note.

On February 4, 2010, the Company entered into an additional amendment to the Dimex Systems Asset Purchase Agreement of January 2008 ("the 2010 restructuring")(see Note 1d), whereby it has revised the schedule of remaining payments of NIS 4 million then still owed by the Company to Dimex Systems. The amendment to the agreement provided for: (1) Payment of NIS 300 in February 2010 (2) NIS 3.1 million to be paid in equal monthly installments commencing July 2010 through December 2013 (including a five months grace period) which bears 8% interest per annum (3) Warrants to purchase 69,096 of the Company's ordinary shares which are exercisable, in whole or in part, through December 2013 at an exercise price per Ordinary share of \$ 3.25 on or before August 3, 2011 and thereafter the exercise price shall be increased to \$4.00 per Ordinary Share (4) NIS 600 (equivalent to \$161) converted into long-term convertible note with identical terms to the aforementioned convertible note issued in August 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- LONG-TERM CONVERTIBLE NOTE (Cont.)

The Company has accounted for the restructured debts to Dimex Systems under the criteria of ASC 470-60, "Troubled Debt Restructurings by Debtors".

The new effective borrowing rate of the 2010 restructured debt is lower than the effective borrowing rate of the old debt immediately prior to the 2010 restructuring and immediately prior to the 2009 restructuring.

Therefore, the Company concluded that the creditor has granted a concession and the restructuring of the debt is within the scope of ASC 470-60. As of the dates of the 2009 and 2010 restructuring, the Company calculated the effective borrowing rate on the debt (the new effective borrowing rate is the discount rate that equates the present value of the future cash payments specified by the new terms of the restructured debt, with the carrying amount of the payable and includes the fair value of the warrants granted in conjunction with the aforementioned restructurings). The new effective interest rate as of the 2010 restructurings date and as of December 31, 2010 was an annual rate of 11%.

NOTE 14:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Commitments:

1. Royalty commitments:

- a) 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. No grants were received during the years 2008 through 2010.

As of December 31, 2010, the Company has an outstanding contingent obligation to pay royalties, including interest, in the amount of approximately \$ 3,498, in respect of these grants. Expenses in the amount of \$3 were incurred on such royalties during 2010. No expenses were incurred on such royalties during 2009 and 2008.

- b) The Israeli Government, through the Overseas Marketing Fund, awarded the Company grants for participation in expenses for overseas marketing. The Company is committed to pay royalties to the Fund for Encouragement of Marketing Activities at the rate of 3% of the increase in export sales, up to the amount of the grants received by the Company linked to the dollar and bearing interest. No grants were received during the years 2008 through 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 14:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

As of December 31, 2010, the Company has an outstanding contingent obligation to pay royalties including interest of \$ 95 with respect to these grants. No expenses incurred on such royalties during 2010 and 2009. Expenses in the amount of \$6 were incurred on such royalties in 2008.

2. The facilities of the Company are rented under operating lease agreements that expire on various dates ending in 2012. Minimum future rental payments for 2011, 2012 and 2013 are \$ 112, \$ 4 and \$ 0, respectively.

The Company's motor vehicles are rented under various cancelable operating lease agreements. The lease agreements for the motor vehicles expire on various dates ending in 2013. The maximum breach of contract fees may amount to \$ 47.

Lease expenses for the facilities occupied by the Company and the Company's motor vehicles in 2010, 2009 and 2008 amounted to \$ 563, \$ 566 and \$ 644, respectively.

3. Litigation

In April 2006, BOSANOVA EURL, a French company and former distributor of the Company, served the Company with a claim filed with the French Trade Tribunal alleging breach of exclusive distributor rights in France and asserting ownership to certain intellectual property rights in the Company's products. The plaintiff sought an amount of approximately 3.3 million Euros and additional remedies. In June 29, 2008, the parties entered into a settlement agreement, pursuant to which they waived their respective claims against each other and terminated the court proceedings they had initiated on the basis of these claims. In connection with such settlement, the Company paid BOSANOVA an amount of \$20 and offered it a rebate of \$40 on future purchases.

In January 2008, a former employee of the Company, filed a claim against the Company in the Labor Court in Tel Aviv, for severance payments in the amount of NIS 306 thousand (approximately \$ 80). The plaintiff also demanded compensation for delay in payment of the said severance pay of NIS 207 thousand (approximately \$ 54). Pursuant to the Court's judgment issued on January 2010 the Company paid only the severance payments plus interest.

On November 2008, Blockshtil Ltd. filed a claim in the Petach-Tikva Magistrate Court alleging breach of contract by the Company and seeking damages in the amount of NIS 149 thousand (approximately \$ 42). Additional hearing was scheduled to March 31, 2011. The Company's financial statements include a provision in this respect.

NOTE 15:- SHAREHOLDERS' EQUITY

On January 12, 2010, the Company announced that the reverse share split which was approved in the general shareholders' meeting on December 23, 2009, has become effective prior to the opening of the market on January 12, 2010. Pursuant to the reverse split, each 5 ordinary shares, NIS 4.00 nominal value per share, was converted into one ordinary share, NIS 20.00 nominal value per share. No fractional shares were issued as a result of the reverse split. Instead, all fractional shares were rounded up to the next higher whole number of shares. All share and per share data in this report are reported after the effect of the 1 for 5 reverse split.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15:- SHAREHOLDERS' EQUITY (Cont.)

On December 23, 2009, the Company's authorized share capital increased from NIS 140,000,000, divided into 7,000,000 Ordinary shares of NIS 20.00 nominal value each to NIS 200,000,000 divided into 10,000,000 ordinary shares of NIS 20.00 nominal value each.

a. Private placements:

In March 2008, BOS-Dimex purchased the assets and activities of Dimex Systems (1988) Ltd., an Israeli private company and Dimex Hagalil Projects (2008) Ltd. purchased the assets and activities of Dimex Hagalil Ltd., a subsidiary of Dimex Systems Ltd. As part of the consideration for such acquisition the Company issued 100,045 shares. In addition, portion of the acquisition expenses were paid by issuance of 22,000 shares.

On July 9, 2008, the Company entered into a definitive private placement agreement with three foreign investors. The agreement was for the issuance of an aggregate of 148,148 Ordinary shares at a price per share of \$ 6.75 or \$ 1,000 in total. In addition, the Company issued to the investors 74,074 warrants. The exercise price of the warrants is \$ 8.00 per Ordinary share, and there are exercisable for two years from their date of issuance.

On August 25, 2008, the Company entered into a definitive private placement agreement with an Australian investor. The agreement was for the issuance of an aggregate of 163,266 Ordinary shares at a price per share of \$ 6.125 or \$ 1,000 in total. In addition, the Company issued to the investor 81,633 warrants. The exercise price of the warrants is \$ 7.375 per Ordinary share, and they are exercisable for two years from their date of issuance.

On October 5, 2010 the Company entered into a definitive private placement agreement with Telegraph Hill Capital Fund I, LLC ("THCAP") for the issuance of an aggregate of 96,362 Ordinary Shares at a price per share of \$3.11, or approximately \$300 in total. In addition, the Company announced that Mr. Luis Gutierrez Roy, managing partner in THCAP was appointed to its Board of Directors.

The Company's outstanding warrants to shareholders as of December 31, 2010 are as follows:

Outstanding and exercisable warrants as of December 31, 2010	Weighted average exercise price of outstanding warrants	Weighted average remaining contractual life (years)
108,363	\$ 13.80	1.00

b. Stock option plans:

In May 2003, the Company's shareholders approved the adoption of the 2003 Israeli Stock Option Plan ("the Plan"), pursuant to which 125,000 Ordinary shares were reserved for purchase by the employees, directors, consultants and service providers of the Company and its subsidiaries. Subsequently, the shareholders approved increases of the shares reserved for issuance under the Plan, initially to 200,000, and thereafter to 300,000, to 520,000 and in May 14, 2009 to 830,000. Any option which is canceled or forfeited before expiration will become available for future grants.

As of December 31, 2010 an aggregate of 234,378 of these options are still available for future grants. Each option granted under the Plan expires between 3-10 years from the date of the grant. The options vest gradually over a period of up to four years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15:- SHAREHOLDERS' EQUITY (Cont.)

A summary of the Company's employees and directors stock option activity and related information for the year ended December 31, 2010, is as follows:

	Number of options	Weighted- average exercise price	Weighted- average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at January 1, 2010	617,047	\$ 7.10	3.79	\$ 95
Changes during the year:				
Granted	-	\$ -		
Exercised	(37,996)	\$ 0.00		
Forfeited or cancelled	(104,460)	\$ 7.25		
Outstanding at December 31, 2010	<u>474,591</u>	<u>\$ 7.69</u>	<u>3.26</u>	<u>\$ 140</u>
Vested and expected to vest	<u>447,199</u>	<u>\$ 7.69</u>	<u>3.26</u>	<u>\$ 140</u>
Exercisable at December 31, 2010	<u>352,079</u>	<u>\$ 7.82</u>	<u>2.97</u>	<u>\$ 140</u>

The weighted-average grant-date fair value of options granted during the years ended December 31 2009 and 2008 was \$ 1.70 and \$ 1.90, respectively. 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, 2010 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, 2010.

Total aggregate intrinsic value of options exercised for the years ended December 31, 2010, 2009 and 2008 was \$ 62, \$25 and \$ 20, respectively. The aggregated intrinsic value of options outstanding for the years ended December 31, 2010 and 2009 was \$ 389 and \$ 546, respectively (the difference between the fair market value of the Company's Ordinary shares on grant date and the exercise price, multiplied by the number of in-the-money options). As of December 31, 2010, there was \$ 132 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's stock option plans. That cost is expected to be recognized over a weighted-average period of 12 months.

No cash was received from exercise of options for the years ended December 31, 2010, 2009 and 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15:- SHAREHOLDERS' EQUITY (Cont.)

The options granted to employees and director outstanding as of December 31, 2010 have been separated into ranges of exercise prices, as follows:

exercise price	Options outstanding as of December 31, 2010	Weighted average remaining contractual life (years)	Options exercisable as of December 31, 2010	Weighted average remaining contractual life of options exercisable (years)
\$ 0	84,717	3.04	84,717	3.04
\$ 2.48	1,500	3.14	500	3.14
\$ 2.75	2,462	1.56	-	-
\$ 3.05	6,000	2.88	3,000	2.88
\$ 3.49	1,500	2.88	1,000	2.88
\$ 5.00	91,260	3.13	23,940	3.25
\$ 5.22	1,500	2.39	1,000	2.39
\$ 5.64	50,000	2.88	50,000	2.88
\$ 7.33	1,500	2.34	1,000	2.34
\$ 7.50	1,500	2.50	1,000	2.50
\$ 8.40	20,000	7.24	10,000	7.24
\$ 8.57	1,500	2.34	1,000	2.34
\$ 11.93	80,000	3.75	60,000	3.25
\$ 12.60	64,920	6.30	48,690	6.30
\$ 12.85	1,500	1.61	1,500	1.61
\$ 13.40	56,132	0.88	56,132	0.88
\$ 13.48	3,000	0.39	3,000	0.39
\$ 15.00	5,600	4.07	5,600	4.07
	<u>474,591</u>	3.26	<u>352,079</u>	2.97

c. Warrants issued to service providers and debt providers:

The Company accounts for these options in accordance with the provisions of ASC 505-50, "Equity-Based Payments to Non-Employees". The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions. No warrants were granted to service providers during the years 2008. During the years 2009 and 2010 the Company granted warrants to several service providers (see Note 13).

The compensation expenses that have been recorded in the consolidated financial statements regarding these warrants for the years ended December 31, 2010, 2009 were \$ 0, and \$ 20, respectively.

The Company's outstanding warrants to service and debt providers as of December 31, 2010 are as follows:

exercise price	Warrants outstanding as of December 31, 2010	Weighted average remaining contractual life (years)	Warrants exercisable as of December 31, 2010	Weighted average remaining contractual life of warrants exercisable (years)
\$ 0.00	1,320	3.00	1,320	3.00
\$ 2.50	20,000	5.59	13,333	5.59
\$ 2.75	784,581	1.59	-	-
\$ 3.72	69,096	3.10	69,096	3.10
\$ 5.00	13,200	3.00	13,200	3.00
\$ 11.50	2,000	0.00	2,000	0.00
\$ 20.20	45,481	1.10	45,481	1.10
\$ 26.50	9,741	2.63	9,741	2.63
	<u>945,419</u>	1.79	<u>154,171</u>	2.77

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 16:- TAXES ON INCOME

a. Reduction in corporate tax rate:

The rate of the Israeli corporate tax is as follows: 2007 - 29%, 2008 - 27%, 2009 - 26%, 2010 - 25%. Tax at a reduced rate of 25% applies on capital gains arising after January 1, 2003, instead of the regular tax rate. In July 2009, the "Knesset" (Israeli Parliament) passed the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among others, an additional gradual reduction in the rates of the Israeli corporate tax and real capital gains tax starting 2011 to the following tax rates: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%.

b. Loss carry forward:

The Company and its Israeli subsidiaries have accumulated losses for Israeli income tax purposes as of December 31, 2010, in the amount of approximately \$ 30,311. 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 which may be carried forward under certain limitations.

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:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Assets in respect of:		
Allowances and provisions	188	97
Net operating loss carry forward (1)	6,625	7,304
	6,813	7,401
Valuation allowance (2)	(6,461)	(6,980)
	352	421
Liabilities in respect of intangible assets	(352)	(421)
Net deferred tax assets (liability)	<u>\$ -</u>	<u>\$ -</u>

(1) See Note 16b.

