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

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

or

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

or

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report ....

Commission file number: 001-14184

B.O.S. BETTER ONLINE SOLUTIONS LTD.

(Exact name of Registrant as specified in its charter)

ISRAEL
(Jurisdiction of incorporation or organization)

20 Freiman Street, Rishon LeZion, 75100, Israel

(Address of principal executive offices)

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

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

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

Title of each class	Name of each exchange on which registered
Ordinary Shares, nominal value NIS 80.00 per share	**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:

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

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

Yes No

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

Yes No

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

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

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

Item 17 Item 18

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

Yes No

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

Forward Looking Statements

This Annual Report on Form 20-F contains forward-looking statements that are intended to be, and are hereby identified as, forward looking statements for the purposes of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These statements address, among other things: our strategy; the anticipated development of our products; the results of completed acquisitions and our ability to make future acquisitions; our projected capital expenditures and liquidity; our development of additional revenue sources; our development and expansion of relationships; the market acceptance of our products; and our technological advancement. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including all the risks discussed below and elsewhere in this report.

We urge you to consider that statements that use the terms “believe”, “do not believe”, “expect”, “plan”, “intend”, “estimate”, “anticipate”, “projections”, “forecast” and similar expressions are intended to identify forward-looking statements. These statements reflect our current views with respect to future events. These statements are based on assumptions and are subject to risks and uncertainties. These risk factors and uncertainties include, amongst others, the dependency of sales being generated from one or few major customers, the uncertainty of BOS being able to maintain current gross profit margins, inability to keep up or ahead of technology and to succeed in a highly competitive industry, inability to maintain marketing and distribution arrangements and to expand our overseas markets, uncertainty with respect to the prospects of legal claims against BOS, the effect of exchange rate fluctuations, general worldwide economic conditions and continued availability of financing for working capital purposes and to refinance outstanding indebtedness; and additional risks and uncertainties set forth in this Annual Report, including under the heading “Risk Factors.” Except as required by applicable law, including the federal securities laws of the United States, we do not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

Table of Contents

i

PART I

Item 1: Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2: Offer Statistics and Expected Timetable

Not applicable.

Item 3: Key Information Regarding BOS

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

3A. Selected Consolidated Financial Data

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

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

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

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

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

- 4 -

3B. Capitalization and Indebtedness

Not applicable.

3C. Reasons for the Offer and Use of proceeds

Not applicable.

3D. Risk Factors

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

Risks relating to our financial results and capital structure:

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

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

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

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

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

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

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

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

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

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

We may be unable to maintain our gross profit margins.

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

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

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

Our assets are subject to a security interest in favor of Bank Leumi. Our failure to repay the bank loan, if required, could result in legal action against us, which could require the sale of all of our assets.

The repayment of our debt to Bank Leumi is secured by a first priority floating charge on all of our Company’s assets, present and future as they may be changing from time to time, and by a first priority fixed charge on all of the Company’s goodwill and its shares of our Israeli subsidiaries, BOS - Dimex Ltd. (“Dimex”) and BOS - Odem Ltd. (“Odem”). In addition, the Company and its Israeli subsidiaries entered into a series of intercompany guarantees in favor of Bank Leumi.

If we are unable to repay the bank loan when due, the bank could foreclose on our assets in order to recover the amounts due. Any such action might require us to curtail or cease operations (See “Item 5B. Liquidity and Capital Resources” below).

Our debt obligations may hinder our growth and put us at a competitive disadvantage.

Our debt obligations require us to use a substantial portion of our operating cash flow to repay the principal and interest on our loans. This reduces funds available to grow and expand our business, limits our ability to pursue business opportunities and makes us more vulnerable to economic and industry downturns. The existence of debt obligations and covenants also limits our ability to obtain additional financing on favorable terms.

Due to restrictions in our loan agreements, we may not be able to operate our business as we desire.

Our loan agreements contain a number of conditions and limitations on the way in which we can operate our business, including limitations on our ability to raise debt, sell or acquire assets and pay dividends. These limitations may force us to pursue less than optimal business strategies or forgo business arrangements, which could have been financially advantageous to our shareholders and us. Our failure to comply with the restrictions contained in our loan agreements could lead to a default under the terms of these agreements (See “Item 5B. Liquidity and Capital Resources”).