(2) The Company has provided valuation allowances in 2010 on deferred tax assets resulting from tax loss carry forward and other reserves and allowances due to their history of operating losses and current uncertainty concerning the ability to realize these deferred tax assets in the future.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 16:- TAXES ON INCOME (Cont.)

- d. Tax benefit (taxes on income) is comprised as follows:

	Year ended December 31,		
	2010	2009	2008
Current	\$ (2)	\$ (6)	\$ 22
Prior years	(3)	-	(4)
Deferred	-	(323)	223
	<u>\$ (5)</u>	<u>\$ (329)</u>	<u>\$ 241</u>
Domestic	\$ (73)	\$ (323)	\$ 246
Foreign	68	(6)	(5)
	<u>\$ (5)</u>	<u>\$ (329)</u>	<u>\$ 241</u>

- e. Profit (Loss) before taxes is comprised as follows:

	Year ended December 31,		
	2010	2009	2008
Domestic	\$ 228	\$ (5,697)	\$ (4,894)
Foreign	(52)	-	-
	<u>\$ 176</u>	<u>\$ (5,697)</u>	<u>\$ (4,894)</u>

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

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

- g. Tax assessments:

BOS, BOS Odem, BOS-Dimex and Quasar have final assessments through 2005. Dimex Hagalil was incorporated in 2008, and therefore, does not have any final assessments.

Ruby-Tech Inc., a U.S. subsidiary, has final assessments through 2005.

- 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 the U.S. and Israel jurisdiction. BOS, BOS-Dimex, BOS-Odem and Quasar may be subject to auditing by the Israel tax authorities for fiscal years 2006 and after. Dimex Hagalil 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 ("IRS") for fiscal years 2006 and thereafter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 16:- TAXES ON INCOME (Cont.)

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.

f. Uncertain tax positions

	December 31,	
	2010	2009
Uncertain tax positions, beginning of year	\$ 354	\$ -
Increases in tax positions for prior years	-	354
Decreases in tax positions for prior years	(17)	-
Increases in tax positions for current year	58	-
Uncertain tax positions, end of year	<u>\$ 395</u>	<u>\$ 354</u>

The Company recognizes interest accrued that is related to unrecognized tax benefits and penalties in taxes on income. During the years ended December 31, 2010, and 2009, the Company recognized approximately \$ 26 and \$ 67, respectively, in interest and penalties. The Company had approximately \$ 93 and \$ 67 accrued for the payment of interest and penalties at December 31, 2010 and 2009, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 17:- SUPPLEMENTARY INFORMATION TO STATEMENTS OF OPERATIONS

	Year ended December 31,		
	2010	2009	2008
a. Financial expenses, net:			
Financial income:			
Interest on bank deposits and marketable securities	\$ 32	\$ 9	\$ 4
Change in fair value of forward contracts	141	82	-
Other (mainly foreign currency transaction income)	-	-	61
	<u>173</u>	<u>91</u>	<u>65</u>
Financial expenses:			
In respect of bank loans and convertible note	(1,039)	(671)	(496)
Other (mainly foreign currency transaction losses)	(95)	(26)	-
	<u>(1,134)</u>	<u>(697)</u>	<u>(496)</u>
	<u>\$ (961)</u>	<u>\$ (606)</u>	<u>\$ (431)</u>
b. Net earnings (loss) per share:			
1. Numerator:			
Numerator for basic and diluted net Earning (loss) per share:			
Income (loss) from continuing operations	\$ 171	\$ (6,026)	\$ (4,653)
Loss from discontinued operations	(806)	(3,075)	(1,747)
Net loss available to Ordinary shareholders	<u>\$ (635)</u>	<u>\$ (9,101)</u>	<u>\$ (6,400)</u>
2. Denominator (in thousands):			
Basic weighted average Ordinary shares outstanding (in thousands)	<u>2,622</u>	<u>2,606</u>	<u>2,396</u>
Diluted weighted average Ordinary shares outstanding (in thousands)	<u>2,757</u>	<u>2,606</u>	<u>2,396</u>
Basic and diluted net earnings (loss) per share from continuing operations	<u>\$ 0.07</u>	<u>\$ (2.32)</u>	<u>\$ (1.94)</u>
Basic and diluted net earnings (loss) per share from discontinued operations	<u>\$ (0.31)</u>	<u>\$ (1.18)</u>	<u>\$ (0.73)</u>
Basic and diluted net loss per share	<u>\$ (0.24)</u>	<u>\$ (3.50)</u>	<u>\$ (2.67)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 18:- SEGMENTS AND GEOGRAPHICAL INFORMATION

The Company manages its business in two reportable segments, consisting of the RFID and Mobile Solutions segment and 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 2010, 2009 and 2008 were as follows:

	RFID and Mobile Solutions	Supply Chain Solutions	Not Allocated/	Consolidated
2010				
Revenues	\$ 12,463	\$ 17,724	\$ -	\$ 30,187
Gross profit	\$ 3,632	\$ 3,851	\$ -	\$ 7,483
Assets related to segment	\$ 12,418	\$ 9,605	\$ 107	\$ 22,130
2009				
Revenues	\$ 10,729	\$ 14,738	\$ -	\$ 25,467
Gross profit	\$ 3,375	\$ 116	\$ -	\$ 3,491
Assets related to segment	\$ 17,201	\$ 4,159	\$ 579	\$ 21,939
2008				
Revenues	\$ 11,280	\$ 22,786	\$ -	\$ 34,066
Gross profit	\$ 3,367	\$ 3,467	\$ -	\$ 6,834
Assets related to segment	\$ 20,645	\$ 12,018	\$ 882	\$ 33,545

b. The following presents total revenues and long-lived assets for the years 2010, 2009 and 2008 based on the location of customers:

	Year ended December 31,					
	2010		2009		2008	
	Total revenues	Long-lived assets *)	Total revenues	Long-lived assets *)	Total revenues	Long-lived assets *)
America	\$ 2,596	\$ -	\$ 1,548	\$ -	\$ 3,344	\$ -
Far East	2,228	-	998	-	904	-
Europe	811	-	566	-	1,317	-
Israel and others	24,552	1,135	22,355	1,221	28,501	1,050
	<u>\$ 30,187</u>	<u>\$ 1,135</u>	<u>\$ 25,467</u>	<u>\$ 1,221</u>	<u>\$ 34,066</u>	<u>\$ 1,050</u>

*) Long-lived assets comprise of property, plant and equipment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 18:- SEGMENTS AND GEOGRAPHICAL INFORMATION (Cont.)

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

	Year ended December 31,		
	2010	2009	2008
Customer A (Supply Chain Segment)	7%	14%	15%

NOTE 19:- RELATED PARTIES

Service Agreement of Cukierman & Co.:

The Company's audit committee and Board approved an engagement with Cukierman & Co. Investment House Ltd. ("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. Since June 26, 2003, Mr. Cukierman serves as Chairman of the Company's Board, and he is also a co-manager of the Catalyst Fund, the Company's largest shareholder. For its services, Cukierman & Co. is paid a monthly sum of \$ 10 plus VAT, in addition to a success fee of 4%-6% for a consummated private placement. According to its terms, the Company may terminate the Service Agreement at any time, by giving one-month prior written notice. The Service Agreement provides that the success fees for securing M&A transactions will be 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.

The payments the Company paid and accrued according to the Service Agreement with Cukierman & Co. are:

	Year ended December 31,		
	2010	2009	2008
Business development	\$ 95	\$ 147	\$ 113
Success fee in respect of merger acquisitions	-	-	143
Success fee in respect of issuance of convertible loan	-	40	-
Success fee in respect of issuance of private placements	18	-	120
Total	\$ 113	\$ 187	\$ 376

On November 7, 2007, the shareholders approved the Service Agreement with Mr. Edouard Cukierman, the Chairman of the Board, pursuant to which, Mr. Edouard Cukierman shall be granted options ("the Options") to purchase up to 20,000 Ordinary shares of the Company per each calendar year of service as the Company's Chairman of the Board of Directors ("the Service") in the years 2007-2010 (pro-rated for any part of the calendar year). The Options shall be in lieu of any compensation, fees or options otherwise payable by the Company to Mr. Cukierman as a director.

The Options shall vest on a quarterly basis. The exercise price of the Options is \$ 11.925 which was equal to the weighted average of the closing prices of the Company's Ordinary shares on the Nasdaq Global Market during the thirty-day period preceding the shareholders approval. Unexercised Options shall expire after five years from their respective grant date.

Pursuant to the Service Agreement, if the Service is terminated by the Company for no cause (as defined in the Service Agreement) then: (i) any unvested Options shall be immediately vested in full

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 19:- RELATED PARTIES (Cont.)

as of the date of the termination; (ii) the Company shall grant Mr. Cukierman such number of Options amounting, together with Options previously granted, to 80,000 Options, and such additional Options

shall be vested upon grant; and (iii) the Options shall be exercisable for a period of twenty four (24) months from termination.

If the Service is terminated by Mr. Cukierman under circumstances not involving the defined cause, his vested options shall be exercisable for six (6) months from the date of said termination.

Agreements with THCAP:

In September 2009, the Company entered into a service agreement with THCAP, pursuant to which THCAP shall provide the Company with non-exclusive private financing and business consulting services. In consideration, the Company issued to THCAP warrants to purchase 14,400 ordinary shares at an exercise price of \$2.75 per share. The warrants are exercisable as of February 28, 2011 and can be exercised until August 31, 2012.

In November 2009, the Company entered into an amendment to the service 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. As of December 31, 2010, no fees were paid under this agreement.

On October 5, 2010 the Company entered into a definitive private placement agreement with THCAP pursuant to which the Company issued to THCAP ordinary shares (see note 15a), and Mr. Luis Gutierrez Roy, the managing partner in THCAP was appointed to its Board of Directors.

Summary of Economic Terms as of December 31, 2010

Lender: Bank Leumi Le Israel

Borrower: BOS Odem Ltd.

Principal	\$1,835,586	\$1,803,975	\$869,847
Loan currency	NIS	US \$	US \$
Term	Revolving	Revolving	Long term – until October 16, 2012
Interest payment	Monthly	Monthly	Monthly
Principal payment	Revolving	Revolving	Monthly
Interest rate	Prime plus 2.25% - 2.5%	Libor plus 3%	Prime plus 2.1%

Borrower: BOS Dimex Ltd.

Principal	\$3,638,462
Loan currency	NIS
Term	Revolving
Interest payment	Monthly
Principal payment	Revolving
Interest rate	Prime plus 3%

Form of Request to Allocate a Credit in Israeli Currency (unlinked)

To: **Bank Leumi le-Israel B.M.**
_____ Branch

Date: _____

Re: **Request to allocate Credit in Israeli Currency (Unlinked)**

1. Advance and amount of the Credit

Please allocate to us a credit, /we confirm receipt of a credit* in the sum of NIS _____ (hereinafter: "the Credit") in our account number _____ maintained with yourselves (hereinafter: "the Credit Account") and, if no such account as above presently exists with yourselves, please open for us an account in our name and allocate the Credit therein. The General Conditions for Opening an Account for Receiving Credits signed by us in your favor (hereinafter: "the Terms of Operation"), in addition to the additional conditions hereinafter contained, will apply to the Credit Account and to the Credit. Please credit our Account with yourselves, Account No. _____ (the "the Master Account") with the amount of the Credit.

2. Term of the Credit

The Credit will be for a term of _____ (the "Term of the Credit"). The date of advancing the Credit will be _____ (the "Date of Allocation of Credit").

3. Interest

(a) The unpaid balance of the Credit will bear interest based upon the Bank's preference, on the daily balance or will bear interest on a different period, as will be customary in the Bank, commencing from the date the Credit is advanced until the full and actual payment thereof to the Bank. The interest will be calculated according to the number of days which have actually elapsed divided by 365 or 366, depending on the number of years in that relevant period.

(b) **Fixed interest**

If this request, is a request to allocate credit with a fixed interest, then the rate of interest on the unpaid balance of the Credit will be _____% a (the "Interest Rate") and the adjusted interest will be _____% (the "Adjusted Interest"). Notwithstanding the mentioned in section 3(a), if it is agreed that the repayment shall be made in the Spitzer method, the interest shall be calculated, from the date the credit is advanced until the full and actual payment thereof to the Bank based upon 360 days in a year and 30 days in a month.

(c) **Variable interest**

1. If this request, is a request to allocate credit with a variable interest, then the rate of interest mentioned in paragraph (a) above will be an interest rate in an amount that is higher/lower than _____% (the "Interest Spread") which is higher/lower than _____% above the prime rate of interest as defined below.

For the purposes hereof "the prime rate of interest" means interest at the basic rate customary in the Bank from time to time in overdraft accounts in Israeli currency.

2. We have taken note that a change in the prime rate of interest in the Bank will lead to a change in the interest on the Credit, by a percentage identical to such change in the basic interest, or at the Bank's option, by the same ratio whereby the basic rate of interest has been changed against the basic rate as it existed prior to such change. In the event of repayment (credit with variable interest) using the Spitzer method, then the interest shall be calculated as detailed in Section 3(a) and if any change occurs in the prime rate of interest on a day not being an interest payment day, the new interest rate will apply as from the immediately succeeding interest payment date following the date of the change, or on the date of the change of interest, at the option of the Bank.
3. We are aware that the interest of _____% (the "Initial Interest Rate") shall be the interest that shall commence on the date of grant of the Credit until the change of the prime rate of the interest, as aforementioned.
4. For the avoidance of doubt, it is hereby stated that the Bank will be entitled, from time to time, to change the interest rate as aforesaid even with respect to amounts of the Credit which have already been allocated to us in the Credit Account.

4. Repayment of Principal and Interest

- (a) We hereby undertake to repay the Bank the principal of the Credit together with the interest thereon in _____ consecutive equal monthly installments in the sum of approximately _____ each, on each _____ of every calendar month, commencing on _____ and terminating on _____ (the "Repayment of Principal").
 - (b) We hereby commit to repay the interest of the unpaid balance of Credit in _____ consecutive installments in the sum of approximately _____ each, on each _____ of every calendar month, commencing on _____ and terminating on _____ (the "Repayment of Interest").
- In case that the Interest shall be repaid in one installment, the Interest shall be added to the principal and shall compound interest from commencing on _____ and terminating on _____ (the "Accumulation Period"), from the date of allocation of the Credit.
- (c) If the credit shall be paid under the Spitzer method, then instead of the detailed in sections (a) and (b) above, we hereby commit to the Bank to repay the Bank, the principal together with the interest with respect to the unpaid balance of the Credit in equal monthly sequential installments, in _____ consecutive equal monthly installments in the sum of approximately _____ each, on each _____ of every calendar month, commencing on _____ and terminating on _____ (the "Repayment using Spitzer Method (Principal and Interest)"). Notwithstanding the stated in this section, the monthly payments may be unequal due to the calculation method, based upon the number of days as detailed in section 3(a).
-

(d) We are aware that the total repayment schedule which includes the exact amount of each payment will be provided to us soon after the allocation of the Credit and we that the amount that shall bind us is the one set forth the in the repayment schedule or if amended, as detailed in the amended repayment schedule.

In the event of a change in the interest rates as provided by paragraph 3(c) above, the amount of the unpaid balance of the Credit will be adjusted and the amounts of the installments changed accordingly so that the amounts of the installments will be equal from the date of the change until the next succeeding date of change. An amended repayment schedule will be given to us promptly after the date of the change.

5. **Mode of repaying the Credit**

On the date of payment of each amount on account of the principal of the Credit, principal, interest or other charges, please debit our Master Account as mentioned above for the purpose of discharging such amounts.

If the credit balance in the Master Account shall be insufficient to cover the amount, in whole or in part, please grant us a credit in the amount required to discharge such sum, either through the Master Account or through any other account, thereby debiting the Master Account or such other account.

We are aware and agree that if, at the time the Master Account or the other account is debited with the credit as aforesaid, the balance in such account will be a debit balance or become overdrawn as a result of such debiting, the credit will bear interest at the Customary Rate at such time according to the Terms of Operation of such account. We are aware that if the credit advanced to us as above exceeds the Credit facility previously authorized, then such credit will bear Interest at the Maximum Rate according to the Terms of Operation of such account.

We are aware that the interest that shall be debited to us in the Master Account or any other account, might be higher than one or more of the options as to Interest specified in the Terms of Operation. If it transpires, either before or after such debiting, that the state of the Account does not or did not enable a debit in such amount to be effected, and you decide that you do not wish for any reason to advance us a credit, or any legal impediment will exist to the debiting of the Account, you will be entitled to debit a special account to be opened in our name with such amount, and such special account will bear interest as provided by Clause 5 or Clause 13.5, titled "Deficiency Interest" of the Terms of Operation.

6. We shall not be entitled to repay the Credit (principal and interest) before the agreed upon Repayment Date, except if we have a legal right to do so, that may not be conditioned, or that the Bank agrees to do so in advance, in writing. The Bank shall be entitled to condition any such early repayment, with certain terms, including an early repayment commission, in the maximum amount legally allowed. It is hereby agreed that section 13(b) to the Israeli Pledge Law 1967, and any section that shall replace it, shall not apply to the early repayment of credit.

7. We approve that we have received a copy of this document.

Customers' signatures: _____

Form of Request to Allocate a Credit Framework in Debitory Account (unlinked)

Bank Leumi le-Israel B.M.
Branch _____
Date: _____

Account No _____

**Request to Allocate a Credit Framework In Israeli Currency Account No _____
(hereinafter referred to as "the Account")**

1. The Request

We hereby request from Bank Leumi le-Israel B.M. (the "Bank") the allocation of a credit framework in account no. _____ (the "Credit Framework") in an amount of _____ (the "Credit Framework Amount") in accordance with the detailed in this Request and in the terms and conditions for operation of the Account, as modified or as will be modified in the future (the "Terms and Conditions of Operation").

2. Term of the Credit

- 2.1 The date of advancing the Credit will be _____ ("Date of Credit Advancement"). If the Date of the Credit Advancement will not be stated, the date shall be the date stated on the Bank notice regarding the advancement of the Credit. The end of the term of the Credit shall be _____ (the "Credit Expiration Date").
- 2.2 We request that at each Credit Expiration Date, the Credit Framework shall be renewed for an additional year (or another time period), at the terms that shall be in force at such renewal date, including without limitation with respect to the interest rate, rate of Allocation of Credit Commission and additional commissions, which shall be in force at the renewal date. Each renewal of the Credit Framework shall be subject to the receipt from the Bank, at least 10 days prior to the end of the existing term of the Credit, a written notice stating the Bank's approval for such renewal, which shall include the new terms of the Credit framework.

For the avoidance of doubt, it is hereby clarified that nothing in this Request derogates the Bank's right to not renew the Credit Framework in whole or in part, or to renew it for a period of less than a year and/or to decrease or annul, at any time, any Credit Framework, as described in the Terms and Conditions of Operation.

3. Interest

We have noted that subject to the Terms and Conditions of Operation and for so long as you do not notify us otherwise-

3.1 Interest Rate for Debit Balances in the Credit Framework

The rate of interest on debit balances in the Credit Framework will be a changing rate, equal to the interest at the basic rate customary in the Bank from time to time in overdraft accounts in Israeli currency (the "Prime Rate"), as shall be from time to time, with a margin of _____ (the "Interest Rate for Debit Balances in the Credit Framework").

3.2 Maximum Interest Rate on Debit Balances

The maximum interest rate of debit balances shall be a changing rate, based upon the highest interest rate _____ (the "Interest Rate for Debit Balances"), in addition to the interest rate of _____ (the "Maximum Interest Rate for Debit Balances").

3.3 Term of Interest Calculation and Repayment Dates

- 3.3.1 The interest mentioned in paragraphs 3.1 and 3.2 above shall be computed based upon the number of days that there was been a debit balance in the Account; and it will be paid by us or will be credited as debt in our Account, on the last business day of March, June, September and December each year.



4. Credit Allocation Commission

The credit allocation commission in respect of the Credit Framework, for each quarter, will be in the amount of or at the rate of _____% (the "Quarterly Credit Allocation Commission") and will be paid by us or it shall be credited to the Account in advance at the time of the determination or increase of any Credit Framework and thereafter it will be paid by us or it shall be credited to the Account on the first business day of every January, April, July and October each year .

In cases that the Credit Allocation Commission shall be stated in percentages, the calculation of the commission shall be made by multiplication of the amount of the of the Credit Framework by the stated percentage and the number of days until the end of the term or the end of the quarter (the earlier of the two), divided by the number of days in the quarter.

Notwithstanding the above, the Bank may determine a minimum or maximum Credit Allocation Commission.

5. Unilateral Credit Framework

5.1 We agree that the Bank may, but will not be obliged, at its sole discretion, to provide us with a unilateral credit framework, in the Account, with out our request. If the bank provides us with such unilateral credit framework, it shall not be interpreted as the Bank's agreement, to repeat this in the future or to renew all or part of the unilateral credit framework it has provided.

In any case that the Bank shall provide us with a unilateral credit framework, it shall be deemed part of the Credit Framework and the terms of this document and the Terms and Conditions of Operation shall apply.

5.2 The debit balances in the unilateral credit framework, if the Bank shall agree to it, shall bear a changing interest rate equal to the Maximum Interest Rate for Debit Balances, in the highest rate stated under the most recent agreed upon Credit scale.

5.3 The time period of the unilateral credit framework may be different than the one set for the Credit Framework herein.

5.4 The unilateral credit framework shall not bear a Credit Allocation Commission.

5.5 The Bank will provide us a notice with respect to the unilateral credit framework, close to the time of its bestowal.

6. Amendments

6.1 We are aware that the Bank may, from time to time, amend the interest rates mentioned herein or any component of them (including the margin rate or the Maximum Interest Rate for Debit Balances), the Credit Allocation Commission rate (including the minimum and maximum rates), the term of Credit and their way of calculation.

Notwithstanding the abovementioned, as the interest in based upon the Prime Rate, any change in the Prime Rate shall cause a similar change in the interest. All such changes shall also be applicable to the unilateral credit framework mentioned in paragraph 5, if such credit framework shall be provided.

6.2 Such amendment shall apply to all debit balances existing at the time of the amendment and to all debit balances existing thereafter.

6.3 The notice with respect to any amendment shall be provided as required under applicable law.

6.4 Notwithstanding the aforementioned, we are aware that there may be a change in a certain component of the interest before the Bank provides the Credit Framework, and in such case the interest rate shall apply to the debit balances shall be at the new rate at that time and not in the rates detailed herein, that is given only for information purposes.

7. We confirm that we received a copy of this document.

Customers' signature _____

Bank Leumi – BOS-ODEM Credit Line Agreement

[Translated from Hebrew]

Date: February 7, 2010

To

BOS-ODEM Ltd. (hereinafter the "Company")

Dear Sir or Madam,

As per your request, we hereby inform you, that we Bank Leumi Le-Israel Ltd. (hereinafter - the "**Bank**"), are prepared in principle to place at your disposal credit up to a total sum that will not exceed 23,850,000 (twenty-three million eight hundred and fifty thousand N.I.S. only) (hereinafter - the "**Credit Framework**" or the "**Credit**") and all subject to all the conditions detailed in this document below:

1. The Credit Framework

1.1. The Credit Framework will be extended according to the following breakdown:

- 1.1.1. Short-Term Credits in a total amount that will not exceed N.I.S. 9,800,000 (nine million eight hundred thousand N.I.S. only), whose payment date shall occur no later than 31/12/10. "**Short Term Credits**" means credits whose repayment date will be no later than 12 months from the time of their provision.
 - 1.1.2. Long-term credits in a total amount that will not exceed N.I.S. 8,000,000 (eight million N.I.S. only) that were placed at the disposal of the Company prior to the date of this document according to the following details: loan number 400300399 671-10-120800-08 in the amount of N.I.S. 4,000,000 on 25/06/08. Loan number 903500016 671-20-120800/08 in the amount of \$1,000,000 on 25/06/08. After each one of the aforementioned loans is repaid, the Bank will be prepared to enlarge the Short-Term Credits framework as detailed in paragraph 1.1.1 above in an amount equal to the amount of the loan that was paid.
 - 1.1.3. Long-term credits in a total amount that will not exceed N.I.S. 550,000 (five hundred and fifty thousand N.I.S. only) that were placed at the Company's disposal before the date of this document in accordance with that detailed hereinafter: loan number 302000015 671-10-120800/08 in the amount of N.I.S. 6,000,000 on 28/03/07.
 - 1.1.4. Additional long-term credits in conjunction with the agreement of 29/1/2008 between the Company and Dimex Systems (1998) Ltd. with reference to the Asset Purchase Agreement of the assets of Dimex Systems (1998) Ltd. (hereinafter the "**Agreement**") in a total amount that will not exceed N.I.S. 4,000,000 (four million N.I.S. only) that were placed to the disposal of the Company before the date of this document according to the detailing as follows: as part of the loan number 406500018 671-10-120800/08 on 16/04/09.
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1.1.5. Additional long-term credits in a total amount that will not exceed N.I.S. 200,000 (two hundred thousand N.I.S.) that were placed to the disposal of the Company before the date of this document according to the detailing as follows: as part of the loan number 406500018 671-10-120800/08 on 16/04/09.

1.1.6. Credit framework for the purpose of issuing bank obligations on behalf of the customers, such as issuing bank guarantees etc., in a total aggregate amount that will not exceed 300,000 (three hundred thousand N.I.S. only) whose final payment date will occur no later than 31/12/2010 and provided that the last day for utilizing the credit on account of the aforementioned credit framework shall occur no later than 31/12/10.

Any amount that will not be exploited on account of this credit framework can be exploited as Short-Term Credit according to the conditions detailed in paragraph 1.1.1 above.

1.1.7. Framework for Future Transactions in a total amount that will not exceed N.I.S. 1,000,000 (one million N.I.S. only). "Framework for Future Transactions" means: the framework of the requirement for securities portraying the maximal exposure for making future deals (options, spot and forward) which expire no later than 30.8.10.

1.2. The currency of the Credit and the other conditions of the Credit including the interest rate for each part and the commissions attached to it, will be as agreed upon in writing between the Bank and yourselves before the Credit is provided and if it will not be agreed upon as is accepted practice in the Bank regarding credit of that category, at the time that it is provided.

1.3. Let it be clear that the Credit Framework includes also credits of any category whatsoever that the Bank will extend to you in practice in any account whatsoever prior to the signing of this document and/or any credit framework agreed upon between the Bank and yourselves prior to the signing of this document.

1.4. Any credit from the frameworks detailed in paragraphs 1.1.3 1.1.4, and 1.1.5 that was utilized and repaid prior to the final date for its utilization will not be provided anew.