Risks related to our business:

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

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

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

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

attract and retain additional qualified personnel to provide technological depth; and
attract and retain highly skilled personnel in various functions of our business.

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

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

Our goal is to grow over the next few years. The management of our growth, if any, will require the continued expansion of our operational and financial control systems, as well as a significant increase in our financial resources and in our delivery and service capabilities. These factors could place a significant strain on our resources.

Our growth increases the complexity of our operations, places significant demands on our management and our operational, financial and marketing resources and involves a number of challenges, including:

- managing geographically dispersed operations;
- retaining and motivating key personnel of the acquired businesses;
- assimilating different corporate cultures;
- preserving the business relationships with existing key customers and suppliers;
- maintaining uniform standards, controls, procedures and policies; and
- introducing joint products and service offerings.

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

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

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

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

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

We do not have collateral or credit insurance for all of our customers' debt, and our allowance for bad debts may increase.

Our customers' debt is derived from sales to customers located primarily in Israel, the Far East and Europe. We do not generally require collateral; however most of our debt of customers outside of Israel is insured against customer nonpayment through the Israeli Credit Insurance Company Ltd.

The balance of allowance for bad debt as of December 31, 2014 amounted to $191,000, which was determined by our management to be sufficient. In face of a global economic slowdown or if a local or global recession reoccurs, we may be required to record additional and significant allowances for bad debts.

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

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

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

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

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

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

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

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

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

Third parties may assert claims that we have violated a patent, trademark, copyright or other proprietary intellectual property right belonging to them. As is characteristic of our industry, there can be no assurance that our products do not or will not infringe the proprietary rights of third parties, that third parties will not claim infringement by us with respect to patents or other proprietary rights or that we would prevail in any such proceedings. Any infringement claims, whether or not meritorious, could result in costly litigation or arbitration and divert the attention of technical and management personnel. Any adverse outcome in litigation alleging infringement could require us to develop non-infringing technology or enter into royalty or licensing agreements. If, in such situations, we are unable to obtain licenses on acceptable terms, we may be prevented from selling products that infringe such intellectual property of a third party. An unfavorable outcome or settlement regarding one or more of these matters could have a material adverse effect on our business and operating results.

The Supply Chain Solutions division engages in a number of business activities governed by U.S. Government Laws and Regulations, which if violated, could subject the Company to civil or criminal fines and penalties.

The Supply Chain Solutions division engages in a number of business activities governed by U.S. Government procurement laws and regulations which change frequently, including regulations relating to import-export control and technology transfer restrictions. In addition, the U.S. Foreign Corrupt Practices Act, or the FCPA, and similar anti-corruption laws in other jurisdictions, include anti-bribery provisions. If we, or our sales representatives, fail to comply with these laws and regulations, we could be subject to administrative, civil, or criminal liabilities that could have a material adverse effect on our business and results of operations. We may not always be protected in cases of violation of the FCPA or other anti-corruption laws by our employees or third-parties acting on our behalf. A violation of anti-corruption laws by our employees or third-parties during the performance of their obligations for us may have a material adverse effect on our reputation operating results and financial condition.

We rely on certain key suppliers.

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

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

Future changes in industry standards may have an adverse effect on our business.

New industry standards in the aviation and defense industry could cause a portion of our Supply Chain Solutions division's inventory to become obsolete and unmarketable, which would adversely affect our results of operations.

If revenue levels for any quarter fall below our expectations, our results of operations will be adversely affected.

Our revenues in any quarter are substantially dependent on orders received and delivered in that quarter. We base our decisions regarding our operating expenses on anticipated revenue trends, and our expenses levels are relatively fixed, or require some time for adjustment. As a result, revenue levels below our expectations will adversely affect our results of operations.

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

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

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

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

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

Our ability to anticipate changes in technology and industry standards and successfully market new and enhanced products as well as additional applications for existing products, in each case on a timely basis, will be critical in our ability to grow and remain competitive. If we are unable, for technological or other reasons, to market products that are competitive in technology and price and responsive to customer needs, our business will be materially adversely affected.