2. Securities

2.1. Let it be clear that in order to guarantee the full and the punctilious repayment of all your debts and obligations all the securities and guarantees of every type and category that were provided and/or will be provided the Bank by you and/or by any third party whatsoever will be at the Bank's disposal, including and without detracting from the generality of the aforesaid, the following securities and guarantees:

2.1.1. Promissory notes, unlimited in amount, pledge documents under which a fixed lien will be imposed on your non-released stock capital and goodwill as well as a floating Lien on all the assets and rights of any category whatsoever, that you possess and will possess in the future;

- 2.1.2. Promissory notes, unlimited in amount, pledge documents under which a fixed lien will be imposed on the non-released stock capital and goodwill as well as a floating lien on all the assets and rights of any category whatsoever, of B.O.S. Better Online Solutions Ltd. as well as a floating lien on all assets and rights of any type or category whatsoever that B.O.S. Better Online Solutions Ltd. possesses or will possess in the future;
 - 2.1.3. Promissory notes, unlimited in amount and pledge documents via which B.O.S. Better Online Solutions Ltd. will mortgage its securities in BOS-ODEM Ltd. and all the rights on their behalf.
 - 2.1.4. At all times there will be on deposit at your account at Leumi Bank Israel Ltd. and mortgaged on behalf of the Bank in a first ranking fixed lien, without any limit to the amount, checks and notes of customers that are accepted by the Bank and that would award the Bank the right of someone who lawfully holds them, whose total amount deposited in your account in the Israel Leumi Bank Ltd. will not fall below the amount of 1,875,000 N.I.S. (one million eight hundred and seventy five thousand N.I.S. only) (hereinafter the "**Mortgaged Notes**").
 - 2.1.5. A fixed lien of the first degree and the endorsement of rights via mortgaging all their rights, including the right to receive monies, according to the agreement with Beterton Development and Properties Ltd. on 21/10/97 with regards to bloc 3939 plot 21 in the Rishon Lezion Industrial Zone; additionally, we will be provided with an irrevocable directives document to the second party in the aforesaid agreement, in a wording acceptable to the Bank, to the effect inter alia that any amount that is due to you from the aforesaid second party, will be paid solely to the credit of your account at the Bank.
 - 2.1.6. A promissory note of the first level, regarding all the monies in account number 120800/08 that is being managed by BOS-ODEM Ltd. in branch 671 and all rights to and pertaining to the aforesaid account.
 - 2.1.7. A standing guarantee unlimited in amount to secure all your debts and the fulfillment of your obligations towards the Bank signed by B.O.S. Better Online Solutions Ltd.
 - 2.1.8. A standing guarantee unlimited in amount to secure all your debts and the fulfillment of your obligations to the Bank signed by the Dimex Solutions Ltd.
 - 2.1.9. A standing guarantee unlimited in amount to secure all your debts and the fulfillment of your obligations to the Bank signed by the Dimex Hagalil Projects (2008) Ltd.
 - 2.2. All the aforementioned assets and rights whose pledge/mortgage and/or endorsement to the Bank are required under this document will be pledged/mortgaged/endorsed over when they are free of any lien, attachment or any other third-party right whatsoever.
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3. Additional Conditions for the Extension of Credits:

In addition to the aforesaid, the extension of the Credits all or partial and their continued management will be contingent on the observance of all the following additional conditions:

- 3.1. Immediately upon our demand all the documents and authorizations that will be necessary according to our discretion, will be signed and provided in the wording that we find acceptable for the provision of the Credits and the creation of the guarantees and the obligations detailed above.
- 3.2. No event whatsoever will take place allowing the Bank, on the basis of any document that was signed and/or will be signed by you, including and without detracting from the generality of the aforesaid above under the directives of the general conditions for providing a credit in foreign currency and in Israeli currency agreement - as is the Bank's practice - to call for the immediate payment of your debts and obligations to the Bank all or partially, and this irrespective of whether the existence or nonexistence of the aforementioned event is dependent upon you or not.
- 3.3. No change in the Bank's opinion will occur that will prevent, prohibit or limit the options of the Bank to place the Credits, including a change in the local or international capital markets, or a change that derives from a demand, directive or request that was made or referred by the Bank of Israel or by a another competent authority, irrespective of whether the aforementioned directive, demand or request will derive from a change in the law or whether it derives from an agreement that was made will be made periodically between the Bank and the Bank of Israel or another competent authority and no legal impediment whatsoever will be created in the Bank's opinion to extending the Credit, all or partially according to any Legal Directive.

In this document "**Legal Directive**" means - any directive of law or legislation as well as the directives of the Bank of Israel and any other competent authority, whether it has legal powers were not, and including agreements between the Bank of Israel and another competent authority as aforesaid.

- 3.4. For removal of doubt let it be clear that the continued management of the Credit is subordinate to all the Bank's rights and subject to all your obligations under all the documents that were signed and will be signed by you and/or under any law and there is nothing in this document to detract, in any manner whatsoever from the rights of the Bank and/or your obligations under any other document that will be signed by you to the Bank.
-

4. Commissions

- 4.1. Our offer to extend the Credit Framework under this letter will enter into effect if by 28/02/2010 inclusive, you will confirm with your signature at the bottom of this letter your agreement to all the conditions detailed above, and you will provide us with a copy of this letter as confirmed by you. And you will pay us a commission in the total amount of N.I.S 20,000 for the breach of financial yardsticks as you obligated in 2009.
- 4.2. During the entire period where the Credit Framework will be in effect you will pay us a commission for non-utilization at a rate of 0.7% per annum which will be calculated on the balance of the non-exploited Credit Framework. The examination of the total non-utilized Credit Framework will be performed on a daily basis and the payment of a commission will be done retroactively at the end of each calendar quarter.
5. Your rights under this document are not subject to transfer or endorsement in any form whatsoever to any third party whatsoever. The presentation of this letter of ours or any part of it before any other party shall be done only after the receipt of prior written consent from us.

Respectfully yours,

Bank Leumi Le-Israel Ltd.

Bank Leumi – BOS-DIMEX Credit Line Agreement

[Translated from Hebrew]

Date: February 7, 2010

To

BOS-DIMEX Ltd. (hereinafter the "Company")

Dear Sir or Madam.,

As per your request, we hereby inform you, that we, Bank Leumi Le-Israel Ltd. (hereinafter - the "**Bank**"), are prepared in principle to place at your disposal credit in N.I.S. up to a total sum that will not exceed 13,500,000 N.I.S. (thirteen million five hundred thousand N.I.S.) (hereinafter - the "**Credit framework**" or the "**Credit**") and all subject to the terms detailed in this document below:

1. The Credit Framework

1.1. the Credit Framework will be extended according to the following breakdown:

1.1.1. Short-Term Credits in a total amount that will not exceed 13,200,000 N.I.S. (thirteen million two hundred thousand N.I.S. only), whose final repayment date shall occur no later than 31/12/10. "**Short-Term Credits**" means - credits whose final payment date will occur no later than 12 months from the date of their provision.

1.1.2. A credit framework for the purpose of issuing bank obligations on behalf of the customers, such as issuing bank guarantees etc., in a total aggregate amount that will not exceed 300,000 (three hundred thousand N.I.S. only), provided that the last day for utilizing the credit on account of the aforementioned credit framework shall occur no later than 31/12/10.

Any amount that will not be exploited on account of this credit framework can be exploited as Short-Term Credit according to the conditions detailed in paragraph 1.1.1 above.

1.2. The currency of the Credit and the other conditions of the Credit including the interest rate for each part and the commission attached to it, will be as agreed upon in writing between the Bank and yourselves before it is provided, and if it will not be agreed it will be as is accepted practice in the Bank regarding credit of that category, at the time that it is provided.

1.3. Let it be clear that the Credit Framework includes also credits of any category whatsoever that the Bank actually extended to you in any account whatsoever prior to the signing of this document and/or any credit framework agreed upon between the Bank and yourselves prior to the signing of this document.

2. Securities

- 2.1. Let it be clear that in order to guarantee the full and the punctilious repayment of all your debts and obligations all the securities and guarantees of every type and category that were provided and/or will be provided to the Bank by you and/or by any third party whatsoever will be at the Bank's disposal, including and without detracting from the generality of the aforesaid, the following securities and guarantees:
 - 2.1.1. Promissory notes, unlimited in amount, pledge documents under which a fixed lien will be imposed on your non-released stock capital and goodwill as well as a floating lien on all the assets and rights of any category whatsoever, that you possess and will possess in the future;
 - 2.1.2. Promissory notes, unlimited in amount, pledge documents under which a fixed lien will be imposed on the non-released stock capital and goodwill as well as a floating lien on all the assets and rights of any category whatsoever, of B.O.S Better Online Solutions Ltd. as well as a floating lien on all assets and rights of any type or category whatsoever that B.O.S. Better Online Solutions Ltd. possesses or will possess in the future;
 - 2.1.3. Promissory notes, unlimited in amount, and pledge documents via which B.O.S Better Online Solutions Ltd. will mortgage its securities in Dimex Solutions Ltd. and all the rights on their behalf.
 - 2.1.4. At all times there will be on deposit at your account at Leumi Bank Israel Ltd. and mortgaged on behalf of the Bank in a first ranking fixed lien, without any limit to the amount, checks and notes of customers that are accepted by the Bank and that would award the Bank the right of someone who lawfully holds them, whose total amount deposited will not fall below the amount of 1,000,000 N.I.S. (one million N.I.S. only) (hereinafter: the "**Mortgaged Notes**")
 - 2.1.5. A standing guarantee unlimited in amount to secure all your debts and the fulfillment of your obligations towards the Bank signed by B.O.S. Better Online Solutions Ltd.
 - 2.1.6. A standing guarantee unlimited in amount to secure all your debts and the fulfillment of your obligations to the Bank signed by Dimex Hagalil Projects (2008) Ltd.
 - 2.1.7. A standing guarantee unlimited in amount to guarantee your debts and the fulfillment of your obligations to the Bank signed by Odem Electronic Technologies 1992 Ltd.
 - 2.2. All the aforementioned assets and rights whose pledge/mortgage and/or endorsement to the Bank are required according to this document will be pledged/mortgaged/endorsed when they are free of any lien, attachment or any other third-party right whatsoever.
-

3. Additional Conditions for the Extension of Credit:

In addition to the aforesaid, the extension of the Credits all or partial and their continued management will be contingent on the observance of all the following additional conditions:

- 3.1. Immediately upon our demand all the documents and authorizations that will be necessary according to our discretion, will be signed and provided in the wording that we find acceptable for the provision of the Credits and the creation of the guarantees and the obligations detailed above.
- 3.2. No event whatsoever will take place allowing the Bank, on the basis of any document that was signed and/or will be signed by you, including and without detracting from the generality of the aforesaid above under the directives of the General Conditions for Providing Credit In Foreign Currency and in Israeli Currency Agreement - as is the Bank's practice - to call for the immediate payment of your debts and obligations to the Bank, fully or partially, and this irrespective of whether the existence or nonexistence of the aforementioned event is dependent upon you or not.
- 3.3. No change in the Bank's opinion will occur, that will prevent, prohibit or limit the options of the Bank to place the credits, including a change in the local or international capital markets, or a change that derives from a demand, directive or request that was made or referred by the Bank of Israel or by a another competent authority, irrespective of whether the aforementioned directive, demand or request will derive from a change in the law or whether it derives from an agreement that was made will be made periodically between the Bank and the Bank of Israel or another competent authority and no legal impediment whatsoever will be created in the Bank's opinion to extending the credit, all or partially according to any Legal Directive.

In this document "**Legal Directive**" means - any directive of law or legislation as well as the directives of the Bank of Israel and any other competent authority, whether it has legal powers were not, and including agreements between the Bank of Israel and another competent authority as aforesaid.

- 3.4. For removal of doubt let it be clear that continued management of the credit is subordinate to all the Bank's rights and subject to all your obligations under all the documents that were signed and will be signed by you and/or or under any law and there is nothing in this document to detract, in any manner whatsoever from the rights of the Bank and/or your obligations under any other document that will be signed by you to the Bank.

4. Commissions

- 4.1. Our offer to extend the Credit Framework under this letter will enter into effect if by 28/02/2010 inclusive, you will confirm with your signature at the bottom of this letter your agreement to all the conditions detailed above, and you will provide us with a copy of this letter as confirmed by you.
-

- 4.2. During the entire period where the Credit Framework will be in effect you will pay us a commission for non-utilization at a rate of 0.7% per annum which will be calculated on the balance of the non-exploited Credit Framework. The examination of the total non-utilized Credit Framework will be performed on a daily basis and the payment of a commission for it will be made retroactively at the end of each calendar quarter.
5. Your rights under this document are not subject to transfer or endorsement in any form whatsoever to any third party whatsoever. The presentation of this letter of ours or any part of it before any other party shall be done only after the receipt of prior written consent from us.

Respectfully yours,

Bank Leumi Le-Israel Ltd.

EBITDA Covenants Letter

[Translated from Hebrew]

Date: February 7, 2010

To

Bank Leumi Le-Israel Ltd.

Whereas as one of the conditions for providing credits, banking services and the receipt of various obligations and guarantees from us the undersigned BOS-ODEM Ltd. and/or BOS-DIMEX Ltd. and/or B.O.S. Better Online Solutions Ltd. (hereinafter together and separately the "**Companies**") you demanded that we should sign for you on this letter and we have assented to this;

We therefore hereby declare and obligate ourselves as follows:

1. Efficiency Relations/Operational Relations

We agree that the granting of credits and the provision of banking services to the Companies and/or upon their guarantee and their continued management will be on condition that the ratio of the Companies' Debt Service according to the consolidated financial statements of B.O.S. Better Online Solutions Ltd. only (while neutralizing BOS SUPPLY CHAIN SOLUTIONS (LYNK) INC.) - shall not fall below 1.

In this Section the following meanings shall be attached to the terms below:

"**Debt Service Ratio**" means that quotient obtained by dividing the operating profit for debt service by the amount of Debt Service.