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

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

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

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

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

A financial and economic downturn in Israel and in one or more of our overseas markets may cause revenues of our customers to decrease. This may result in reductions in sales of products and services in some markets, longer sales cycles, slower adoption of new technologies and increased price competition. In addition, weakness in the end-user market could negatively affect the cash flow of our customers who could, in turn, delay paying their obligations to us. This could increase our credit risk exposure and cause delays in our recognition of revenues on future sales to these customers.

We may be obligated to indemnify our directors and officers.

The Company has agreements with its directors and senior officers which provide, subject to Israeli law, indemnification by the Company of directors and senior officers for: (a) monetary liability imposed upon them in favor of a third party by a judgment, including a settlement or an arbitral award confirmed by the court, as a result of an act or omission of such person in its capacity as a director or officer of the Company, (b) reasonable litigation expenses, including attorney's fees, incurred by them pursuant to an investigation or a proceeding commenced against them by a competent authority if it was terminated without an indictment and without having a monetary charge imposed on them in exchange for a criminal procedure (as such terms are defined in the Israeli Companies Law 1999 – 5759 (the "Israeli Companies Law")), or that was terminated without an indictment but with a monetary charge imposed on them in exchange for a criminal procedure in a crime that does not require proof of criminal intent, or in connection with a financial sanction, as a result of an act or omission of such person in its capacity as a director or officer of the Company, (c) reasonable litigation expenses, including attorney's fees, incurred by such a director or officer or imposed on him by a court, in a proceeding brought against him by or on behalf of the Company or by a third party, or in a criminal action in which he was acquitted, or in a criminal action which does not require criminal intent in which he was convicted, in each case relating to acts or omissions of such person in its capacity as a director or officer of the Company, (d) expenses, including reasonable litigation expenses and legal fees, incurred by such a director or officer as a result of a proceeding instituted against him in relation to (A) infringements that may result in imposition of financial sanction pursuant to the provisions of Chapter H'3 under the Israeli Securities Law or (B) administrative infringements pursuant to the provisions of Chapter H'4 under the Israeli Securities Law or (C) infringements pursuant to the provisions of Chapter I'1 under the Israeli Securities Law; and (e) payments to an injured party of infringement under Section 52ND(a)(1)(a) of the Israeli Securities Law. Payment pursuant to such indemnification may materially adversely affect our financial condition.

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

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

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

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

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

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

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

We may fail to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, which could have a material adverse effect on our operating results, investor confidence in our reported financial information, and the market price of our Ordinary Shares.

Our efforts to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, governing internal control and procedures for financial reporting have resulted in increased general and administrative expenses and a diversion of management time and attention, and we expect these efforts to require the continued commitment of significant resources. We may identify material weaknesses or significant deficiencies in our assessments of our internal control over financial reporting. Failure to maintain effective internal control over financial reporting could result in investigations or sanctions by regulatory authorities, and could have a material adverse effect on our operating results, investor confidence in our reported financial information, and the market price of our Ordinary Shares.

Risks related to our Ordinary Shares:

Our share price has been and may continue to be volatile, which could result in substantial losses for individual shareholders.

The market price of our Ordinary Shares has been and may continue to be highly volatile and subject to wide fluctuations. From January 1, 2014 through March 31, 2015, the daily closing price of our Ordinary Shares in NASDAQ has ranged from $2.07 to $7.88 per share. We believe that these fluctuations have been in response to a number of factors including the following, some of which are beyond our control:

variations between actual results and projections;
the limited trading volume in our stock;
changes in our bank debts; and
Nasdaq Capital Market Listing Standards non-compliance notices;

In addition, stock markets in general have from time to time experienced extreme price and volume fluctuations. This volatility is often unrelated or disproportionate to the operating performance of these companies. These broad market fluctuations may adversely affect the market price of our Ordinary Shares, regardless of our actual operating performance.

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

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

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

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

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

There can be no assurance that the Company will continue to qualify for listing on the Nasdaq Capital Market. If the Company's Ordinary Shares are delisted from the Nasdaq Capital Market, trading in its Ordinary Shares could be conducted on the over-the-counter market. In addition, if the Company's Ordinary Shares were delisted from the Nasdaq Capital Market, it would be subject to the so-called penny stock rules that impose restrictive sales practice requirements on broker-dealers who sell those securities. Consequently, de-listing, if it occurred, could affect the ability of the shareholders to sell their Ordinary Shares in the secondary market. The restrictions applicable to shares that are de-listed, as well as the lack of liquidity for shares that are traded on an electronic bulletin board, may adversely affect the market price of such shares.