"**The Operating Profit for Debt Service**" (EBITDA) means the cumulative total of operating profit from ongoing activity, according to the financial statements for recent year, prior to financing expenditures (interest, linkage differentials, rate of exchange and currency differentials and commissions) and taxes with the addition of depreciation and amortization expenses that were entered in the same period.

(2) With regards to financial statements drawn up under IFRS and US GAAP standards the definition for EBITDA will change and its calculation will not include the clauses detailed below:

- a. Profits/losses from the reevaluation of real estate for investment.
- b. Profits/losses deriving from changes in actuarial assumptions that were employed for the purpose of estimating worker benefits.
- c. Capital profits/losses.
- d. Income/expenditure for the reevaluation of warrants where the exercise price is linked/ the conversion component of convertible bonds whose exercise price is linked.

"**Debt Service**" means the cumulative total according to the recent annual financial statements of financing expenses with the addition of payment of current maturities for long-term loans that the companies were to have paid in the course of the calendar year to which the report refers to (the abovementioned four calendar quarters).

Finance Expenses: finance expenses as they appear in the Financial Statements excluding finance expenses due to convertible notes in the books of B.O.S. Better Online Solutions Ltd.

"**Financial Statements**" means - profit loss statements on a consolidated basis of B.O.S. Better Online Solutions Ltd. alone (neutralizing BOS SUPPLY CHAIN SOLUTIONS (LYNK) INC) prepared according to generally accepted accountancy principles US GAAP for periods of six months ending on June 30, 2010 and for the year ending on December 31, 2010.

(Below - jointly and severally - the "**Companies**") you have asked that we execute this document and we have agreed to do so;

The financial yardsticks that were determined in Section 1 above (hereinafter the "**Yardsticks**") are based on accountancy standards, rules of accountancy, and accountancy estimates and policy (hereinafter - "**Accountancy Treatment**") as implemented in the recent Financial Statements accurate to the date of this document (hereinafter - the "**Recent Statements**").

Accountancy Treatment that differs from the one on whose basis the Recent Statements were prepared including, but not only, as a result of the implementation of the international accountancy standardization (IFRS - International Financial Reporting Standards) or US GAAP, new accountancy standards/others/whatsoever in Israel or abroad, changes in estimates and/or a change in accountancy policy (all the aforesaid will be called below together and separately, - "**New Accountancy Treatment**") can result in changes that will have repercussions on the Yardsticks.

Therefore, the Companies agree as follows:

At any time that the bank should believe, upon its sole discretion, that changes were caused and/or are about to be caused in the Companies' Financial Statements, due to New Accountancy Treatment, it will be entitled, after consultation with the Companies but without requiring their consent, to inform the companies what are the amendments it requires in the Yardsticks (hereinafter - the "**Amended Yardsticks**") in order to adjust them to the aforesaid changes, and this with a view to amending them to suit the original economic purpose based on which the Yardsticks were determined.

If the bank informed the company what are the Amended Yardsticks - they shall bind the company commencing with the date that the bank gave notification and they will view this document as if it incorporates the Amended Yardsticks, beginning with the date that the bank gave notice.

2. An Obligation to Provide Financial Reports

We obligate ourselves to provide you no later than the date of 31.3 of each year the annual consolidated financial statements as per their aforesaid definition; audited by an external certified accountant and referring to 31.12 of the previous year.

Likewise we obligate ourselves to provide you no later than 60 days from the end of every quarter, quarterly financial statements as per their aforesaid definition signed by the CEO and CFO of the Company.

3. An Obligation to Provide Additional Reports

We obligate ourselves to provide you a copy of any authorization, notification report or any other document that we must turn over to the Registrar of Companies and/or to the Israel Securities Authority under any law, and this concomitantly with its provision to the Registrar of Companies and/or to the Securities Authority as aforesaid.

4. The Validity of These Obligations

Our aforesaid obligations will be in force as long as any amounts are due or will be due to you from us on account of loans, credits and/or other banking services, that you provided or will provide us in the future, and/or as long as the various obligations and guarantees of the Company towards you or in your favor will remain in effect.

In any case where we have failed to meet the Financial Yardsticks, all or some of them, or if we should violate any of our other obligations detailed in this aforementioned letter, all or some of them, then - in addition to any other relief that you will be entitled to by any law or as a result of any other obligation towards you that are included or that will be included in any document whatsoever - you will be entitled to call for the immediate payment of all or part of our debts and obligations towards you, and collect them from us with the addition of any amount that in the bank's opinion will suffice to cover the losses and/or the expenses that the bank will incur due to the aforesaid call for immediate payment.

Let it be clear that if the bank did not initiate proceedings due to the violation of a previous obligation or a failure to meet one or more of the obligations towards the bank, whether that obligation is included in this letter or is included or will be included in any other document, this will not be considered an abandonment or a waiver by the bank of its rights and/or as a justification or an excuse for the continued existence of the violation and/or the existence of any other violation or to further nonobservance of any condition or any obligation on our part as aforesaid.

To avoid any doubt there is nothing in the aforesaid to detract from our obligations to you on the basis of any document whatsoever and/or any law, and there is nothing to detract from any grounds for demanding immediate payment that is available and/or will be available to you under any document whatsoever and/or any law.

Respectfully yours,

BOS-ODEM Ltd.

BOS-DIMEX Ltd.

B.O.S. Better Online Solutions Ltd.

Tangible Equity Capital Covenants Letter

[Translated from Hebrew]

Date: February 7, 2010

To
Bank Leumi Le-Israel

Whereas you have placed and/or will place, as you should deem proper, loans, credits and/or other banking services at the disposal of BOS-ODEM Ltd. (hereinafter the "**Company**"), under terms and in amounts as agreed upon or will be agreed upon periodically between us;

And whereas you have received and/or will receive various obligations and guarantees to you or on your behalf from us;

And whereas as one of the conditions for the granting of the loans, the credits and/or the aforementioned banking services and the receipt of the various obligations and guarantees, you have demanded that we should sign on this document for you and we have assented to this;

We therefore hereby declare and obligate ourselves as follows:

1. An Obligation to Preserve Tangible Equity Capital

We obligate in 2010 to accrue a Tangible Equity Capital of the Company of at least \$100,000, in addition to the existing Tangible Equity Capital as published in the consolidated financial statements for 2009. This based on the data appearing in the annual and financial statements of the Company on a consolidated basis for 2009.

"**Tangible Equity Capital**" means - equity capital as presented in the financial statements, including, paid-up stock capital, non-distributed surpluses, funds, with the addition of the balance of the amounts of the shareholders' loan funds regarding which documents of subordination were signed towards the bank, by the company and shareholders and while deducting non-tangible assets such as: goodwill, patents, trademarks, brand names, copyrights etc. and deducting those liable to the Company who are interested parties and/or subsidiaries and/or companies related to the Company (as the aforementioned terms are defined in the Securities Law, 5728-1968) as well as deducting guarantees that were given by the Company to secure the debts of interested parties and/or subsidiaries and/or companies related to the Company.

With regards to financial statements drawn up according to IFRS or US GAAP standards the definition of equity capital will change in accordance with what is detailed below:

- a. Minority rights that appear in the framework of equity capital (with regards to consolidated statements) will not be included in the framework of equity capital.
 - b. Equity capital will also include the exchange component for option warrants when the exercise money for them is linked (they will appear in the framework of liabilities).
 - c. Equity capital also includes the conversion component for convertible bonds whose exercise price is linked (in the event that they should appear separately within the framework of liabilities in the balance).
 - d. A revaluation fund will not be incorporated for fixed assets that were created due to the adoption of a revaluation model in the period following the formulation of the financial conditions.
-

The financial yardsticks that were determined in Section 1 above (hereinafter the "**Yardsticks**" are based on accounting standards, accounting rules, estimates and accounting policy (hereinafter - "**Accountancy Treatment**") as implemented in the Company's recent financial statements, accurate to the date of this document (hereinafter the - "**Recent Statements**").

Accountancy Treatment that differs from the one on whose basis the recent reports were prepared including, but not merely, as a result of the implementation of 'IFRS' - (International Financial Reporting Standards), US GAAP new accountancy standards/others/whatsoever in Israel or abroad, changes in estimates and/or a change in accountancy policy (all the aforesaid will be termed below together and separately, - "**New Accountancy Treatment**") can result in changes that will exert repercussions on the Yardsticks.

Therefore, the company agrees as follows:

At any time that the bank should believe, upon its sole discretion, that changes were caused and/or are about to be caused to the Company's financial statements, due to new Accountancy Treatment, it will be entitled, after consultation with the Company but without requiring its consent, to inform the Company what are the changes that it requires in the Yardsticks (hereinafter - the "**Amended Yardsticks**") in order to adjust them to the aforesaid changes, and this with a view to adjusting them to achieve the original economic purpose on which the Yardsticks were set.

If the bank informed the company what the **Amended Yardsticks** are - they will bind the Company beginning with the date that the bank gave notification and this document should be viewed as incorporating the Amended Yardsticks, commencing with the date that the bank gave notice.

2. **An Obligation Not to Change Control in the Company**

We obligate ourselves that no change in control of the Company will occur as opposed to the situation on the day that this document was signed, save by prior written consent of the bank.

"**Control**" for the purpose of the aforesaid will be as the term is defined in the Securities Law 5728-1968.

3. **An Obligation not to Perform a Merger**

a. We obligate ourselves not to perform, not to obligate ourselves to perform and not to adopt any procedure whatsoever to perform a merger with another corporation/s without obtaining the bank's prior written consent. For this purpose we obligate ourselves to immediately turn over to the bank any information or documents, required by the bank, at its discretion, so it can formulate its position regarding the merger.

b. This aforesaid obligation in this Section above applies both to a merger according to the 8th part or according to the 9th part of the Companies Law, 5759-1999 as well as with regards to any activity that will result in the purchase of the bulk of the Company's assets by a person or another corporation or any activity that as result of which Company securities are purchased thus awarding the purchaser Control of the Company or any activity that results in the Company purchasing, directly or indirectly, the bulk of the assets of another corporation or the securities of a another corporation that would award it control in that corporation.

For the purpose of this Section, the term "**Control**" - is as defined in the Securities Law, 5728-1968.

4. **An Obligation to Provide Financial Statements**

We obligate ourselves to provide you no later than the date of 31.03 of each year the Company's financial statements, on a consolidated basis as well as that of the company alone; that comprise inter alia a balance, a profit statement, cash flow and any other report that will be required by the competent authorities, (hereinafter "**Financial Statements**"), audited by an external certified accountant and referring to 31.12 of the previous year.

Likewise we obligate ourselves to provide you no later than 60 days from the end of every quarter, quarterly financial statements of the Company on a consolidated basis, signed by the CEO and CFO of the Company and referring to the recently ended quarter.

5. **An Obligation to Provide Additional Reports**

We obligate ourselves to provide you a copy of any authorization, notification report or any other document that we must turn over to the registrar of companies and/or to the Israel Securities Authority under any law, and this concomitantly with its provision to the registrar of companies and/or to the Securities Authority as aforesaid.

6. **An Obligation Not to Issue Bearer Securities**

We obligate ourselves not to issue bearer securities, without the prior written consent of the bank.

We declare that as of the date of the signing of this document no bearer securities were issued by the company.

7. **The Validity of These Obligations**

Our aforesaid obligations will remain in force as long as any amounts are due or will be due to you from us on account of loans, credits and/or other banking services that you provided and/or will provide us in the future and/or as long as the obligations and guarantees towards you or on your behalf will remain in effect.

In any event that you should inform us that one of our aforesaid obligations was violated, completely or partially, then in addition to any other relief that you will be entitled to by law or by any other of our obligations towards you that are included or will be included in any document whatsoever-then you will be entitled to call for immediate payment of all or part of our debts and obligations towards you, and collect them from us with the addition of any amount that in the bank's opinion will suffice to cover the losses and/or expenses that the bank will incur due to the aforesaid call for immediate payment.

To remove any doubt there is nothing in the aforesaid to detract from our obligations towards you on the basis of any document whatsoever and/or any law, and there is nothing in the aforesaid to detract from any grounds for demanding immediate payment that is available and/or will be available to you under any document whatsoever and/or any law.

Respectfully yours,

BOS-ODEM Ltd.

Tangible Equity Capital Covenants Letter

[Translated from Hebrew]

Date: February 7, 2010

To
Bank Leumi Le-Israel

Whereas you have placed and/or will place, as you should deem proper, loans, credits and/or other banking services at the disposal of BOS-DIMEX Ltd. (hereinafter the "**Company**"), under terms and in amounts as agreed upon or will be agreed upon periodically between us;

And whereas you have received and/or will receive various obligations and guarantees to you or on your behalf from us;

And whereas as one of the conditions for the granting of the loans, the credits and/or the aforementioned banking services and the receipt of the various obligations and guarantees, you have demanded that we should sign on this document for you and we have assented to this;

We therefore hereby declare and obligate ourselves as follows:

1. An Obligation to Preserve Tangible Equity Capital

We obligate in 2010 to accrue a Tangible Equity Capital of the Company of at least \$90,000, in addition to the existing Tangible Equity Capital as published in the consolidated financial statements for 2009. This based on the data appearing in the annual and financial statements of the Company on a consolidated basis for 2009.

"**Tangible Equity Capital**" means - equity capital as presented in the financial statements, including, paid-up stock capital, non-distributed surpluses, funds, with the addition of the balance of the amounts of the shareholders' loan funds regarding which documents of subordination were signed towards the bank, by the company and shareholders and while deducting non-tangible assets such as: goodwill, patents, trademarks, brand names, copyrights etc. and deducting those liable to the Company who are interested parties and/or subsidiaries and/or companies related to the Company (as the aforementioned terms are defined in the Securities Law, 5728-1968) as well as deducting guarantees that were given by the Company to secure the debts of interested parties and/or subsidiaries and/or companies related to the Company.

With regards to financial statements drawn up according to IFRS or US GAAP standards the definition of equity capital will change in accordance with what is detailed below:

- a. Minority rights that appear in the framework of equity capital (with regards to consolidated statements) will not be included in the framework of equity capital.
 - b. Equity capital will also include the exchange component for option warrants when the exercise money for them is linked (they will appear in the framework of liabilities).
 - c. Equity capital also includes the conversion component for convertible bonds whose exercise price is linked (in the event that they should appear separately within the framework of liabilities in the balance).
 - d. A revaluation fund will not be incorporated for fixed assets that were created due to the adoption of a revaluation model in the period following the formulation of the financial conditions.
-

The financial yardsticks that were determined in Section 1 above (hereinafter the "**Yardsticks**") are based on accounting standards, accounting rules, estimates and accounting policy (hereinafter - "**Accountancy Treatment**") as implemented in the Company's recent financial statements, accurate to the date of this document (hereinafter the - "**Recent Statements**").

Accountancy Treatment that differs from the one on whose basis the recent reports were prepared including, but not merely, as a result of the implementation of 'IFRS' - (International Financial Reporting Standards), US GAAP new accountancy standards/others/whatsoever in Israel or abroad, changes in estimates and/or a change in accountancy policy (all the aforesaid will be termed below together and separately, - "**New Accountancy Treatment**") can result in changes that will exert repercussions on the Yardsticks.

Therefore, the company agrees as follows:

At any time that the bank should believe, upon its sole discretion, that changes were caused and/or are about to be caused to the Company's financial statements, due to new Accountancy Treatment, it will be entitled, after consultation with the Company but without requiring its consent, to inform the Company what are the changes that it requires in the Yardsticks (hereinafter - the "**Amended Yardsticks**") in order to adjust them to the aforesaid changes, and this with a view to adjusting them to achieve the original economic purpose on which the Yardsticks were set.

If the bank informed the company what the **Amended Yardsticks** are - they will bind the Company beginning with the date that the bank gave notification and this document should be viewed as incorporating the Amended Yardsticks, commencing with the date that the bank gave notice.

2. **An Obligation Not to Change Control in the Company**

We obligate ourselves that no change in control of the Company will occur as opposed to the situation on the day that this document was signed, save by prior written consent of the bank.

"**Control**" for the purpose of the aforesaid will be as the term is defined in the Securities Law 5728-1968.

3. **An Obligation not to Perform a Merger**

a. We obligate ourselves not to perform, not to obligate ourselves to perform and not to adopt any procedure whatsoever to perform a merger with another corporation/s without obtaining the bank's prior written consent. For this purpose we obligate ourselves to immediately turn over to the bank any information or documents, required by the bank, at its discretion, so it can formulate its position regarding the merger.

b. This aforesaid obligation in this Section above applies both to a merger according to the 8th part or according to the 9th part of the Companies Law, 5759-1999 as well as with regards to any activity that will result in the purchase of the bulk of the Company's assets by a person or another corporation or any activity that as result of which Company securities are purchased thus awarding the purchaser Control of the Company or any activity that results in the Company purchasing, directly or indirectly, the bulk of the assets of another corporation or the securities of a another corporation that would award it control in that corporation.

For the purpose of this Section, the term "**Control**" - is as defined in the Securities Law, 5728-1968.

4. **An Obligation to Provide Financial Statements**

We obligate ourselves to provide you no later than the date of 31.03 of each year the Company's financial statements, on a consolidated basis as well as that of the company alone; that comprise inter alia a balance, a profit statement, cash flow and any other report that will be required by the competent authorities, (hereinafter "**Financial Statements**"), audited by an external certified accountant and referring to 31.12 of the previous year.

Likewise we obligate ourselves to provide you no later than 60 days from the end of every quarter, quarterly financial statements of the Company on a consolidated basis, signed by the CEO and CFO of the Company and referring to the recently ended quarter.

5. **An Obligation to Provide Additional Reports**

We obligate ourselves to provide you a copy of any authorization, notification report or any other document that we must turn over to the registrar of companies and/or to the Israel Securities Authority under any law, and this concomitantly with its provision to the registrar of companies and/or to the Securities Authority as aforesaid.

6. **An Obligation Not to Issue Bearer Securities**

We obligate ourselves not to issue bearer securities, without the prior written consent of the bank.

We declare that as of the date of the signing of this document no bearer securities were issued by the company.

7. **The Validity of These Obligations**

Our aforesaid obligations will remain in force as long as any amounts are due or will be due to you from us on account of loans, credits and/or other banking services that you provided and/or will provide us in the future and/or as long as the obligations and guarantees towards you or on your behalf will remain in effect.

In any event that you should inform us that one of our aforesaid obligations was violated, completely or partially, then in addition to any other relief that you will be entitled to by law or by any other of our obligations towards you that are included or will be included in any document whatsoever-then you will be entitled to call for immediate payment of all or part of our debts and obligations towards you, and collect them from us with the addition of any amount that in the bank's opinion will suffice to cover the losses and/or expenses that the bank will incur due to the aforesaid call for immediate payment.

To remove any doubt there is nothing in the aforesaid to detract from our obligations towards you on the basis of any document whatsoever and/or any law, and there is nothing in the aforesaid to detract from any grounds for demanding immediate payment that is available and/or will be available to you under any document whatsoever and/or any law.

Respectfully yours,

BOS-DIMEX Ltd.

Form of Subordination Letters of BOS-DIMEX Ltd. and of BOS-ODEM Ltd.

[Translated from Hebrew]

"A"

Letter of Subordination and Additional Obligations for the Signature of Shareholders and Holders of Controlling Interest

Date: February 7, 2010

To

Bank Leumi Le-Israel Ltd.

Whereas Bank Leumi Le-Israel Ltd. (the "**Bank**") has granted or agrees to allocate to _____ (the "**Company**") periodically as the Bank deems fit, credits and/or other banking services in amounts and under the terms agreed upon or that will be agreed upon between the Bank and the Company;

And whereas the Bank received and/or will receive from the Company various obligations and guarantees towards the Bank or on its behalf;

And whereas as one of the conditions for providing the aforementioned credits and/or other banking services the Bank demanded that we should sign on this letter and we have assented to this;

Therefore, we the undersigned, shareholders in the Company and/or holders of controlling interest in the Company, all of us together and each one of us separately, declare and obligate ourselves towards you, on our behalf and on behalf of the companies under our and our Family Members' control, as follows:

For the purpose of the aforesaid in this Letter the following meanings will be attached to the terms below:

"**Corporations Under Our Control**" - any company and any other corporation under our control or under the control of any of us.

"**Control**", "**Family Member**" - as defined in the Securities Law 5728 - 1968 as will be valid from time to time.

1. We, Corporations Under Our Control, as well as our Family Members, will not demand, will not receive, will not collect, will not expend, directly or indirectly or in any form or manner whatsoever, any amount whatsoever from or on account of capital notes that the Company has issued and/or will issue on our behalf and/or on behalf of any of us and/or from or on account of loans that were given and/or will be given the Company, including payments of principal, interest, commissions and expenses (all the aforementioned amounts shall be hereinafter referred to as the "**Loans**").

Likewise, we obligate ourselves that we, the Corporations Under Our Control, as well as our Family Members, will not demand, will not receive, will not collect, will not expend from the Company (from its profits, from its capital or from any source whatsoever) either directly or indirectly, in any form or manner whatsoever, dividends (as per their definition in the Companies Law 5759-1999 as may be amended from time to time) or interest or management fees or indemnification fees or compensation fees or consultancy fees or amounts of money or monetary equivalents (these amounts shall be hereinafter referred to as "**Dividends**") and we shall not demand and shall not request from the company an obligation to distribute the aforesaid Dividends.

Likewise we will not transfer to another/others either directly or indirectly, all or any part of our rights, existing and future, to the company for the dividends and/or the loans, without the prior written consent of the Bank.

Likewise it is clarified that there is nothing in the aforesaid and/or below, as long as no event has occurred awarding the Bank the right to put up our obligations towards the Bank for immediate repayment, to prevent the transfer of monies between the Company and the B.O.S. Better Online Solutions Ltd. (hereinafter - "B.O.S.") for the Company's share in the expenses of B.O.S. up to a total amount that will not exceed \$175,000 (one hundred and seventy five thousand USD) for a period of six months ending on June 30, 2010, and this exclusively on the basis of expenses detailed in the list attached as Appendix C that constitutes an integral part of this Letter, and this on condition that there is nothing in the aforementioned transfer of funds that constitutes a violation of any other obligation whatsoever of the Company under any document whatsoever that it signs including and without detracting from the generality of the aforesaid, the document of conditions that it signed on ____ in favor of the Bank, and subject to the directives of the Companies Law and the law.

It is hereby clarified that meeting the budget for six months of 2010, as presented to the Bank in Appendix D attached hereto – signed by you, will enable transfer of monies between the Company and B.O.S. on account of the Company's participation in the expenses of B.O.S. up to a total amount that will not exceed \$175,000 (one hundred and seventy five thousand USD) for a period of six months ending on December 31, 2010, and this exclusively on the basis of the expenses detailed in the list attached as Appendix C which constitutes an integral part of this Letter. The aforementioned is subject to the monies not constituting a violation of any other obligation whatsoever of the Company under any document that it has executed including without limitation, the covenants document that it signed on ____ in favor of the Bank, and subject to the provisions of the Companies Law and the law.

2. Without derogating from the aforesaid, in the event that any of us, and/or the Corporations Under Our Control and/or Family Members and/or others as aforesaid, shall receive from the Company any amount whatsoever on account or with relation to the Loans or the Dividends, then we will transfer to the Bank any such amount immediately once it has been received by any of us as aforesaid. The Bank will be entitled to credit, as it sees fit any amount that it should receive as aforesaid, for repayment on account of the amounts that are due and/or will be due to the Bank from the company in any manner whatsoever.
3. We obligate ourselves to provide you an obligation by the company to act in accordance with our obligations towards you as detailed in this Letter, in the wording enclosed and marked "B".
4. The Bank's ledgers and accounts will serve as ostensive proof with regards to the Company's liabilities to the Bank.
5. The aforesaid in this Letter will obligate all the undersigned, even if some of the shareholders in the Company or holders of controlling interests have not signed on it.

Our aforesaid obligations will be in force as long as the Bank receives or will receive from the Company, amounts whatsoever on account of the Loans, credits and/or other banking services, that exist today and/or will exist the future, and/or as long as the various obligations and guarantees of the company towards the Bank or on its behalf will remain in force.

B.O.S Better Online Solutions Ltd. Subordination Letter

[Translated from Hebrew]

Letter of Subordination and Additional Obligations for the Company's Signature

Date: March 9, 2008

To:

Bank Leumi Le-Israel Ltd.

Whereas periodically, as per our request, if the matter should meet with your approval, you consent to provide or allocate to us, the undersigned corporation ("**the company**"), credits and/or other banking services, under conditions and in amounts as agreed or will be agreed periodically between us;

And whereas you have received and/or will receive from us various obligations and guarantees towards you or on your behalf;

And whereas as one of the conditions for the aforementioned grant of credits and/or the banking services and for the receipt of the various obligations and guarantees, you have demanded that we sign on this letter and we have assented to this;

We therefore declare and obligate ourselves hereby as follows:

For the purpose of what is stated in this letter the following meanings will be attached to the terms below:

"Corporations under the control of the shareholders" – any company or other corporation that is at the time of the signing of this letter or that in the future will be under the control of any of the shareholders or any of the holders of controlling interests in the Company.

"Subsidiary company", "control" "family member" "stakeholder" – as per their definition in the Securities Law 5728- 1968 as will be valid from time to time.

"The shares of the company" includes also securities that can be converted into company shares as well as securities that can be realized via shares in the company.

1. We shall not pay in any form or manner whatsoever, either directly or indirectly, to any of our stockholders or any of the holders of controlling interest among us who obligated themselves towards you as aforesaid, and/or to a family member of any of them and/or to corporations under the control of any of them and/or to another third party who will supplant them or act on their behalf, any amount whatsoever from or on account of the capital notes that the company issued and/or will issue to your benefit and/or from any other loan account that was placed and/or will be placed at our disposal by any of the aforementioned, or in connection with them, including, but without detracting from the generality of the aforesaid, payment of principal, interest, commissions and expenses (all the aforementioned amounts will be termed below "**the loans**"); all this unless we have received your prior agreement in writing.
-

Likewise we will not pay and we will not obligate to pay in any form or manner whatsoever either directly or indirectly, from the company (from its profit or its capital or from any source whatsoever) dividends (as defined in the Companies Law 5759-1999 as may be amended from time to time) or interest or management fees or indemnification fees or compensation fees or consultancy fees or amounts of money or monetary equivalents (these amounts will be called below "dividends") to our shareholders or to the holders of controlling interest among us, irrespective of whether they obligated themselves towards you according to the wording marked "A" and/or they did not obligate towards you in the wording marked "A", and/or to a family member of any of them, and/or to companies or corporations where one of our shareholders is a stakeholder in them and/or to any third party whatsoever who shall replace any of the aforesaid or act on his behalf.