Risks related to our location in Israel:

Political, economic, and security conditions in Israel affect our operations and may limit our ability to produce and sell products or provide our services.

We are incorporated under the laws of the State of Israel, where we also maintain our headquarters and our principal research and development and sales and marketing facilities.

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

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

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

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

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

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

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

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

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

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

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

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

We are a foreign private issuer as such term is defined under U.S. federal securities laws. As a foreign private issuer, we have elected to follow certain home country corporate governance practices instead of certain requirements of the Marketplace Rules of The Nasdaq Capital Market, or the Nasdaq Marketplace Rules. We may in the future elect to follow Israeli corporate governance practices with regard to, among other things, the composition of our board of directors, compensation of officers, director nomination procedures and quorum requirements at shareholders' meetings. In addition, we may elect to follow Israeli corporate governance practices instead of the Nasdaq requirements to obtain shareholder approval for certain dilutive events (such as for the establishment or amendment of certain equity-based compensation plans, issuances that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company). Accordingly, our shareholders may not be afforded the same protection as provided under Nasdaq's corporate governance rules. Following our home country governance practices as opposed to the requirements that would otherwise apply to a U.S. company listed on The Nasdaq Capital Market may provide less protection than is accorded to investors of domestic issuers. See “Item 16G – Corporate Governance.”

If we were to lose our foreign private issuer status under U.S. federal securities laws, we would incur additional expenses associated with compliance with the U.S. securities laws applicable to U.S. domestic issuers.

As a foreign private issuer, we are exempt from the rules and regulations under the Exchange Act, related to the furnishing and content of proxy statements, and our officers, directors, and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file annual, quarterly and current reports and financial statements with the Securities and Exchange Commission as frequently or as promptly as domestic companies whose securities are registered under the Exchange Act.

The regulatory and compliance costs to us under U.S. securities laws, if we are required to comply with the reporting requirements applicable to a U.S. domestic issuer, may be significantly higher than the cost we currently incur as a foreign private issuer.

As a public company in the United States, we incur significant accounting, legal and other expenses as a result of listing our Ordinary Shares on the Nasdaq Capital Market, and we may need to devote substantial resources to address new compliance initiatives and reporting requirements.

As a public company in the United States, we incur significant accounting, legal and other expenses as a result of listing our Ordinary Shares on the Nasdaq Capital Market. These include costs associated with corporate governance requirements of the SEC and the Marketplace Rules of Nasdaq, as well as requirements under Section 404 and other provisions of the Sarbanes-Oxley Act of 2002. Any future changes in the laws and regulations affecting public companies in the United States and Israel, will result in increased costs to us as we respond to such changes. These laws, rules and regulations could make it more difficult or more costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these requirements could also make it more difficult for us to attract and retain qualified persons to serve on our Board of Directors, our board committees or as executive officers.

Item 4: Information on the Company

4A. History and Development of the Company

We were incorporated in Israel in 1990 and are subject to the Israeli Companies Law. Our executive offices, shipping and service operations are located in Israel. Our address in Israel is 20 Freiman Street, Rishon LeZion, 75100, Israel.

Our address in the United States is B.O.S Better Online Solutions Ltd. c/o Ruby-tech, Inc. 147-20 184th St., Jamaica NY 11413, USA.

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 divisions:

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

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

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

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

Our Ordinary Shares are currently listed on the NASDAQ Capital Market. Following the Company's request, on May 12, 2009 the Company's Ordinary Shares were delisted from trading on the Tel Aviv Stock Exchange (the "TASE"). The delisting of the Ordinary Shares from the TASE did not affect the continued listing of the Ordinary Shares on the NASDAQ Capital Market under the symbol 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.

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

4B. Business Overview

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

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

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

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

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

BOS Product Offerings

RFID and Mobile Solutions

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

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

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

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

Hardware, including:

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

Applications:

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

BOS LIVESTOCK is a software application that enables livestock operations to manage, track, support and plan all day-to- day tasks.
BOS CarID is a turnkey solution to identify and track vehicles for a variety of transportation-related settings, such as auto vehicle testing centers, public and company parking lots, industrial factories, and automobile dealers, importers, or distributors. By using RFID tags on the vehicles, BOS CarID enables companies, government transportation agencies, and law enforcement officials in the transportation field to effectively manage, track, support and plan all day-to- day vehicle-related activities.
BOS STOCK is an optimized data collection solution for logistics management in stores and warehouses. The solution may be based on RFID tags or bar codes, and is intended to provide customers with greater visibility into a retailer’s stock management and warehouse/logistics operations. BOS Stock enables storeroom managers to receive advanced delivery notifications and system alerts for delivery discrepancies, and gives them the ability to locate inventory in the stockroom. BOS Stock provides inventory managers with a direct communication link to the sales

floor, and assists in minimizing inventory loss or theft. BOS Stock also enables sales floor representatives to instantly check on the availability of a product, offer alternatives if the product is out of stock, and provide the customer with up-to-date product information.

BOS Mfgr is a production line tracking solution whereby manufacturing companies can track the progress and status of items on a production line. The solution may be based on RFID tags or bar codes, and is intended to provide greater visibility into a customer's manufacturing process, as well as traceability for critical parts. With BOS Mfgr., items entering the manufacturing plant are labeled with RFID tags or bar codes, and fixed readers that are located along the production line, record the product's progress through the production line stations. Mobile readers may also be used to collect data from the parts labeled with RFID tags or bar codes.

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

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

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

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

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

Supply Chain Solutions

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

These services include:

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

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

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

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

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

Marketing, Distribution and Sales

RFID and Mobile Solutions

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

Supply Chain Solutions

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

Seasonality

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

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

Sales by major geographic areas:

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

Sales by divisions:

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

Competition

RFID and Mobile Solutions

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

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

Supply Chain Solutions

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

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

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

Strategy

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

The key elements of our strategy are as follows:

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

Exchange Controls

See “Item 10D. Exchange Controls”.

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

4C. Organizational Structure

The Company's wholly owned subsidiaries include:

In Israel:

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

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

In the United States:

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

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

4D. Property, Plants and Equipment

Our offices are located in the following facility in Israel:

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

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

Our average monthly rental fee for the year 2014 and for the year 2013 amounted to $11,943 and $12,785, respectively.

<u>Item 4A:</u> <u>Unresolved Staff Comments</u>

Not Applicable.

Item 5: <u>Operating and Financial Review and Prospects</u>

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.

Overview

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

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

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

Revenues

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

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

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

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

Costs and Operating Expenses

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

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

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

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

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

Critical accounting policies

Our discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our financial statements in conformity with generally accepted accounting principles in the United States requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These amounts and disclosures could potentially be materially different under other assumptions and conditions. These are our management's best estimates based on experience and historical data, however, actual results could differ materially from these estimates. Our significant accounting principles are presented within Note 2 to our Consolidated Financial Statements attached to this annual report. While all the accounting policies impact the financial statements, certain policies may be viewed to be critical. Management believes that the following policies are those that are most important to the portrayal of our financial condition and results of operations and for fully understanding and evaluating our reported results:

inventories
impairment of long-lived assets and goodwill
revenue recognition

a. Inventories:

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

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

b. Impairment of Long-Lived Assets and Goodwill

Impairment of long-lived assets:

The Company's long-lived assets are reviewed for impairment in accordance with ASC 360-10, Accounting for the Impairment or Disposal of Long-Lived Asset, whenever events or changes in circumstances indicate that the carrying amount of an asset (or asset group) may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset (or asset group) to the future undiscounted cash flows expected to be generated by the assets (or asset group). If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds their fair value. The fair value of the brand name and customer list related intangibles was determined by the income approach method. Assumptions in the fair value assessment included: the impact of changes in economic conditions, revenue and cash flow forecasts for the remaining lives of the intangibles and the Company's weighted average cost of capital ("WACC").

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

Goodwill:

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

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

Testing Methodology:

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

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

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

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

Testing Results:

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

c. Revenue recognition:

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

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

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

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

Legal Contingencies

The Company is not a party to any legal proceedings.