2. Should any demand whatsoever be made for any payment whatsoever on account of the amounts of the loans or dividends or with reference to them, on the part of our shareholders and/or on the part of any other party from the aforesaid, we will inform you of this immediately and upon your request we will coordinate with you actions to cancel the demand for payment.
3. The company obligates itself not to purchase, not to provide financing for the purchase and not to obligate itself to purchase or to provide financing for the purchase of company securities, in any form or manner whatsoever including and without detracting from the generality of the aforesaid by providing guarantees, either directly or indirectly, by the company or by its subsidiary company or by another corporation under its control, without receiving the prior written consent of the bank.
4. Purely for the sake of removing doubt, let it be clear that if for any reason whatsoever, we should violate the obligations under this letter, all or some of them, then in addition to any other relief that you will be entitled to under any law or as a result of any other obligation towards you included or that will be included in another document-you will be entitled to call for the immediate payment of all or part of the amounts that are due to you or will be due to you from us, directly and/or indirectly at that time, whether their payment date has arrived by that time or not, and collect them from us with the addition of any amount that in your opinion will suffice to cover the losses and/or the expenses that you will incur as a result of a call for immediate payment as aforesaid.
5. It is hereby clarified, that the aforementioned will not prevent the Company from making: (a) payments to Cukierman & Co. Investment House Ltd. ("**Cukierman**") derived from the agreement dated April 15, 2003, attached hereto and which constitutes a part of this document and/or (b) payments to shareholders or to corporations in their control with respect to commissions due to raising of funds for the Company through debentures or shares, upto a threshold of 10% of the funds raised.

Our aforesaid obligations shall remain in force as long as the bank receives or will receive from the company, any amounts whatsoever on account of the loans, credits and/or other banking services, that exist today or will exist the future, and/or as long as the various obligations and guarantees of the company towards the bank or on its behalf will remain valid.

B.O.S Better Online Solutions Ltd.

SHARE PURCHASE AGREEMENT

This **SHARE PURCHASE AGREEMENT** (this "Agreement") is made and entered into as of October 4, 2010, by and among B.O.S Better Online Solutions Ltd. (the "Company"), and Telegraph Hill Capital Fund I, LLC, whose address is 582 Market Street, Suite 700, San Francisco, CA 94104, U.S.A. (the "Investor").

WHEREAS, subject to the terms and conditions herein, the Investor desires to acquire from the Company, and the Company desires to issue to the Investor Ordinary Shares of the Company, par value NIS 4.00 each (each, a "Share" and collectively, the "Shares").

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

1. PURCHASE AND SALE OF SHARES/LOAN CONVERSION COMMITMENT/OTHER COVENANTS.

1.1 Subject to the satisfaction of the terms and conditions described in this Agreement, at the Closing (as defined below), the Company agrees to sell to the Investor, and the Investor agrees to purchase from the Company, such number of Shares at a purchase price per Share equal to the higher of (a) \$2.40 or (b) 10% above the volume weighted average trading price of the Company's Ordinary Shares on the Nasdaq Capital Market for the five (5) trading days immediately prior to the date of the Closing (the "PPS"), against the payment to the Company of a total of \$300,000 (the "Purchase Amount").

1.2 Effective as of the Closing, the Investor and the Company hereby agree that the Loan Agreement dated as of June 2009 by and between the Company and the Investor (the "Loan Agreement") shall be deemed amended as follows: the Lender's right to convert provided under section 2.4 of the Loan Agreement is hereby modified such that, if the volume weighted average trading price of the Company's Ordinary Shares twenty (20) trading days immediately prior the Maturity Date is equal to or greater than \$4.00 per Share, then the principle and Interest on the Loan (subject to applicable withholding tax with respect to the Interest), shall be automatically converted into Ordinary Shares of the Company on the Maturity Date, at the conversion price stated in section 2.4 of the Loan Agreement (i.e. \$3.25 post reverse split). Capitalized terms used in this Section 1.2 not otherwise defined shall have the meanings ascribed in the Loan Agreement.

1.3 Immediately following the Closing, Luis Gutierrez Roy ("Roy"), a representative of the Investor, shall be appointed as a member of the Board of Directors, to serve until the next annual general meeting of the shareholders. The Company further undertakes to nominate Roy as a candidate for election to the Board of Directors at the next annual general meeting of the shareholders.

1.4 If the Company at any time shall determine to prepare and file with the Securities and Exchange Commission (the "Commission") a registration statement relating to an offering of its equity securities, for its own account or the account of others (except with respect to registration statements on Form F-4, Form S-8 or another form not available for registering the Investor's shares for sale to the public), the Company will give the Investor notice of its intention to do so and undertakes, to the extent requested by the Investor in writing, to use its best efforts to cause the Ordinary Shares purchased hereunder and any shares issued to the Investor in connection therewith prior to the registration statement becoming effective (the "Registrable Securities") to be covered by the registration statement proposed to be filed by the Company, all to the extent requisite to permit the sale or other disposition by the Investor of such Registrable Securities. Notwithstanding the above,

(a) Registrable Securities shall be included in such Registration Statement only to the extent that their inclusion will not: (i) limit the number of securities sought to be included by the Company for its own account or pursuant to the Company's agreements with other shareholders; (ii) in the opinion of the Company, reduce the offering price or trading price of the Company's Ordinary Shares; or (iii) cause the Registration Statement to exceed any limit as may be mandated by the Commission or by applicable regulation;

(b) In the event that any registration pursuant to this Section 1.4 shall be, in whole or in part, an underwritten public offering, and the managing underwriter advises the Company that the inclusion of any or all of the Registrable Securities proposed to be included in such registration could interfere with the successful marketing (including pricing) of the offering, then the size of the offering shall be reduced accordingly with any reduction applied first to the Registrable Securities proposed to be registered and thereafter to securities of other shareholders proposed to be registered; and

(c) The Company may withdraw any registration statement referred to in this Section 1.4 without thereby incurring any liability to the Investor.

The Company shall be responsible for all expenses relating to the Company's compliance with Section 1.4 hereof, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel and independent public accountants for the Company, fees of the NASD, fees of transfer agents and registrars. Selling commissions and discounts applicable to the sale of Registrable Securities shall be sole responsibility of the Investor.

2. **CLOSING.** The execution and delivery of this Agreement (and the performance thereof) shall occur on October 4, 2010, upon delivery by facsimile or e-mail of the pdf version of executed signature pages of this Agreement and all other documents, instruments and writings required to be delivered pursuant to this Agreement to Amit, Pollak, Matalon & Co., NITSBA Tower, 17 Yitzhak Sadeh Street, Tel-Aviv 67775 Israel attn: Shlomo Landress, Adv., Fax: (972) 3 568-9001 (the "Closing"). At the Closing on October 4, 2010, the Investor shall deliver to the Company payment in full (without deduction of any fees or taxes) for the Shares to be purchased, via wire transfer of immediately available funds in accordance with the instructions below or bank or cashier's check. Within 10 days from the Closing, the Company will deliver to the Investor a duly executed share certificate reflecting the number of shares purchased hereunder.

3. **REPRESENTATIONS AND WARRANTIES BY THE COMPANY.** The Company hereby represents and warrants to the Investor that:

3.1 **Corporate Organization.** The Company is a corporation duly incorporated and validly existing under the laws of Israel, and has the corporate power to own its property and to carry on its business as now being conducted. The Company's shares are traded on the Nasdaq Capital Market.

3.2 **Due Authorization and Valid Issuance.** The Company has the corporate power to enter into this Agreement. The Agreement has been, or will have been, at the time of its execution and delivery, duly executed and delivered by the Company. Prior to the Closing of this Agreement, the Company shall have acted to complete all corporate action necessary on its part for the issuance, sale and delivery of the Shares. The Shares being purchased by the Investor hereunder will, upon issuance and payment therefore pursuant to the terms hereof, be duly authorized, validly issued, fully-paid and nonassessable.

3.3 **Binding Agreement.** The Agreement constitutes a valid and legally binding obligation of the Company enforceable against the Company in accordance with its terms, except as (i) such enforceability may be limited by bankruptcy, insolvency, reorganization, arrangement, moratorium or similar laws relating to or affecting the rights of creditors and contracting parties generally, (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefore may be brought, and (iii) rights to indemnity and contribution may be limited by Israeli or U.S. state or federal securities laws applicable to the Company or by the public policy underlying such laws.

3.4 **Non-Contravention.** Neither the execution and delivery of the Agreement, nor the consummation of the transactions or the performance of the obligations contemplated hereby will result in any violation or breach of Company's Articles of Association as currently in effect, board resolutions or shareholders resolutions.

3.5 **No Consent.** To the Company's best knowledge, and in reliance on the representations of the Investor given in Section 4 hereof, except for reporting obligations and approvals required under applicable securities laws and market regulations in Israel and the United States and for notices to or approvals by the Office of the Chief Scientist (if required), no consent of any governmental body or third party is required to be made or obtained by the Company in connection with the execution and delivery of the Agreement by the Company or the consummation by the Company of the transactions or the performance of the obligations contemplated hereby by the Company.

3.6 Capitalization. The authorized share capital of the Company consists of 7,000,000 Ordinary Shares, nominal value NIS 20.00 per share, of which, as of September 15, 2010, 2,653,454 Ordinary Shares are issued and outstanding.

3.7 Financial Statements.

The audited consolidated financial statements of the Company as of December 31, 2009 and the related notes thereto, as filed by the Company with the Securities and Exchange Commission ("SEC") under Form 20-F on June 30, 2010, fairly present the financial position of the Company as of their respective dates, and have been prepared in accordance with the books and records of the Company as at the applicable dates and for the applicable periods. Such financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis throughout the periods therein specified, except as may be disclosed in the notes to such financial statements, or as may be permitted by the Securities and Exchange Commission and except as disclosed in the filings the Company made in connection with such statements, if any.

3.8 Legal Proceedings. Except as disclosed in the Company's public filings, there is no material legal or governmental proceeding pending or, to the knowledge of the Company, threatened to which the Company is or may be a party.

3.9 Intellectual Property. (i) The Company, either directly or through its subsidiaries, owns or possesses sufficient rights to use all material patents, patent rights, trademarks, copyrights, licenses, inventions, trade secrets, trade names and know-how (collectively, "Intellectual Property") described or referred to in the Company's public filings as owned or possessed by it, except where the failure to own or possess would not have a material adverse effect on the Company, (ii) to the knowledge of the Company, the Company is not infringing, nor has it received any notice of, any asserted infringement of, any rights of a third party with respect to any Intellectual Property that, individually or in the aggregate, would have a material adverse effect on the Company.

3.10 Compliance with Law. To the knowledge of the Company, the business of the Company is conducted in accordance with applicable laws, except to extent that, individually or in the aggregate, would not have a material adverse effect on the Company.

3.11 Disclosure. The representations and warranties of the Company contained in this Section 3 as of the date hereof and as of the Closing, and in the Company's public filings with the SEC, do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements herein, in light of the circumstances under which they are made, not misleading.

4. **REPRESENTATIONS OF THE INVESTOR.** The Investor represents to the Company that:

4.1 **Enforceability.** (i) The Investor is authorized and qualified and has full right and power to become an investor in the Company, is authorized to purchase the Shares and to perform its obligations pursuant to the provisions hereof, (ii) the person signing the Agreement and any other instrument executed and delivered therewith on behalf of the Investor has been duly authorized by such entity and has full power and authority to do so, and (iii) the Investor has not been formed for the specific purpose of acquiring an interest in the Company.

4.2 **Restrictions on Transferability and Hedging.**

4.2.1 The Investor understands that (i) the Shares have not been registered under the Securities Act of 1933, or under the laws of any other jurisdiction; (ii) such Shares cannot be sold, transferred or otherwise disposed of unless they are subsequently registered under the Securities Act and, where required, under the laws of other jurisdictions or unless an exemption from registration is then available; (iii) there is now no registration statement on file with the Securities and Exchange Commission with respect to the Shares to be purchased by the Investor.

4.2.2 The Investor acknowledges and agrees that the certificates representing the Shares shall bear restrictive legends as counsel to the Company may determine are necessary or appropriate, including without limitation, legends under applicable securities laws similar to the following:

“The shares represented by this certificate have not been registered under the Securities Act of 1933. The shares have been acquired for investment and may not be sold, transferred, assigned or otherwise disposed of in the absence of an effective registration statement with respect to the shares evidenced by this certificate, filed and made effective under the Securities Act of 1933, or an opinion of the Company’s counsel that registration under such Act is not required.”

4.2.3 The Company will not register any transfer of Shares not made pursuant to registration under the Securities Act, or pursuant to an available exemption from registration.

4.2.4 The Investor agrees not to engage in hedging transactions with regard to the Shares sold pursuant to this Agreement.

4.3 **Investment Purposes.** The Shares are being acquired for investment purposes. The Shares are not being purchased with a view to, or for sale in connection with, any distribution or other disposition thereof. The Investor has no present plans to enter into any contract, undertaking, agreement or arrangement for any such resale, distribution or other disposition and it will not divide its interest in the Company’s Shares with others, resell or otherwise distribute the Shares in violation of U.S. federal or state securities laws or the Israeli Securities Law.

4.4 **Information and Advice.**

4.4.1 The Investor has carefully reviewed and understands the risks of a purchase of the Shares. In connection with the Investor’s investment in the Company, it has obtained the advice of its own investment advisors, counsel and accountants (the “Advisors”). The Investor and its Advisors have reviewed the Company’s public filings and have been furnished with all materials relating to the Company or the offering of the Shares (the “Offering”) that they have requested. The Investor and its Advisors have been afforded the opportunity to ask questions of the Company concerning the financial and other affairs of the Company and the conditions of the Offering and to obtain any additional information necessary to verify the accuracy of any representations or information set forth with respect to the Shares.