5A. Operating Results

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

Comparison of 2014 and 2013

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

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

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

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

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

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

Comparison of 2013 and 2012

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

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

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

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

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

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

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

Tax expenses in 2013 amounted to $13,000, compared to tax benefit of $187,000 in 2012. Tax benefit in 2012 is mainly related to uncertain tax positions accounted for in accordance with ASC 740 (see Notes 2l and 14i to the

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

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

Variability of Quarterly Operating Results

Our revenues and profitability may vary in any given year, and from quarter to quarter, depending on the mix of products sold. In addition, due to potential competition, uncertain market acceptance and other factors, we may be required to reduce prices for our products in the future.

Our future results will be affected by a number of factors including our ability to:

- establish effective sales channels and manage them;
- introduce and deliver new products on a timely basis;
- anticipate accurately customer demand patterns;
- manage future inventory levels in line with anticipated demand; and
- reduce level of debts to banks and others lenders.

These results may also be affected by currency exchange rate fluctuations and interest rate and economic conditions in the geographical areas in which we operate. There can be no assurance that our historical trends will continue, or that revenues, gross profit and net income in any particular quarter will not be lower than those of the preceding quarters, including comparable quarters.

Impact of Inflation and Currency Fluctuations

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

Effective Corporate Tax Rate

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

Grants and Participation

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

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

Conditions in Israel

We are incorporated under the laws of the State of Israel, where we also maintain our headquarters and our research and development and manufacturing facilities. See Item 3D. “Risk Factors – Risks Relating to Our Location in Israel” for a description of governmental, economic, fiscal, monetary or political polices or factors that have materially affected or could materially affect our operations.

5B. Liquidity and Capital Resources

In the year ended December 31, 2014 the Company incurred losses of $433,000, as compared to year 2013, in which the Company incurred no losses, and to year 2012, in which the Company incurred losses of $549,000. In the years ended December 31, 2014, 2013 and 2012 the Company generated a positive cash flow from operating activities amounting to $1.1 million in 2014, $1.0 million in 2013 and $1.7 million in 2012. The Company's cash and cash equivalents increased from $1 million as of December 31, 2013 to $1.5 million as of December 31, 2014. The Company had a positive working capital of $634,000 and a negative working capital of $409,000 and $739,000 as of December 31, 2014, December 31, 2013 and December 31, 2012.

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

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

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

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

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

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

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

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

In June 2013, the Company entered into a Standby Equity Distribution Agreement, (the "June 2013 SEDA"), with YA Global. The June 2013 SEDA provides that, upon the terms and subject to the conditions set forth therein, YA Global is committed to purchase up to $600,000 of the Company's Ordinary Shares over a two-year commitment period. The purchase price of the Ordinary Shares will be at a 5% discount off the lowest daily VWAP (as defined in the agreement) of the Ordinary Shares during the five consecutive trading days following the date of an advance notice from us (provided such VWAP is greater than or equal to 90% of the last closing price of the Ordinary Shares at the time of delivery of the advance notice). From time to time, at the discretion of the Company, subject to complying with the conditions set forth in the June 2013 SEDA, the Company may present YA Global with advance notices to purchase the Company's shares subject to limitations on price, quantity and trading volume in the Company's stock as more fully described in the June 2013 SEDA. As of March 31, 2015, the Company has drawn $600,000 on this equity line for which it issued an aggregate of 107,782 Ordinary Shares.

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

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

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

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

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

Working capital requirements will vary from time-to-time and will depend on numerous factors, including but not limited to, the operating results, scope of sales and supplier and customer credit terms.

We have in-balance sheet financial instruments and off-balance sheet contingent commitments. Our in-balance sheet financial instruments consist of our assets and liabilities. Our cash is invested in U.S. dollars and NIS interest bearing deposits with banks. As of December 31, 2014, our trade receivables' and trade payables' aging days were 81 and 72 days, respectively. The fair value of our financial instruments is similar to their book value. Our off-balance sheet contingent commitments consist of: (a) royalty commitments that are directly related to our future revenues, (b) lease commitments of our premises and vehicles, and (c) directors' and officers' indemnities, in excess of the proceeds received from liability insurance which we obtain.

The Company had working capital of $634,000 as of December 31, 2014. It is the Company's opinion that current working capital is sufficient for the Company's present requirements.

Cash Flows

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

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

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

5C. Research and Development

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

5D. Trend Information

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

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

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

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

5E. Off-Balance Sheet Arrangements

Not applicable.

5F. Tabular Disclosure of Contractual Obligations

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

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

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

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

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