4.4.2 The Company has answered all reasonable inquiries that the Investor and its Advisors have made concerning the Company or any other matters relating to the creation and operations of the Company and the terms and conditions of the Offering.

4.5 Sophistication and Risk.

4.5.1 It has such knowledge and experience in financial and business matters, that it is capable of evaluating, and has evaluated, the merits and risks of the Offering. By reason of its business or financial experience, it has the capacity to protect its interests in connection with an investment in the Company.

4.5.2 It understands that no Israeli or U.S. federal or state agency has passed upon the Shares or made any finding or determination as to the fairness of the transactions contemplated in the Agreement.

4.5.3 It understands that the Shares are speculative investments, which involve a high degree of risk, including the risk that the Investor might lose its entire amount invested in the Company.

4.5.4 It understands that any tax benefits that may be available to the Investor may be lost through adoption of new laws, amendments to existing laws or regulations, or changes in the interpretation of existing laws and regulations.

4.5.5 It has the financial ability to bear the economic risk of its investment in the Company and has adequate net worth and means of providing for the Investor's current needs and contingencies to sustain a complete loss of the Investor's investment and has no need for liquidity in the Investor's investment in the Company.

4.5.6 It is an "Accredited Investor" as such term is defined in Rule 501 of Regulation D under the Securities Act of 1933.

4.6 No solicitation. At no time was the Investor presented with or solicited by any leaflet, public promotional meeting, newspaper or magazine article, radio or television advertisement or any other form of general advertising or general solicitation concerning the Offering.

4.7 Broker-Dealer. The Investor is not a broker-dealer, nor is it an affiliate of any broker-dealer.

4.8 Further Indebtedness. The Investor acknowledges that no provision of the Agreement executed and delivered by the Company restricts, or shall be construed to restrict, in any way the ability of the Company to incur indebtedness or to issue share capital or other equity securities (or securities convertible into equity securities) of the Company or to grant liens on its property and assets.

4.9 Voting and/or Investment Control over the Investor. The Investor has made available to the Company a list of individuals who have or share voting and/or investment control over such Investor. The Investor shall update such list as reasonably requested by the Company to comply with request for such information from any regulatory body.

4.10 Independent Investment. The Investor is acting independently with respect to its investment in the Shares.

4.11 Holdings, Schedule 1 attached hereto reflects the holdings of the Company's shares by the Investor and its affiliates as of the date hereof, and as of the Closing.

4.12 Availability of Exemptions. The Investor understands that the Shares are being offered and sold in reliance on a transactional exemption or exemptions from the registration requirements of Israeli and U.S. federal and state securities laws and the Company is relying upon the truth and accuracy of the representations, warranties, agreements, acknowledgments and understandings of the Investor set forth herein in order to determine the applicability of such exemptions and the suitability of the Investor to acquire the Shares.

4.13 Indemnification. The Investor agrees to indemnify, defend and hold harmless the Company and its shareholders, directors, executive officers and affiliates from and against all liability, damage, losses, costs and expenses (including reasonable attorneys' fees) which they may incur by reason of the failure of the Investor to fulfill any of the terms and conditions of this Agreement, or by reason of any breach of the representations and warranties made by the Investor herein or in any document provided by the Investor to any executive officers, directors, the Company or any of their affiliates.

4.14 Disclosure. The representations and warranties of the Investor contained in this Section 4 as of the date hereof and as of the Closing, do not contain any untrue statement of a material fact or omit to state a material fact required to be stated herein or necessary to make the statements herein, in light of the circumstances under which they are made, not misleading. The Investor understands and confirms that the Company will rely on the foregoing representations in effecting the transaction contemplated in the Agreement and other transactions in securities of the Company.

5. **CONDITIONS OF INVESTOR'S OBLIGATION AT THE CLOSING.** The obligation of the Investor to purchase the Shares is subject to the fulfillment or waiver by the Investor prior to or on the date of the Closing of the conditions set forth in this Section 5. In the event that any such condition is not satisfied to the satisfaction of the Investor, then the Investor shall not be obligated to proceed with the purchase of such securities.

5.1 Representations and Warranties. The representations and warranties of the Company under this Agreement shall be true in all material respects as of the Closing, with the same effect as though made on and as of such date.

5.2 Compliance with Agreements. The Company shall have performed and complied in all material respects with all agreements or conditions required by this Agreement to be performed and complied with by it prior to or as of the Closing.

5.3 No Injunction. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction which prohibits the consummation of any of the transactions contemplated by this Agreement.

6. **CONDITIONS OF THE COMPANY'S OBLIGATION AT THE CLOSING**. The obligation of the Company to issue the Shares to the Investor is subject to the fulfillment or waiver by the Company prior to or on the Closing of the conditions set forth in this Section 6. In the event that any such condition is not satisfied to the satisfaction of the Company, then the Company shall not be obligated to proceed with the sale of the securities under this Agreement.

6.1 Representations and Warranties. The representations and warranties of the Investor under this Agreement shall be true in all material respects as of the Closing, with the same effect as though made on and as of such date.

6.2 Compliance with Agreements. The Investor shall have performed and complied in all respects with all agreements or conditions required by this Agreement to be performed and complied with by it prior to or as of the Closing.

6.3 No Injunction. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction which prohibits the consummation of any of the transactions contemplated by this Agreement.

6.4 Delivery of Purchase Amount. The Investor shall have delivered to the Company its Purchase Amount for the Shares at the Closing Date.

6.5 Government Approvals. The Company shall have received all necessary governmental approvals with respect to the transactions contemplated hereby. The Investor shall have executed any confirmations required by the Office of Chief Scientist, if applicable.

6.6 Notices to Nasdaq. The Company shall have made all required filings of notices with Nasdaq. The Company shall use its best efforts to complete such filings.

7. **CONFIDENTIALITY**. Any information disclosed to the Investor or its Advisors, which has not previously been made available to the general public by the Company, if any, shall be considered Confidential Information. The Investor acknowledges the confidential nature of the Confidential Information it may have received, and agrees that the Confidential Information is the valuable property of the Company. The Investor agrees that it and its Advisors shall not reproduce any of the Confidential Information without the prior written consent of the Company, nor shall they use any Confidential Information for any purpose except as permitted by and in the performance of this Agreement, or divulge all or any part of the Confidential Information to any third party. The confidentiality obligations undertaken by the Investor hereunder will remain in full force and effect regardless of the execution and consummation or termination of this Agreement.

8. MISCELLANEOUS.

8.1 Amendments. This Agreement may be modified, supplemented or amended only by a written instrument executed by both parties.

8.2 Notices. Any notice that is required or provided to be given under this Agreement shall be deemed to have been sufficiently given and received for all purposes, (i) when delivered in writing by hand, upon delivery; (ii) if sent via facsimile or email, upon transmission (and if transmitted and received on a non-business day, on the first business day following transmission), (iii) seven (7) business days (and fourteen (14) business days for international mail) after being sent by certified or registered mail, postage and charges prepaid, return receipt requested, or (iv) three (3) business days after being sent by internationally overnight delivery providing receipt of delivery, to the following addresses:

if to the Company, B.O.S Better Online Solutions Ltd., 20 Freiman Street, Rishon Lezion, 75101 Israel Attn: Mr. Eyal Cohen, CFO, facsimile: (972) 3 954-1003, with a copy to Amit, Pollak Matalon & Co., NITSBA Tower, 17 Yitzhak Sadeh St., Tel-Aviv 67775 Israel attn: Shlomo Landress, Adv. Fax: (972) 3 568-9001; or at any other address designated by the Company to the Investor in writing;

if to the Investor, to its address listed in the preamble hereto or at any other address designated by the Investor to the Company in writing.

8.3 Survival of Representations and Warranties. All representations and warranties contained herein or in any certificate or document delivered hereunder shall survive after the execution and delivery of this Agreement or such certificate or document, as the case may be, for a period of 24 months from the date hereof. All covenants and agreements in the Agreement shall survive in accordance with their terms. This Section shall survive the termination of this Agreement for any reason.

8.4 Delays or Omissions; Waiver. Except as expressly provided herein, no delay or omission to exercise any right, power or remedy accruing to any party under this Agreement shall impair any such right, power or remedy of such party nor shall it be construed to be a waiver of any breach or default, or an acquiescence thereto, or of a similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any party hereto of any breach or default under this Agreement, or any waiver on the part of any party of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing.

8.5 Other Remedies. Any and all remedies herein expressly conferred upon a party shall be deemed cumulative with, and not exclusive of, any other remedy conferred hereby or by law on such party, and the exercise of any one remedy shall not preclude the exercise of any other.

8.6 Entire Agreement. This Agreement and the exhibits and schedules hereto, constitute the entire understanding and agreement of the parties hereto with respect to the subject matter hereof and thereof and supersede all prior and contemporaneous agreements or understandings, inducements or conditions, express or implied, written or oral, between the parties with respect hereto and thereto.

8.7 Headings. All section headings herein are inserted for convenience only and shall not modify or affect the construction or interpretation of any provision of this Agreement.

8.8 Severability. Should any one or more of the provisions of this Agreement (including its exhibits and schedules) be determined to be illegal or unenforceable, all other provisions of this Agreement shall be given effect separately from the provision or provisions determined to be illegal or unenforceable and shall not be affected thereby. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision, which will achieve, to the extent possible, the economic, business and other purposes of the void or unenforceable provision.

8.9 Assignment. This Agreement may not be assigned in whole or in part by the Investor without the prior written consent of the Company.

8.10 Governing Law and Venue. This Agreement shall be construed in accordance with and governed by the internal laws of the State of Israel, without regard to conflict of laws provisions. Any dispute arising under or in relation to this Agreement shall be adjudicated in the competent court of Tel Aviv-Jaffa district only, and each of the parties hereby submits irrevocably to the exclusive jurisdiction of such court.

8.11 Counterparts. This Agreement may be executed concurrently in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

8.12 Further Actions. At any time and from time to time, each party agrees, without further consideration, to take such actions and to execute and deliver such documents as may be reasonably necessary to effectuate the purposes of this Agreement.

(Remainder of page intentionally left blank.)

IN WITNESS WHEREOF, the undersigned have executed and delivered this Agreement as of the date first set forth above.

B.O.S. BETTER ONLINE SOLUTIONS LTD.

By: _____
Name: _____
Title: _____

TELEGRAPH HILL CAPITAL FUND I, LLC

By: _____
Name: Luis Gutierrez Roy
Title: Managing Partner

Schedule 1

INVESTOR'S NAME AND ADDRESS	PURCHASE AMOUNT	NO. OF SHARES PURCHASED [to be completed at Closing]	PRE-CLOSING HOLDINGS*		POST-CLOSING HOLDINGS*	
			Amount	Percent	Amount	Percent
	\$300,000	96,362				

* Excluding existing Conversion Shares (61,539) and Warrant Shares (75,939)

Statement of Computation of Earnings per Share (in thousands)

Following is the data relating to the weighted average number of shares used in the computation of diluted earning (loss) per share:

	<u>Year ended December 31, 2010</u>	<u>Year ended December 31, 2009</u>
Weighted average number of shares used in the computation of basic earning (loss) per share	2,622	2,606
Weighted average number of shares used in the computation of diluted earning per share	<u>2,757</u>	<u>2,606</u>
Options and warrants which were not included in the computation of diluted earning (loss) per share due to anti dilutive effect	<u>1,442</u>	<u>1,333</u>

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

I, Yuval Viner, certify that:

1. I have reviewed this annual report on Form 20-F of B.O.S. Better Online Solutions Ltd. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by the report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 30, 2011

/s/ Yuval Viner

Yuval Viner, Chief Executive Officer

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

I, Eyal Cohen, certify that:

1. I have reviewed this annual report on Form 20-F of B.O.S. Better Online Solutions Ltd. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by the report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 30, 2011

/s/ Eyal Cohen
Eyal Cohen, Chief Financial Officer

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

In connection with the Annual Report on Form 20-F of B.O.S. Better Online Solutions Ltd., a company organized under the laws of the State of Israel (the "Company"), for the period ending December 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to such officer's knowledge, that:

1. the Report fully complies, in all material respects, with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Report.

By: /s/ Yuval Viner
Yuval Viner
Chief Executive Officer

By: /s/ Eyal Cohen
Eyal Cohen
Chief Financial Officer

Date: June 30, 2011

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form F-3 (Nos. 333-130048 and 333-152020) and related prospectus and in the Registration Statements on Form S-8 (Nos. 333-160414, 333-148318, 333-136957, 333-110696, 333-100971 and 333-11650) of B.O.S Better Online Solutions Ltd. ("BOS") of our report dated March 31, 2011, with respect to the consolidated financial statements of BOS, included in this Annual Report on Form 20-F for the year ended December 31, 2010.

Tel Aviv Israel
June 29, 2011

/s/ Kost Forer Gabbay & Kasierer
KOST, FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference into the Registration Statements on Form F-3 and related prospectus of B.O.S Better Online Solutions Ltd. (“**BOS**”) (Nos. 333-130048 and 333-152020) and into the Registration Statements of BOS on Form S-8 (Nos. 333-160414, 333-148318, 333-136957, 333-110696, 333-100971 and 333-11650) of our report dated March 29, 2010, with respect to the consolidated financial statements of BOS - Supply Chain Solutions (Lynk) Inc. (formally known as Lynk USA Inc.) included in this Annual Report on Form 20-F for the year ended December 31, 2010.

/s/ ARIK ESHEL, CPA & ASSOC., PC
ARIK ESHEL, CPA & ASSOC., PC

June 29, 2011
